

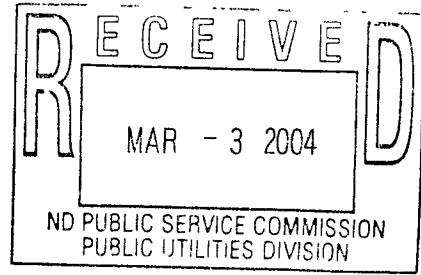


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STATE OF NORTH DAKOTA
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DESCRIPTION

PU-04-97
Montana-Dakota Utilities Co., a Division of MDU Re
Natural Gas Rate Increase
Application 04
Filed 3/3/2004 **Closed 9/28/2004**



**MONTANA-DAKOTA UTILITIES CO.
CASE NO. PU-399-04-____
TESTIMONY AND EXHIBITS**

**In the Matter of the Application of
Montana-Dakota Utilities Co. for
Authority to Establish Increased Rates
For Natural Gas Service in the
State of North Dakota**

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-399-04

Direct Testimony
of
Bruce T. Imsdahl

MAR - 3 2004

1 Q. Please state your name and business address.

2 A. My name is Bruce T Imsdahl and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. By whom are you employed and in what capacity?

5 A I am the President of Montana-Dakota Utilities Co. (Montana-
6 Dakota), a Division of MDU Resources Group, Inc

7 Q. Please describe your duties and responsibilities with Montana-Dakota.

8 A. I have executive responsibility for the development, coordination,
9 and implementation of Company strategies and policies relative to all
10 areas of operations.

11 Q. Please outline your educational and professional background.

12 A. In 1970, I received a Bachelor of Science degree in Mechanical
13 Engineering from North Dakota State University, Fargo, North Dakota. I
14 was granted certificates of attainment from the Joseph M. Kraatz Graduate
15 School of Business in Management Program for Executives from the
16 University of Pittsburgh, Pittsburgh, Pennsylvania in 1990 and from the

1 Graduate School of Business, Stanford University in the Executive
2 Management Program in 2003.

3 Upon graduating from college in 1970, I began my career with
4 Montana-Dakota as a results engineer at the Lewis & Clark electric
5 generating station. In 1973, I took an engineering position at the
6 corporate office and was responsible for the engineering at five of our
7 electric generating stations. In 1979, I transferred to the Lewis & Clark
8 Station as the Plant Superintendent, where I was responsible for all
9 engineering, operations, and maintenance of the plant. In 1983, I
10 transferred to the R. M. Heskett Station as the Plant Manager, where I
11 was again responsible for all engineering, operations and maintenance of
12 the plant. In 1985, I transferred to the corporate office as Generation
13 Manager, where I became responsible for all the electric generating plants
14 that Montana-Dakota owned and operated and the company's
15 Environmental Department. In 1989, I became Vice President - Power
16 Supply and, in November 1992, I was named Vice President - Energy
17 Supply assuming responsibility for natural gas supply as well as the
18 electric power supply. In February 2003, I was named Executive Vice
19 President. I became President of Montana-Dakota in July 2003.

20 I am a Registered Professional Engineer in North Dakota and
21 Montana. I also have been involved with the activities of the Electric
22 Power Research Institute, the Edison Electric Institute, the University of

1 North Dakota Energy & Environmental Research Center, and the
2 American Gas Association.

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to provide an overview of our North
5 Dakota natural gas operations, explain our request for a gas rate increase
6 and discuss the policies and reasons underlying the major aspects of the
7 request. I will also identify the Company witnesses in this proceeding.

8 Q. Would you provide a summary of Montana-Dakota's gas operations in
9 North Dakota?

10 A. The North Dakota natural gas distribution system serves
11 approximately 85,600 customers in 76 communities. The customer mix is
12 about 86.6% residential, 13.2% firm commercial, with the small
13 interruptible and large interruptible customers making up about 0.2% of
14 customers. In addition, gas is provided to the U.S Air Force base at Minot
15 and at a location in northeastern North Dakota. The residential, firm
16 commercial and small interruptible customers use natural gas primarily for
17 space and water heating. As such, Montana-Dakota's system has a low
18 load factor with peak gas requirements occurring during the winter with
19 summer loads being small by comparison. The total annual gas used by
20 our North Dakota customers is 18.3 Mmdk as projected for 2005 in this
21 case. Consumption by customer class is as follows: 45% residential,
22 31% firm commercial, 7% small interruptible, 12% large interruptible and
23 5% U.S Air Force. Montana-Dakota's North Dakota gas service area is

1 divided into two operating regions with regional offices located in Bismarck
2 and Dickinson. In addition, there are a number of district offices located in
3 communities throughout the state. As of December 31, 2003, the
4 Company had 614 full and part time employees who live and work
5 throughout our North Dakota electric and gas service area.

6 Q. Mr. Imsdahl, did you authorize the filing of the rate application in this
7 proceeding?

8 A. Yes, I did.

9 Q. Why has Montana-Dakota filed this application for a gas rate increase?

10 A. Montana-Dakota is requesting an increase in its general gas rates
11 at this time because the current cost of providing natural gas service to
12 our North Dakota customers is not adequately reflected in the currently
13 authorized rates. It should be noted that this application does not include
14 any cost changes related to the cost of gas which is handled through the
15 Commission authorized Purchased Gas Cost Adjustment tariff.

16 Q. Would you please explain the basic elements that make up the total costs
17 of providing gas service, and which of those elements is subject to
18 regulation by this Commission?

19 A. Yes. The costs of providing natural gas service can be best broken
20 down into two major categories; first, the cost of gas delivered to the town
21 border station, where it leaves the interstate or intrastate pipeline and
22 enters our distribution system, and second, the cost of delivering the gas
23 from the town border station through our distribution system to the

1 individual customers We call this portion distribution costs or non-gas
2 costs.

3 Natural gas purchased from a producer or supplier is a commodity
4 like wheat or corn and prices are not regulated. The charges for moving
5 the gas to our distribution system on the pipeline system are regulated by
6 the Federal Energy Regulatory Commission or other regulatory agencies.
7 These two elements, which we call "gas costs", are passed on to our
8 customers on a dollar-for-dollar basis as specified in the Purchased Gas
9 Cost Adjustment tariff, and there is no profit made by Montana-Dakota.
10 This portion comprises about 79% of a typical residential bill for gas
11 service.

12 The distribution cost portion of our rates is regulated by this
13 Commission and is the subject of this proceeding. This portion includes
14 operation and maintenance expenses, depreciation, taxes, and a
15 component for the opportunity to earn a return on the investment we have
16 in facilities to provide natural gas service. The distribution costs are about
17 21% of a typical residential bill.

18 Q. What is the amount of the increase requested?

19 A. As will be fully explained by other Company witnesses, the
20 Company is requesting an increase of \$3,334,226 based on a projected
21 2005 test year.

22 Q. How will the requested increase affect the various classes of customers?

1 A. The proposed percentage change in rates by customer class is as
2 follows

3	<u>Class</u>	<u>Change</u>
4	Residential	3.5%
5	Firm General Service	2.3%
6	Air Force	0.0%
7	Small Interruptible	0.0%
8	Large Interruptible	0.0%
9	Total	2.8%

10 Q. What are the primary reasons that Montana-Dakota needs an increase at
11 this time?

12 A. The primary reason is increased operating expenses driven largely
13 by increases in labor and benefit costs

14 Q. When was the last gas general rate increase for Montana-Dakota?

15 A. Montana-Dakota's gas rates were last increased in December
16 2002. The increase was \$1,972,000 annually and was authorized in Case
17 No. PU-399-02-183. I should also note that Montana-Dakota's gas rates
18 were decreased by \$362,000 on September 1, 2003 to reflect the
19 Commission approved settlement of depreciation expense in that same
20 case.

21 Q. Would you please explain why labor and benefit costs have increased
22 since the last rate case?

1 A. Yes. Montana-Dakota strives to pay its employees wages reflective
2 of the mid-range of the labor market. For union personnel, a new labor
3 contract was effective May 1, 2003. It was apparent during our
4 negotiation preparation that Montana-Dakota's wage levels were
5 substantially lower than the wage levels of our competitors and that they
6 had been lower for some time. The new union labor agreement, which
7 runs through April 30, 2007, reflects annual pay increases through May 1,
8 2006 for union employees to bring our wage levels more in line with the
9 wage levels of other companies we compete with for employees. With
10 respect to non-union personnel, Montana-Dakota retained a consulting
11 firm, the Hay Group, to lead a study of pay rates for all non-union jobs.
12 The results of that study clearly indicated that Montana-Dakota's pay rates
13 were below the competitive markets. Beginning in 2003, we undertook a
14 phase-in approach to bring our pay rates for non-union personnel more in
15 line with the market.

16 With regard to benefit costs, pension costs have been increasing
17 steadily for most, if not all companies and are expected to continue to
18 increase. Our pension cost requirements are determined at least annually
19 by an independent outside actuarial firm. Finally, medical and health care
20 costs continue to rise.

21 Q. Would you please explain what efforts Montana-Dakota takes to hold its
22 gas rates down?

1 A. We continue to look for ways of operating our business more
2 efficiently and taking advantage of new technologies where it makes
3 economic sense to do so. For example, Montana-Dakota has been
4 proactive in controlling health care costs for many years. Prior to 2003,
5 we limited the Company's share of health care premium increases to a set
6 percentage by shifting additional costs to employees. In 2003 we formed
7 a benefits strategy team to analyze benefits offered to employees and
8 retirees. As a result of that process we implemented certain changes to
9 help mitigate rising health care costs. Changes included,

- 10 • shifting more prescription drug costs, the area where medical
11 inflation has hit the hardest, to employees,
- 12 • changed coordination of benefits to eliminate 100 percent payment
13 on claims for individuals covered by two insurance plans,
- 14 • changed plan administrators, and
- 15 • self-funded all health plans, which eliminates certain costs
16 associated with fully insured plans and provides greater flexibility in
17 plan design.

18 Although we continue to look for opportunities to reduce costs and
19 increase efficiencies, we now find ourselves in a position where, despite
20 our efforts, we must seek rate relief.

21 Q. Is Montana-Dakota seeking interim rate relief in this proceeding?

1 A. Yes. Interim rate relief is being sought in this case consistent with
2 North Dakota Century Code 49-05-06. The amount of interim relief
3 sought is \$1,870,978

4 Q. Will you please identify the other witnesses who will testify on behalf of
5 Montana-Dakota in this proceeding?

6 A. Yes. In addition to myself, Mr. J. Stephen Gaske, President of
7 Zinder Companies, Inc., will testify regarding the appropriate cost of
8 common equity and overall cost of capital for Montana-Dakota's electric
9 operations. Mr. Craig A Keller, Vice President, Controller and Chief
10 Accounting Officer for Montana-Dakota will testify regarding the capital
11 structure and overall debt and preferred equity costs. Ms. Rita A. Mulkern,
12 Regulatory Analysis Manager for Montana-Dakota, will testify regarding
13 the total revenue requirements necessary for Montana-Dakota's North
14 Dakota gas operations. Mr. Paul W. Conley, Principal with Towers Perrin,
15 will testify regarding the Supplemental Income Security Plan and Ms.
16 Tamie A. Aberle, Pricing and Tariff Manager for Montana-Dakota, will
17 testify on the rate design proposals.

18 Q. Mr. Imsdahl, are the rates requested in this proceeding just and
19 reasonable?

20 A. Yes. In my opinion, the proposed rates are just and reasonable
21 because they are reflective of the total costs being incurred by Montana-
22 Dakota in providing gas service to its customers. The proposed rates will

1 allow Montana-Dakota the opportunity to earn a just and reasonable return
2 on its North Dakota gas operations.

3 Q. Does this complete your direct testimony?

4 A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO
A Division of MDU Resources Group, Inc

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-_____

PREPARED DIRECT TESTIMONY OF

J STEPHEN GASKE

MAR - 3 2004

SECRETARY
COMMISSION
EXECUTIVE SECRETARY

1 Q1. Please state your name, position and business address.

2 A. My name is J Stephen Gaske and I am President of Zinder Companies,
3 Inc., 7508 Wisconsin Avenue, Suite 300 Bethesda, MD 20814

4 Q2. Would you please describe your educational and professional background?

5 A I hold a B A degree from the University of Virginia and an M B.A degree
6 with a major in finance and investments from George Washington University I also
7 received a Ph.D degree from Indiana University where my major field of study was
8 public utilities and my supporting fields were in finance and economics

9 From 1977 to 1980, I worked for H Zinder & Associates as a research
10 assistant and later as supervisor of regulatory research In 1980 and 1981, I was
11 employed by Olson and Company where my primary duties were to assist in the
12 preparation of cost of capital studies for presentation in regulatory proceedings

13 From 1982 to 1986 I undertook graduate studies in economics and finance
14 at Indiana University where I also taught courses in public utilities, transportation,
15 and physical distribution During this time I also was employed as an independent
16 consultant on a number of projects involving public utility regulation, rate design,
17 and cost of capital From 1983-1986 I was coordinator for the Edison Electric
18 Institute Electric Rate Fundamentals course In 1986 I accepted an appointment as

1 assistant professor at Trinity University in San Antonio, Texas, where I taught
2 courses in financial management, investments, corporate finance, and corporate
3 financial theory

4 In 1988 I returned to H Zinder & Associates as a consultant I have
5 testified or filed testimony or affidavits before the Federal Energy Regulatory
6 Commission on more than twenty occasions Topics covered in these
7 submissions have included rate of return, capital structure, cost allocation, rate
8 design, revenue requirements and market power I also have filed testimony on
9 the cost of capital and capital structure issues for electric, gas distribution and oil
10 and gas pipeline operations before seven state regulatory bodies, including the
11 North Dakota Public Service Commission, and before the Comision Reguladora
12 de Energia de México (“CRE”) In addition, I have testified or submitted
13 testimony on issues such as cost allocation, rate design, pricing and generating
14 plant economics before the Postal Rate Commission and five state public utility
15 Commissions. During the course of my consulting career, I have conducted many
16 studies on issues related to regulated industries and have served as an advisor to
17 numerous clients on economic, competitive and financial matters I also have
18 spoken and lectured before many professional groups including the American Gas
19 Association and the Edison Electric Institute Rate Fundamentals courses

20

1 **I. INTRODUCTION**

2 Scope and Overview

3 **Q3. What is the scope of your testimony in this proceeding?**

4 A I have been asked by Montana-Dakota Utilities Co ("Montana-Dakota") to
 5 present the required overall rate of return for the company's natural gas distribution
 6 operations in the state of North Dakota and to determine the cost of common equity
 7 capital for those operations. In this testimony, I calculate the cost of common equity
 8 capital for Montana-Dakota's natural gas distribution operations based on a
 9 Discounted Cash Flow ("DCF") analysis of a group of proxy companies that have
 10 risks similar to those of Montana-Dakota's North Dakota natural gas distribution
 11 operations. The results of this DCF study are supported by various benchmark
 12 criteria that I have used to test the reasonableness of the DCF study results

13 **Q4. What rate of return is Montana-Dakota requesting in this proceeding?**

14 A Based on its test period gas utility capital structure, Montana-Dakota is
 15 requesting the following rate of return

16

Source	Amount (000s)	Percent	Cost	Overall Rate of Return
Long-Term Debt	\$153,350.0	43.535%	8.518%	3.708%
Preferred Stock	\$16,050.0	4.557%	4.614%	0.210%
Common Equity	\$182,843.0	51.908%	11.500%	5.969%
TOTAL	\$352,243.0	100.00%		9.887%

17

18 As my testimony discusses, an overall allowed rate of return of 9.887 percent,
 19 with an 11.50 percent return on common equity, represents the cost of capital for
 20 Montana-Dakota

1 Company Background

2 **Q5. Would you please describe Montana-Dakota's operations and those of its**
3 **parent company, MDU Resources Group, Inc.?**

4 A Montana-Dakota is a wholly-owned division of MDU Resources Group,
5 Inc ("MDU Resources") that is engaged in the generation, transmission and
6 distribution of electricity, and the distribution of natural gas, in the states of North
7 Dakota, Montana, South Dakota and Wyoming Through other divisions and
8 subsidiaries, MDU Resources is engaged in natural gas exploration, production
9 and transmission and also produces and markets aggregates and other construction
10 materials MDU Resources also has subsidiaries engaged in utility infrastructure
11 construction, and has Great Plains Natural Gas Company ("Great Plains"), a
12 company that distributes natural gas in southeastern North Dakota and western
13 Minnesota

14 In 2003, Montana-Dakota and the much smaller Great Plains served a
15 total of 244,000 residential, commercial and industrial gas distribution customers
16 As shown on Exhibit No. ____ (JSG-2), Schedule 2, page 1, Montana-Dakota's
17 natural gas distribution assets comprised 7.0 percent of MDU Resources' total
18 assets In addition, the natural gas distribution utility revenues and operating
19 income accounted for 11.5 percent and 1.5 percent of MDU Resources' total,
20 respectively. North Dakota accounted for 39 percent of the natural gas
21 distribution utility operating revenues, while Montana (25 percent), South Dakota
22 (19 percent), Wyoming (6 percent) and Minnesota (11 percent) accounted for the
23 other 61 percent of natural gas distribution utility revenues.

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II. FINANCIAL MARKET STUDIES

Criteria for a Fair Rate of Return

Q6. Please describe the criteria which should be applied in determining a fair rate of return for a regulated company?

A The United States Supreme Court has provided general guidance regarding the level of allowed rate of return that will meet constitutional requirements. In *Bluefield Water Works & Improvement Company v Public Service Commission of West Virginia* (262 U.S. 679, 693 (1923)), the Court indicated that:

"The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally "

The Court has further elaborated on this requirement in its decision in *Federal Power Commission v Hope Natural Gas Company* (320 U.S. 591, 603 (1944))

There the Court described the relevant criteria as follows

"From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock.. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital "

1 Thus, the standards established by the Court in *Hope* and *Bluefield* consist of three
2 requirements These are that the allowed rate of return should be:

- 3 1 commensurate with returns on enterprises with
4 corresponding risks;
- 5 2 sufficient to maintain the financial integrity of the
6 regulated company, and,
- 7 3 adequate to allow the company to attract capital on
8 reasonable terms

9 These legal criteria will be satisfied best by employing the economic concept of the
10 "cost of capital" or "opportunity cost" in establishing the allowed rate of return on
11 common equity. For every investment alternative, investors consider the risks
12 attached to the investment and attempt to evaluate whether the return they expect to
13 earn is adequate for the risks undertaken Investors also consider whether there
14 might be other investment opportunities that would provide a better return relative to
15 the risk involved This weighing of alternatives and the highly competitive nature of
16 capital markets causes the prices of stocks and bonds to adjust in such a way that
17 investors can expect to earn a return that is just adequate for the risks involved
18 Thus, for any given level of risk there is a return that investors must expect in order
19 to induce them to voluntarily undertake that risk and not invest their money
20 elsewhere That return is referred to as the "opportunity cost" of capital or "investor
21 required" return

22 **Q7. How should a fair rate of return be evaluated from the standpoint of**
23 **consumers and the public?**

24 A The same standards should apply When a regulated entity faces
25 competition, consumers will implicitly determine the fair rate of return by their

1 consumption decisions. When regulation is appropriate, consumers and the public
2 have a long-term interest in seeing that the regulated company has an opportunity to
3 earn returns that are not so high as to be excessive, but that also are sufficient to
4 encourage continued replacement and maintenance, as well as needed expansions,
5 extensions, and new services. Thus, the consumer and public interest also lies in
6 establishing a return that will readily attract capital without being excessive

7 **Q8. How are the costs of preferred stock and long-term debt determined?**

8 A For purposes of setting regulated rates, the current, embedded costs of
9 preferred stock and long-term debt are used in order to ensure that the company
10 receives a return that is sufficient to pay the fixed dividend and interest obligations
11 that are attached to these sources of capital

12 **Q9. How is the cost of common equity determined?**

13 A The practice in setting a fair rate of return on common equity is to use the
14 current market cost of common equity in order to ensure that the return is adequate
15 to attract capital and is commensurate with returns available on other investments
16 with similar levels of risk. However, determining the market cost of common equity
17 is a relatively complicated task that requires analysis of many factors and some
18 degree of judgment by an analyst. The current market cost of capital for securities
19 that pay a fixed level of interest or dividends is relatively easy to determine. For
20 example, the current market cost of debt for publicly-traded bonds can be calculated
21 as the yield-to-maturity, adjusted for flotation costs, based on the current market
22 price at which the bonds are selling. In contrast, because common stockholders
23 receive only the residual earnings of the company, there are no fixed contractual

1 payments which can be observed This high degree of uncertainty associated with
2 the dividends that eventually will be paid greatly complicates the task of estimating
3 the cost of common equity capital. For purposes of this testimony, I have relied on
4 several analytical approaches for estimating the cost of common equity My primary
5 approach relies on several DCF analyses. In addition, I have conducted Risk
6 Premium and Alternative Equity Investment analyses in order to establish
7 benchmarks for a reasonable rate of return Each of these approaches are described
8 later in this testimony.

9 Cost of Debt

10 **Q10. What debt cost rates have you used for Montana-Dakota?**

11 A Calculation of the overall cost of long-term debt and the effective cost of
12 each of the long-term debt issues is shown in the Prepared Direct Testimony of
13 Craig Keller, Vice President, Controller, and Chief Accounting Officer for
14 Montana-Dakota

15 **Q11. What cost of preferred stock did you use?**

16 A Montana-Dakota's annual cost of preferred stock is 4.614 percent, as
17 shown also in the Prepared Direct Testimony of Craig Keller

18 Interest Rates and the Economy

19 **Q12. What are the general economic factors that affect the cost of capital?**

20 A Investors are often influenced by their perceptions of the economy and both short-
21 and long-term trends Page 1 of Schedule 1 of Exhibit No ___(JSG-2) shows
22 various general economic statistics. The economy has had a record of persistent

1 growth during the past thirty years, with only temporary recessionary periods Real
2 growth in the Gross Domestic Product ("GDP") has averaged 3.1 percent annually
3 during the past 30 years, 3.1 percent for the past 20 years and 3.2 percent for the past
4 ten years After growing slowly during 2002 and the first half of 2003, the economy
5 has been growing at an exceptionally rapid rate lately For example, the U.S. GDP
6 grew at an annual rate of 8.2 percent during the third quarter of 2003 Stock prices
7 in general have increased recently, but many energy companies have seen their stock
8 prices plummet during the past two years There has been a marked increase in the
9 perceived risk of common equity investments in general and also an increase in the
10 perceived risk of energy and utility-related investments in particular

11 Investors also are influenced by the level of inflation, which has been
12 persistent in the past During the past decade, the Consumer Price Index has
13 increased at an average annual rate of 2.6 percent and the GDP Implicit Price
14 Deflator, a measure of price changes for all goods produced in the United States, has
15 increased at an average rate of 1.9 percent.

16 Companies attempting to attract common equity must compete with a
17 variety of alternative investments Prevailing interest rates provide a standard
18 measure of returns currently available on less risky securities As Page 2 of
19 Schedule 1 of Exhibit No ____ (JSG-2) shows, long-term interest rates have
20 remained relatively stable during the past two years This relative stability of
21 long-term interest rates is in stark contrast to the large decline in short-term
22 interest rates that occurred during this same time period The recent yields on A-

1 rated public utility bonds have been approximately 6 3 percent and the yields on
2 Baa-rated public utility bonds have been approximately 6 6 percent

3 Discounted Cash Flow (“DCF”) Method

4 **Q13. Please describe the DCF method of estimating the cost of common equity**
5 **capital.**

6 A. The DCF method reflects the assumption that the market price of a share of
7 stock represents the discounted present value of the stream of all future dividends
8 that investors expect the firm to pay The DCF method suggests that investors in
9 common stocks expect to realize returns from two sources a current dividend yield,
10 plus expected growth in the value of their shares as a result of future dividend
11 increases Estimating the cost of capital with the DCF method therefore is a matter
12 of calculating the current dividend yield and estimating the long-term future growth
13 rate in dividends that investors reasonably expect from a company

14 The dividend yield portion of the DCF method utilizes readily-available
15 information regarding stock prices and dividends The market price of a firm's stock
16 reflects investors' assessments of risks and potential earnings as well as their
17 assessments of alternative opportunities in the competitive financial markets By
18 using the market price to calculate the dividend yield, the DCF method implicitly
19 recognizes investors' market assessments and alternatives However, the other
20 component of the DCF formula, investors' expectations regarding the future long-run
21 growth rate of dividends, is not readily apparent from stock market data and must be
22 estimated using informed judgment.

1 **Q14. What is the appropriate DCF formula to use in this proceeding?**

2 A There can be many different versions of the basic DCF formula,
 3 depending on the assumptions that are most reasonable regarding the timing of
 4 future dividend payments. In my opinion, it is most appropriate to use a model
 5 that is based on the assumptions that dividends are paid quarterly and that the next
 6 annual dividend increase is a half year away. One version of this quarterly model
 7 assumes that the next dividend payment will be received in three months, or one
 8 quarter. This model multiplies the dividend yield by $(1 + \frac{75}{100}g)$. Another version
 9 assumes that the next dividend payment will be received today. This model
 10 multiplies the dividend yield by $(1 + \frac{5}{100}g)$. Since, on average, the next dividend
 11 payment is a half quarter away, the average of the results of these two models is a
 12 reasonable approximation of the average timing of dividends and dividend
 13 increases that investors can expect from companies that pay dividends quarterly.
 14 The average of these two quarterly dividend models is

$$15 \quad K = \frac{D}{P} (1 + \frac{625}{100}g) + g \quad (1)$$

16 where: K = the cost of capital, or total return that investors expect to
 17 receive;

18 P = the current market price of the stock,
 19

20 D = the current annual dividend rate, and
 21

22 g = the future annual growth rate that investors expect
 23

24 In my opinion, this is the DCF model that is most appropriate for estimating the
 25 cost of common equity capital for companies that pay dividends quarterly, such as
 26 those used in my analysis.
 27
 28

Flotation Cost Adjustment

1

2 **Q15. Does the investor return requirement that is estimated by a DCF analysis**
3 **need to be adjusted for flotation costs in order to estimate the cost of capital?**

4 A

5 Yes There are significant costs associated with issuing new common
6 equity capital and these costs must be considered in determining the cost of capital
7 Schedule 3 of Exhibit No ____ (JSG-2) shows a representative sample of flotation
8 costs incurred with 34 new common stock issues by natural gas transmission and
9 distribution companies between 1992 and 2002 Flotation costs associated with
10 these new issues averaged 4 77 percent This indicates that in order to be able to
11 issue new common stock on reasonable terms, without diluting the value of the
12 existing stockholders' investment, Montana-Dakota must have an expected return
13 that places a value on its equity that is approximately 4 75 percent above book value
14 The cost of common equity capital is therefore the investor return requirement
15 multiplied by 1 0475

16 One purpose of a flotation cost adjustment is to compensate common
17 equity investors for past flotation costs by recognizing that their real investment in
18 the company exceeds the equity portion of the rate base by the amount of past
19 flotation costs. For example, the proxy companies generally have incurred flotation
20 costs in the past and, thus, the cost of capital invested in these companies is the
21 investor return requirement plus an adjustment for flotation costs A more important
22 purpose of a flotation cost adjustment is to establish a return that is sufficient to
23 enable a company to attract capital on reasonable terms This fundamental
requirement of a fair rate of return is analogous to the well-understood basic

1 principle that a firm, or an individual, should maintain a good credit rating even
2 when they do not expect to be borrowing money in the near future. Regardless of
3 whether a company can confidently predict its need to issue new common stock
4 several years in advance, it should be in a position to do so on reasonable terms at all
5 times without dilution of the book value of the existing investors' common equity
6 This requires that the flotation cost adjustment be applied to the entire common
7 equity investment and not just a portion of it

8 **Q16. Has MDU Resources recently needed to raise additional common equity capital**
9 **through a stock offering?**

10 A In February 2004 MDU Resources raised approximately \$51 million
11 through a common stock offering. Due to some cost savings as a result of a recent
12 bond issue that reduced the cost of an additional underwriting review, the flotation
13 costs of that issuance were only 4.2 percent. However, my studies indicate that the
14 expected costs of a future issue under normal circumstances would be approximately
15 4.75 percent

16 DCF Study of Natural Gas Distribution Companies

17 **Q17. Would you please describe the overall approach used in your DCF analysis of**
18 **Montana-Dakota's cost of common equity?**

19 A Because Montana-Dakota must compete for capital with many other
20 potential projects and investments, it is essential that it have an allowed return that
21 matches returns potentially available from other similarly risky investments. The
22 DCF method provides a good measure of the returns required by investors in the
23 financial markets. However, the DCF method requires a market price of common

1 stock to compute the dividend yield component of the DCF analysis. Since
2 Montana-Dakota is a division of MDU Resources and does not have publicly-traded
3 common stock, a direct, market-based DCF analysis of Montana-Dakota's natural
4 gas distribution operation as a stand-alone company is not possible. Consequently, I
5 selected a group of natural gas distribution companies with publicly-traded common
6 stock as a proxy group for purposes of estimating the cost of common equity for
7 Montana-Dakota's North Dakota natural gas distribution operations.

8 **Q18. How did you select your group of proxy companies?**

9 A In Montana-Dakota's 2002 rate case, the Commission expressed a desire
10 for a proxy group with a somewhat greater number of companies. Consequently, I
11 utilized three criteria in selecting the proxy group. First, a company must be listed
12 as a natural gas distribution company by Value Line to ensure that retention growth
13 rate forecasts would be available and that the company is considered to be primarily
14 a natural gas distribution company. Next, companies with bond ratings that are
15 below investment grade were eliminated because such companies are not
16 sufficiently comparable to Montana-Dakota. Finally, those companies for which
17 Zack's long-term growth rate projections are not available were eliminated. These
18 criteria produced the group of 10 companies shown on Schedule 2 of Exhibit No
19 ___(JSG-2).

20 **Q19. How did you calculate the dividend yields for the companies in your**
21 **comparison group?**

22 A These calculations are shown on page 3 of Schedule 2 of Exhibit No
23 ___(JSG-2). For the price component of the calculation I used the average of the high

1 and low stock prices experienced by each company during the six month period
2 from July 2003 to December 2003. The dividend yields were calculated for each
3 company by dividing the indicated annual dividend by the average of the stock
4 prices for each company. These dividend yields can be multiplied by the quarterly
5 DCF model factor $(1 + 625g)$ to arrive at the dividend yield component of the DCF
6 model.

7 **Q20. Please describe the method you used in estimating the future growth rate that**
8 **investors expect from this group of companies?**

9 A I developed three different DCF analyses of the proxy companies based on
10 three different growth rate estimation methods. There are many methods that
11 reasonably can be employed in formulating a growth rate estimate, but an analyst
12 must attempt to ensure that the end result is an estimate that fairly reflects the
13 forward-looking growth rate that investors expect.

14 In the first approach I calculated a DCF rate of return using a combination
15 of securities analysts' growth projections and the Value Line retention growth
16 forecasts to produce a Second-Stage Retention Growth analysis. As a second
17 approach, I conducted a Basic DCF analysis that relied solely on the analysts'
18 forecasts for the growth rate component of the model. Finally, my Primary DCF
19 uses a variety of sources and analyses to develop an estimate of the composite
20 growth rate that investors would expect from the sample group of proxy companies.

Second-Stage Retention Growth Analysis

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Q21. How did you use your Second-Stage Retention Growth analysis to estimate investors' long-term growth rate expectations for the proxy companies?

A The Second-Stage Retention Growth rate approach combines (i) estimates of long-term growth for each company that are published by various investment analysts and (ii) Value Line retention growth forecasts

Q22. How did you estimate the first stage of expected future growth?

A Among the best sources of information regarding investors' growth rate expectations are the long-term earnings growth rate forecasts of investment analysts Zack's is a service that collects estimates by professional investment analysts and publishes a summary of the consensus forecasts I have used the Zack's consensus forecasts as the source for analysts' forecasts in my calculations As shown on Exhibit No ____ (JSG-2), Schedule 2, page 5, the average of the analysts' long-term growth rate estimates for the natural gas distribution proxy companies is 5.6 percent.

Q23. Would you please describe the second stage, retention growth rate component of your analysis?

A In addition to analysts' growth rate forecasts, I have relied upon Value Line projections of the retention growth rates that the proxy companies are expected to begin maintaining three to five years in the future Although companies may experience extended periods of growth for other reasons, in the long-run, growth in earnings and dividends per share depends in part on the amount of earnings that are being retained and reinvested in a company Thus, the primary

1 determinants of growth for the proxy companies will be (i) their ability to find and
 2 develop profitable opportunities, (ii) their ability to generate profits that can be
 3 reinvested in order to sustain growth, and, (iii) their willingness and inclination to
 4 reinvest available profits. Expected future retention rates provide a general measure
 5 of these determinants of expected growth, particularly items (ii) and (iii).

6 **Q24. How can a company's earnings retention rate affect its future growth?**

7 A Retention of earnings causes an increase in the book value per share and,
 8 other factors being equal, increases the amount of earnings that are generated per
 9 share of common stock. The retention growth rate can be estimated by multiplying
 10 the expected retention rate (b) times the rate of return on common equity (r) that a
 11 company is expected to earn in the future. For example, a company that is expected
 12 to earn a return of 15 percent and retain 80 percent of its earnings might be expected
 13 to have a growth rate of 12 percent, computed as follows:

$$80 \times 15\% = 12\%$$

15 On the other hand, another company that is also expected to earn 15 percent but only
 16 retains 20 percent of its earnings might be expected to have a growth rate of 3
 17 percent, computed as follows:

$$20 \times 15\% = 3\%$$

19 Thus, the rate of growth in a firm's book value per share is primarily determined by
 20 the level of earnings and the proportion of earnings retained in the company.

1 **Q25. How did you calculate the expected future retention rates of the proxy**
2 **companies?**

3 A. For most companies, Value Line publishes forecasts of data that can be
4 used to estimate the retention rates that its analysts expect individual companies to
5 have 3-5 years in the future. Since these retention rates are projected for several
6 years in the future they should be indicative of a normal expectation for a primary
7 underlying determinant of growth that would be sustainable indefinitely beyond the
8 period covered by analysts' forecasts. While companies may have either
9 accelerating or decelerating growth rates for extended periods of time, the retention
10 growth rates expected to be in effect 3-5 years in the future generally represent a
11 minimum "cruising speed" that companies can be expected to maintain indefinitely.
12 The derivation of Value Line's retention growth rate forecasts for each of the proxy
13 companies is shown on page 4 of Schedule 2 of Exhibit No ____(JSG-2). The
14 projected earnings per share and projected dividends per share can be used to
15 calculate the percentage of earnings per share that are being retained and reinvested
16 in the company. This earnings retention rate is multiplied times the projected return
17 on common equity to arrive at the projected retention growth rate. The average
18 retention growth rate for the proxy companies is 5.8 percent.

19 **Q26. How did you utilize the projected earnings retention rates in estimating**
20 **expected growth for the proxy companies?**

21 A. As shown on page 5 of Schedule 2 of Exhibit No.__(JSG -2), I calculated
22 a weighted average of the analysts' projected growth rates and the projected
23 retention growth rates to derive long-term growth rate estimates for each of the

1 proxy companies In these calculations, I gave a two-thirds weighting to the
 2 analysts' growth rate projections to reflect the fact that analysts are attempting to
 3 evaluate all sources of growth and not just growth that is expected to result from
 4 retained earnings This weighting also reflects the fact that the analysts' long-term
 5 growth forecasts can be expected to prevail for a relatively long period of time in the
 6 future. This two-thirds weighting for analysts' forecasts is the same weighting
 7 that the FERC used in Opinion No 414-A for setting the allowed return on equity
 8 for natural gas pipeline companies *Transcontinental Gas Pipeline Co* , 80 FERC
 9 ¶ 61,084 (1998) The average of the weighted average growth rates for the proxy
 10 companies is 5.6 percent and the median is 5.4 percent

11 **Q27. How did you utilize these Second-Stage Retention Growth rate estimates in**
 12 **estimating the return on common equity capital that investors require from**
 13 **the proxy companies?**

14 A The dividend yield for each company shown on page 3 of Schedule 2 of
 15 Exhibit No. ____ (JSG-2) is multiplied times the quarterly dividend adjustment factor
 16 $(1 + .625g)$ and this product is added to the growth rate estimate to arrive at the
 17 investor-required return Finally, the investor return requirement is multiplied times
 18 the flotation cost adjustment factor, 1.0475 to arrive at the cost of common equity
 19 capital for the proxy companies. These calculations are shown on page 6 of
 20 Schedule 2 of Exhibit No ____ (JSG-2) This Second-Stage Retention Growth DCF
 21 analysis indicates that the cost of common equity capital for the natural gas
 22 distribution proxy companies is in a range between 9.2 percent and 12.7 percent

1 The median for the group is 10.6 percent and the average for the group is 10.5
2 percent

3 Basic DCF Analysis

4 **Q28. What approach did you use in conducting a Basic DCF analysis?**

5 A This analysis is conducted in substantially the same manner as the Second-
6 Stage Retention Growth Rate analysis. However, the growth rate component of the
7 analysis is based solely on the analysts' forecasts for each company and the retention
8 growth rate component is omitted from the analysis. This Basic DCF analysis
9 recognizes that the consensus of analysts' forecasts reflects the most important
10 component of investors' growth rate expectations and it assumes that the analysts'
11 forecasts incorporate all information required to estimate a long-term expected
12 growth rate for a company.

13 **Q29. How did you calculate the cost of capital using the Basic DCF analysis?**

14 A These calculations are shown on page 7 of Schedule 2 of Exhibit
15 No. ____ (JSG-2). Again, the annual dividend yield is multiplied times the quarterly
16 dividend adjustment factor $(1 + 6.25\%)$ and this product is added to the growth rate
17 estimate to arrive at the investor-required return. Then, the investor return
18 requirement is multiplied times the flotation cost adjustment factor, 1.0475 to arrive
19 at the Basic DCF estimate of the cost of common equity capital for the proxy
20 companies. The Basic DCF analysis indicates a median and average cost of
21 common equity for the proxy companies of 10.4 percent.

Primary DCF Analysis

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2 **Q30. Would you please describe your Primary DCF analysis?**

3 A My primary DCF approach refines the growth rate estimates to reflect my
4 analysis of the appropriate range of growth rate expectations that are implicit in the
5 stock prices and dividend yields of this group. As the following analysis indicates,
6 my primary analysis indicates a DCF required rate of return that is quite close to the
7 level that is indicated by both the Second-Stage Retention Growth DCF analysis and
8 the Basic DCF analysis

9 **Q31. In your opinion, what are the factors that will affect growth rates for the**
10 **proxy companies in the future?**

11 A. One important factor will be growth in the overall economy. Page 1 of
12 Schedule 1 of Exhibit No.__(JSG-2) shows that the United States Gross Domestic
13 Product has grown at an average annual rate of 7.4 percent during the past 30 years
14 During the past decade U.S. GDP growth has averaged 5.2 percent. It is reasonable
15 to expect that long-term future growth in the economy generally will be comparable
16 to past growth rates.

17 Another factor will be demand for natural gas. Natural gas usage has been
18 increasing in recent years and many analysts are expecting demand to increase
19 steadily during the next decade and beyond. For example, the Energy Information
20 Administration of the U.S. Department of Energy forecasts that gas consumption in
21 the United States will grow from its current level of approximately 22 Tcf per year
22 to approximately 33 Tcf per year in 2020. While the real gas distribution capacity of
23 the proxy companies is expected to increase, additional growth will occur because

1 the amount of investment required will increase in nominal dollars. In other words,
2 the effects of inflation needs to be added to the real growth rate in the industry to get
3 a measure of likely growth in investment and earnings.

4 In my opinion, investors reasonably expect the 10 companies in this
5 comparison group to grow at a rate that is somewhere in the range of 5.0 percent to
6 6.5 percent. Based on the average growth rate of approximately 5.6 percent
7 currently projected by investment analysts, as well as the 6.0 percent long-term
8 future growth rate in the economy forecast by DRI-WEFA, increasing demands for
9 natural gas, and my review of these companies, I consider this growth rate range to
10 be a reasonable estimate of the future growth expectations that are implicit in current
11 dividend yields. This growth rate range is also consistent with the retention growth
12 rates projected for these companies and their ability to grow by means other than
13 retained earnings.

14 **Q32. What does your primary DCF analysis indicate with regard to investors'**
15 **current market rate of return requirements?**

16 A Page 8 of Schedule 2 of Exhibit No ____ (JSG-2) shows the calculation of
17 the cost of capital based on my primary DCF growth rate estimates. The dividend
18 yield used in this analysis is the average dividend yield for the natural gas
19 distribution proxy companies that is developed on page 3 of Schedule 2. This
20 market-based primary DCF analysis indicates that the cost of capital for the proxy
21 companies is approximately in the range of **9.9 percent to 11.5 percent**.

Risk Premium Analyses

1
2 **Q33. Have you conducted additional analyses in determining the cost of capital to**
3 **Montana-Dakota?**

4 A Yes The risk premium approach provides a general guideline for
5 determining the level of returns that investors expect from an investment in common
6 stocks Investments in the common stocks of companies carry considerably greater
7 risk than investments in bonds of those companies since common stockholders
8 receive only the residual income that is left after the bondholders have been paid In
9 addition, in the event of bankruptcy or liquidation of the company, the stockholders'
10 claims on the assets of a company are subordinated to the claims of bondholders
11 This superior standing provides bondholders with greater assurances that they will
12 receive the return on investment that they expect and that they will receive a return
13 of their investment when the bonds mature Accompanying the greater risk
14 associated with common stocks is a requirement by investors that they can expect to
15 earn, on average, a return that is greater than the return they could earn by investing
16 in less risky bonds Thus, the risk premium approach estimates the return investors
17 require from common stocks by utilizing current market information that is readily
18 available in bond yields and adding to those yields a premium for the added risk of
19 investing in common stocks

20 Investors' expectations for the future are influenced to a large extent by
21 their knowledge of past experience. Ibbotson Associates annually publishes
22 extensive data regarding the returns that have been earned on stocks, bonds and U S
23 Treasury bills since 1926 Historically, the annual returns on large company

1 common stocks have exceeded the returns on Long-Term U S Government Bonds
2 by an average of 640 basis points (6.40 percent). However, the returns on relatively
3 small company stocks in the size range of Montana-Dakota's natural gas distribution
4 operations have been 1,130 basis points (11.3 percent) above the yields on long-term
5 government bonds. As shown on page 1 of Schedule 2 of Exhibit No ____ (JSG-2),
6 Montana-Dakota is a fraction of the size of any of the proxy companies. In recent
7 months, the yield on long-term U S Government bonds has been approximately 5.0
8 percent. Adding a 6.4 percent premium to a yield of 5.0 percent indicates that
9 investors in large company common stocks expect a return of at least 11.4 percent.
10 Adding the 11.3 percent premium for companies in Montana-Dakota's size range
11 suggests a required return of 16.3 percent.

12 Another risk premium approach is to examine the long-term premium of
13 large company common stock returns as compared with returns on corporate bonds.
14 This premium has averaged 600 basis points (6.0 percent) annually over a long
15 period of time in the past. When this premium is added to the 6.2 percent yield on
16 Moody's corporate bonds that has prevailed in recent months, the result is an
17 investor return requirement for large company stocks of 12.2 percent. However,
18 over the long term companies in Montana-Dakota's size range have had a premium
19 of 1,090 basis points (10.9 percent) over the average returns on long-term corporate
20 bonds. When added to the recent average corporate bond yields, this size-related
21 premium suggests an expected return of 17.1 percent.

Alternative Equity Investment Analysis

1

2 **Q34. Have you analyzed the returns available on common equity investments in**
3 **other industries?**

4 A Yes. When investors consider whether to invest their funds in a particular
5 company or line of business, they evaluate the returns potentially available from
6 other companies. This process whereby projects and companies compete for scarce
7 equity capital ensures that capital resources are deployed efficiently. As a result,
8 regulated natural gas distribution operations must bid against other companies and
9 other possible projects within the same company for equity capital by offering
10 potential returns that investors find attractive relative to the risks involved.

11 **Q35. What level of returns are potentially available to unregulated companies?**

12 A The potential returns are often considerably above 20 percent and the
13 average returns for broad-based, diversified portfolios have averaged 20.0 percent or
14 more in recent years. For example, page 3 of Schedule 1 of Exhibit No ___(JSG-2)
15 shows the average return on equity book value earned by companies in the S&P 500
16 each year from 1977 to 2000. It can be seen, in fact, that average returns for the
17 S&P 500 companies have been 21.47 percent for the past five years. For purposes
18 of comparison with allowed returns for regulated natural gas distribution operations,
19 a better indicator of earnings on alternative equity investments is provided by data
20 on 746 industrial, retail and transportation companies published by *The Value Line*
21 *Investment Survey*. Excluding extraordinary and non-recurring items, the average
22 returns on the original cost book value of common equity for these companies in
23 recent years has been:

1	1998	29 12%
2	1999	30 35
3	2000	32 17
4	2001	24 88
5	2002	26 23
6		
7	5-year Average	28.55%
8		

9 **Q36. Is it appropriate to set the allowed rate of return for a natural gas**
10 **distribution company equal to the average return available to industrial**
11 **companies?**

12 A The average return for industrials serves as a useful indicator of the cost of
13 capital because natural gas distribution companies must offer potential returns that
14 are competitive with other investments in order to attract capital. It is important to
15 remember that an industrial company has an opportunity to earn returns far in excess
16 of 20 percent. In fact, the average company has earned normal returns on the book
17 value of equity well in excess of 20 percent in recent years. This average reflects
18 many companies that experienced enormous losses as well as those with large
19 returns.

20 Similarly, when a regulator sets an allowed return it is providing only an
21 *opportunity* to earn that return. In exceptionally good times a regulated company
22 might earn slightly more than this amount, but it might earn substantially less than
23 the allowed return and, in fact, often does earn less than that amount. Natural gas
24 distribution companies generally have risks that are less than those of the average
25 large industrial company. Consequently, it would be appropriate to view average
26 returns earned by a broad cross-section of industry as being only a general indicator
27 for reasonable allowed returns.

1 As a benchmark, allowed returns for natural gas distribution companies can
 2 be compared to returns on book value for large companies. Normal returns have
 3 averaged 28.6 percent during the past five years. As this comparison indicates, an
 4 allowed return of 11.50 percent for Montana-Dakota would be quite low in
 5 comparison with the returns earned by other large companies.

6 Relative Risk Analysis

7 **Q37. Have you compared the risks faced by Montana-Dakota’s North Dakota**
 8 **natural gas distribution operations with the risks faced by the proxy group of**
 9 **companies?**

10 A. Yes. There are four broad categories of risk that concern investors. These
 11 include:

- 12 i. Business Risk,
- 13 ii. Regulatory Risk,
- 14 iii. Financial Risk, and,
- 15 iv. Market Risk

16 **Q38. Would you please describe the business risks inherent in the natural gas**
 17 **distribution industry?**

18 A. Business risk refers to the ability of the firm to generate revenues that
 19 exceed its cost of operations. Business risk exists because forecasts of both demand
 20 and costs are inherently uncertain. Markets change and the level of demand for the
 21 firm’s output may be sufficient to cover its costs at one time and later become
 22 insufficient. Sunk investments in long-lived natural gas distribution assets, for
 23 which cost recovery occurs over a period of thirty years or more, are subject to

1 enormous uncertainties and risks that demand, costs, supply and competition may
2 change in ways that adversely affect the value of the investment

3 **Q39. What are some of the business risks faced by Montana-Dakota's North Dakota**
4 **natural gas distribution operations?**

5 A These operations face many of the same risks that are associated with
6 other natural gas distribution companies. However, Montana-Dakota's gas
7 distribution operation faces some risks that distinguish it from many other
8 distribution companies.

9 As shown on Exhibit No ____ (JSG-2), Schedule 2, page 1, Montana-
10 Dakota's natural gas distribution operations are considerably smaller than the
11 operations of any of the proxy companies and a small fraction of the size of the
12 typical proxy company. For example, Montana-Dakota's natural gas distribution
13 assets are equal to only 9.1 percent of the assets of the median proxy company.
14 Similarly, Montana-Dakota's gas distribution operating revenues and operating
15 income are only 16.4 percent and 2.4 percent of the level for the median proxy
16 company. Thus, depending upon the measure of size, the typical proxy company
17 is somewhere between approximately six and 42 times the size of Montana-
18 Dakota's natural gas distribution operations.

19 With its small revenue base, Montana-Dakota is subject to slightly
20 greater risk that a major employer or industry, such as a mining operation or
21 refinery, might experience a downturn that would significantly affect overall
22 employment and income in the areas served.

1 Ibbotson Associates has documented the significantly higher returns that
2 generally have been associated with small companies. On a practical level,
3 Montana-Dakota's relatively small natural gas distribution operations are heavily
4 dependent upon a relatively undiversified local economy. Factors that negatively
5 influence the local economy can reduce demand for Montana-Dakota's gas
6 distribution services and adversely impact investments in facilities used to provide
7 those services.

8 In fact, demographic trends cause Montana-Dakota's North Dakota
9 natural gas distribution operations to be significantly riskier than the operations of
10 the utilities in the proxy group. For example, North Dakota ranked 50th among
11 the 50 states in terms of population growth between 1990 and 2000. However,
12 the state-wide average population growth rate masks the fact that North Dakota
13 counties where Montana-Dakota provides gas distribution service are shrinking.
14 This declining population is shown on page 4 of Schedule 1 of Exhibit No
15 ____ (JSG-2). During the past 20 years, the population of counties in which
16 Montana-Dakota provides gas distribution service have experienced population
17 declines of approximately 0.3 percent per year. So far, Montana-Dakota has been
18 able to overcome the effects of a stagnant and shrinking population base by
19 obtaining conversions of customers to natural gas and increasing its market
20 penetration. In addition, there is some migration of population from rural areas to
21 the towns in North Dakota. Nevertheless, a long-term problem and source of risk
22 for Montana-Dakota derives from the fact that its investments in fixed-cost gas
23 distribution facilities are sunk and have a long life. These facilities cannot be

1 easily moved or devoted to another purpose, even if the population declines
2 significantly or gas becomes uneconomical. The population shifts that are
3 occurring in Montana-Dakota's service territory pose a significant risk that it may
4 at some point be unable to recover the cost of its natural gas distribution
5 investments.

6 In addition, the threat of bypass is more significant for a smaller
7 company and the threat is especially great for a company such as Montana-Dakota
8 that is located near a gas production area. Montana-Dakota also faces direct
9 competition from propane and heating oil for new and existing load in its North
10 Dakota service territory. Another risk faced by Montana-Dakota is the fact that it
11 recovers a substantial portion of its fixed costs in the volumetric component of its
12 rates and it does not have a weather normalization adjustment mechanism. In
13 contrast, several of the proxy companies have rate designs that better reflect the
14 fixed cost nature of their operations. These companies have slightly less rate
15 design risk as a result.

16 Considering only its smaller size, Montana-Dakota might require a return
17 that is more than 100 basis points higher than the return required for the typical
18 proxy company. Montana-Dakota also faces somewhat above-average rate design
19 risk. However, most important is the fact that the declining population base in
20 counties served by Montana-Dakota, means that Montana-Dakota's North Dakota
21 natural gas distribution operations are significantly riskier than the operations of
22 the proxy companies.

1 **Q40. What are the regulatory risks faced by Montana-Dakota's North Dakota utility**
2 **operations?**

3 A Regulatory risk is closely related to business risk and might be
4 considered just another aspect of business risk. To the extent that the market
5 demand for a natural gas distribution company's services is sufficiently strong
6 that the company could conceivably recover all of its costs, regulators may
7 nevertheless set the rates at a level that will not allow full cost recovery. In effect,
8 the binding constraint on utilities is often posed by regulation rather than by the
9 working of market forces. One purpose of regulation is to provide a substitute for
10 competition where markets are not workably competitive. As such, regulation
11 often attempts to replicate the type of cost discipline and risks that might typically
12 be found in highly competitive industries. Moreover, there is the perceived risk
13 that regulators may set allowed returns so low as to effectively undermine
14 investor confidence and jeopardize the ability of gas distribution utilities to
15 finance their operations. Thus, in some instances regulation may substitute for
16 competition and in other instances it may limit the potential returns available to
17 successful competitors. In either case, regulatory risk is an important
18 consideration for investors and has a significant effect on the cost of capital for all
19 firms in the natural gas distribution industry. Value Line rates the regulatory
20 climate in North Dakota as being "average."

21 **Q41. Would you please describe Montana-Dakota's relative financial risks?**

22 A. Financial risk exists to the extent a company incurs fixed obligations in
23 financing its operations. These fixed obligations increase the level of income

1 which must be generated before common stockholders receive any return and
2 serve to magnify the effects of business and regulatory risks. Fixed financial
3 obligations also increase the probability of bankruptcy by reducing the company's
4 financial flexibility and ability to respond to adverse circumstances. One possible
5 indicator of investors' perceptions of relative financial risk in this case might be
6 obtained from bond ratings. Because Montana-Dakota does not have its own
7 bonds outstanding, it is difficult to make direct comparisons between the ratings
8 of Montana-Dakota and the proxy group. However, page 2 of Schedule 2 of
9 Exhibit No ____ (JSG-2) shows the bond ratings assigned by Moody's and
10 Standard & Poor's to each of the companies in the comparison group and to MDU
11 Resources bonds that are secured by the assets of Montana-Dakota Utilities. The
12 median bond ratings for companies in the proxy group are A for Standard &
13 Poor's and A2 for Mergent. In comparison, MDU Resources bonds carry an A-
14 rating with Standard & Poor's and an A2 rating with Mergent. This suggests that
15 the perceived risk of MDU Resources' bonds is nearly the same as that of the
16 typical company in the comparison group. Examination of the capital structure
17 data shown on page 9 of Exhibit No. ____ (JSG-2), Schedule 2 shows that
18 Montana-Dakota's filed common equity ratio, 51.9 percent, is slightly less than
19 the mean and median common equity ratios of the proxy companies. This
20 common equity ratio, combined with its bond rating, suggests average financial
21 risk for Montana-Dakota's North Dakota natural gas distribution operations.

1 **Q42. Would you please describe Montana-Dakota's market risks?**

2 A Market risk is associated with the changing value of all investments
3 because of business cycles, inflation and fluctuations in the general cost of capital
4 throughout the economy Different companies are subject to different degrees of
5 market risk largely as a result of differences in their business and financial risks
6 Because of the substantial similarity in their operations, Montana-Dakota's degree
7 of market risk is not significantly different from that of the companies in the
8 natural gas distribution comparison group

9 **Q43. How do the overall risks of the proxy companies compare with the risks**
10 **faced by Montana-Dakota's natural gas distribution operations?**

11 A Montana-Dakota faces overall risks that are above average relative to those
12 of the proxy companies Montana-Dakota has above-average business risks due
13 primarily to its exceptionally small size relative to the proxy companies and its
14 exposure to competition and a relatively undiversified economy Montana-Dakota
15 also has slightly greater rate design risk than the typical company in the proxy group
16 As shown on page 4, Schedule 1 of Exhibit No ____ (JSG-2) Montana-Dakota faces
17 unusually high risk because the counties where it provides service are experiencing
18 declining population. In addition, it has financial risks that are average relative to
19 the proxy companies. These factors and the perception of an average regulatory
20 climate in North Dakota lead me to conclude that the overall risks of Montana-
21 Dakota's natural gas distribution operations are well above average relative to the
22 risks of the proxy companies.

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III. SUMMARY AND CONCLUSIONS

Q44. Would you please summarize the results of your cost of capital study?

A Yes. I conducted several DCF analyses on a group of natural gas distribution companies that have a range of risks that includes risks roughly comparable to those of Montana-Dakota. The results of my various analyses can be summarized as follows

	<u>Cost of Capital Median/Average</u>	<u>Range</u>
<u>DCF Analyses</u>		
Natural gas distribution Proxies		
- Second-Stage Retention Growth	10.6%/10.5%	9.2%/12.7%
- Basic DCF	10.4%/10.4%	9.2%/11.8%
- Primary DCF	10.7%	9.9%/11.5%
<u>Benchmark Analyses</u>		
<u>Risk Premium Return Based On</u>		
- U.S. Treasury Bonds		
v. Large Companies	11.4	
v. Small Companies	16.3	
- Corporate Bonds		
v. Large Companies	12.2	
v. Small Companies	17.1	
<u>Alternative Investments</u>		
- S&P 500	21.5	
- Value Line Industrials	28.6	

8
9
10
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12

My second-stage retention growth analysis indicates a median cost of common equity capital of 10.6 percent and an average cost of 10.5 percent. The range for this analysis is 9.2 percent to 12.7 percent. Because projected retention growth is sustainable indefinitely and it is directly related to the growth rate

1 expectations for an individual company, it is a good indicator of the minimum
2 growth rate that a company can maintain in the very long run. However,
3 companies can achieve growth through means in addition to retained earnings.
4 Consequently, analysts' forecasts provide the best measure of expected growth for
5 the foreseeable future. At this time, the average of the analysts' forecasts and the
6 retention growth forecasts for the proxy companies are identical. Combining
7 these two measures provides a good estimate of the long-term growth that
8 investors can reasonably expect from these proxy companies.

9 The Basic DCF analysis, which relies solely on the analysts' forecasts, also
10 provides a good estimate of investors' growth rate expectations and required return
11 for the proxy companies. This DCF analysis indicates a median required rate of
12 return of 10.4 percent and an average rate of return of 10.4 percent. The range of
13 results for this analysis is 9.2 percent to 11.8 percent.

14 My primary approach has been to analyze a variety of sources of
15 information, including investment analysts' forecasts, in order to estimate a
16 weighted average annual growth rate that investors reasonably can expect the natural
17 gas distribution comparison companies to achieve during a long period of time in the
18 future. This primary DCF analysis indicates that the cost of capital for natural gas
19 distribution companies with risks comparable to those of Montana-Dakota is in a
20 range between 9.9 percent and 11.5 percent. The mid-point of this range is
21 approximately 10.7 percent.

22 My risk premium analyses indicate that my DCF estimates produce a
23 premium over corporate bond yields that is below the average long-run risk

1 premium available from common stocks The DCF return estimates provide a
2 premium over the return on corporate bonds that is considerably below the
3 average premium experienced by companies in Montana-Dakota's relative size
4 range In addition, my examination of returns available on alternative equity
5 investments suggests that my DCF estimates are far below the 28.6 percent
6 average normal returns earned by the Value Line Industrials in recent years

7 **Q45. What rate of return on common equity do you recommend for Montana-**
8 **Dakota in this proceeding?**

9 A My analyses indicate that an appropriate rate of return on common
10 equity for Montana-Dakota's North Dakota natural gas distribution operations at
11 this time would be **11.50 percent** A return of 11.50 percent is at the top of the
12 range for my Primary DCF analysis and also is well within the range indicated by
13 my Second-Stage Retention Growth and Basic DCF analyses This recommended
14 return reflects my assessment that Montana-Dakota's overall risks are
15 significantly higher than those of the proxy group

16 **Q46. Does this conclude your Prepared Direct Testimony?**

17 A Yes

Montana-Dakota Utilities Co.

General Economic Statistics

1972-2002

Year	Percentage Price Changes		Real GDP Growth	Nominal GDP (Billions)
	Consumer Price Index	GDP Implicit Price Deflator		
1972	3.2%	4.3%	5.4%	1,240.4
1973	6.2%	5.6%	5.8%	1,385.5
1974	11.0%	9.0%	-0.6%	1,501.0
1975	9.1%	9.3%	-0.4%	1,635.2
1976	5.8%	5.7%	5.6%	1,823.9
1977	6.5%	6.4%	4.6%	2,031.4
1978	7.6%	7.1%	5.5%	2,295.9
1979	11.3%	8.3%	3.2%	2,566.4
1980	13.5%	9.2%	-0.2%	2,795.6
1981	10.3%	9.3%	2.5%	3,131.3
1982	6.2%	6.2%	-2.0%	3,259.2
1983	3.2%	4.0%	4.3%	3,534.9
1984	4.3%	3.7%	7.3%	3,932.7
1985	3.6%	3.1%	3.8%	4,213.0
1986	1.9%	2.2%	3.4%	4,452.9
1987	3.6%	3.0%	3.4%	4,742.5
1988	4.1%	3.4%	4.2%	5,108.3
1989	4.8%	3.8%	3.5%	5,489.1
1990	5.4%	3.9%	1.8%	5,803.2
1991	4.2%	3.6%	-0.5%	5,986.2
1992	3.0%	2.4%	3.0%	6,318.9
1993	3.0%	2.4%	2.7%	6,642.3
1994	2.6%	2.1%	4.0%	7,054.3
1995	2.8%	2.2%	2.7%	7,400.5
1996	3.0%	1.9%	3.6%	7,813.2
1997	2.3%	1.9%	4.4%	8,318.4
1998	1.6%	1.2%	4.3%	8,781.5
1999	2.2%	1.4%	4.1%	9,274.3
2000	3.4%	2.1%	3.8%	9,824.6
2001	2.8%	2.4%	0.3%	10,082.2
2002	1.6%	1.1%	2.4%	10,446.2
Average Rate of Change 1/				
1972-2002	5.0%	4.3%	3.1%	7.4%
1982-2002	3.3%	2.8%	3.1%	6.0%
1992-2002	2.6%	1.9%	3.2%	5.2%

1/ Nominal GDP growth rates are based on the geometric average rate of change in nominal GDP

Source *Economic Report of the President*, February 2003 and
Economic Indicators, March 2003

Montana-Dakota Utilities Co.

Mergent Bond Yield Averages

January 2002 - December 2003

		Average Corporate	Public Utility Bonds	
			A-Rated	Baa-Rated
2002	JAN	7 38	7 66	8 13
	FEB	7 32	7 54	8 18
	MAR	7 57	7 76	8 32
	APR	7 49	7 57	8 26
	MAY	7 49	7 52	8 33
	JUN	7 36	7 42	8 26
	JUL	7 27	7 31	8 07
	AUG	7 06	7 17	7 74
	SEP	6 87	7 08	7 62
	OCT	7 07	7 23	7 99
	NOV	7 01	7 14	7 76
	DEC	6 90	7 07	7 61
2003	JAN	6 84	7 06	7 47
	FEB	6 62	6 93	7 17
	MAR	6 53	6 79	7.05
	APR	6 44	6 64	6 94
	MAY	6 02	6 36	6 47
	JUN	5 85	6 21	6 30
	JUL	6 26	6 57	6 67
	AUG	6 57	6 78	7.08
	SEP	6 37	6 56	6 87
	OCT	6 32	6 43	6 79
	NOV	6 27	6 37	6 69
	DEC	6 20	6 27	6 61

Source Mergent Bond Record

Montana-Dakota Utilities Co.**Average Return on Book Value of Equity
for S&P 500 Companies**

	Average Return on Equity	5-Year Moving Average ROE
2000	23 17	21 47
1999	23 49	20 69
1998	18 50	19 77
1997	20 89	18 99
1996	21 30	17 33
1995	19 27	15 12
1994	18 90	14 10
1993	14 57	13 43
1992	12 60	13 88
1991	10 25	13 97
1990	14 20	14 20
1989	15 53	13 70
1988	16 81	13 31
1987	13 05	12 35
1986	11 43	11 99
1985	11 67	12 51
1984	13 59	13 07
1983	12 00	13 50
1982	11 24	13 99
1981	14 04	14 50
1980	14 46	
1979	15 76	
1978	14 45	
1977	13 77	

Source Standard & Poor's Analyst Handbook, 2001

Montana-Dakota Utilities Co.

POPULATION IN NORTH DAKOTA COUNTIES WHERE MONTANA-DAKOTA PROVIDES NATURAL GAS SERVICE 1980 TO 2000

	1980	1990	2000	Population Change	
				1990-2000	1980-2000
North Dakota	652,717	638,800	642,200	0.05%	-0.08%
<u>Counties</u>					
Adams	3,584	3,174	2,593	-2.00%	-1.61%
Barnes	13,960	12,545	11,775	-0.63%	-0.85%
Benson	7,944	7,198	6,964	-0.33%	-0.66%
Billings	1,138	1,108	888	-2.19%	-1.23%
Bowman	4,229	3,596	3,242	-1.03%	-1.32%
Burke	3,822	3,002	2,242	-2.88%	-2.63%
Burleigh	54,811	60,131	69,416	1.45%	1.19%
Cavalier	7,636	6,064	4,831	-2.25%	-2.26%
Dunn	4,627	4,005	3,600	-1.06%	-1.25%
Eddy	3,554	2,951	2,757	-0.68%	-1.26%
Emmons	5,877	4,830	4,331	-1.08%	-1.51%
Foster	4,611	3,983	3,759	-0.58%	-1.02%
Golden Valley	2,391	2,108	1,924	-0.91%	-1.08%
Hettinger	4,275	3,445	2,715	-2.35%	-2.24%
Kidder	3,833	3,332	2,753	-1.89%	-1.64%
McKenzie	7,132	6,383	5,737	-1.06%	-1.08%
McLean	12,383	10,457	9,311	-1.15%	-1.42%
Morton	25,177	23,700	25,303	0.66%	0.02%
Mountrail	7,679	7,021	6,631	-0.57%	-0.73%
Pembina	10,399	9,238	8,585	-0.73%	-0.95%
Ramsey	13,048	12,681	12,066	-0.50%	-0.39%
Slope	1,157	907	767	-1.66%	-2.03%
Stark	23,697	22,832	22,636	-0.09%	-0.23%
Stutsman	24,154	22,241	21,908	-0.15%	-0.49%
Walsh	15,371	13,840	12,389	-1.10%	-1.07%
Ward	58,392	57,921	58,795	0.15%	0.03%
Williams	22,237	21,129	19,761	-0.67%	-0.59%
Total MDU	347,118	329,822	327,679	-0.07%	-0.29%

Montana-Dakota Utilities Co.**Moody's Natural Gas Distribution Companies
Fiscal Year 2003 Operating Data**

	Assets (\$000,000)	Operating Revenues (\$000,000)	Operating Income (\$000,000)
AGL Resources, Inc	\$3,697	\$869	\$217 <u>1/</u>
Atmos Energy Corp	\$2,519	\$2,800	\$190 <u>2/</u>
Energen Corporation	\$1,568	\$677	\$135 <u>1/</u>
KeySpan Corp	\$13,000	\$5,971	\$935 <u>1/</u>
New Jersey Resources Corp	\$1,571	\$2,544	\$122 <u>2/</u>
NICOR, Inc	\$3,071	\$1,897	\$230 <u>1/</u>
Northwest Natural Gas Co	\$1,326	\$641	\$101 <u>1/</u>
Piedmont Natural Gas Co , Inc.	\$1,511	\$1,221	\$147 <u>3/</u>
South Jersey Industries, Inc	\$1,024	\$506	\$70 <u>1/</u>
WGL Holdings, Inc.	\$2,436	\$2,064	\$229
High	\$13,000	\$5,971	\$935
Median	\$2,004	\$1,559	\$169
Low	\$1,024	\$506	\$70
Montana-Dakota Gas Distribution*	\$183	\$255	\$4
MDU Resources Group, Inc	\$2,623	\$2,224	\$273
<u>Montana-Dakota Gas Distribution % of:</u>			
- Proxy Company Median	9.1%	16.4%	2.4%
- MDU Resources Group, Inc	7.0%	11.5%	1.5%

*Also includes results for Great Plains Natural Gas Co

1/ Data as of 12/31/02

2/ Data as of 09/30/03

3/ Data as of 10/31/03

Sources Zacks.com, Annual Reports and 10-K's

Montana-Dakota Utilities Co.

Bond Ratings of Selected Natural Gas Distribution Companies

	Standard & Poor's	Moody's
AGL Resources, Inc	A-	A3
Atmos Energy Corp	A-	A3
Energen Corporation	A-	A1
KeySpan Corp	A+	A2
New Jersey Resources Corp	AA-	Aa3
NICOR, Inc	AA	Aa3
Northwest Natural Gas Co **	A	A2
Piedmont Natural Gas Co , Inc	A	A3
South Jersey Industries, Inc.	A	Baa1
WGL Holdings, Inc	AA-	A2
	-	
Median	A	A2
MDU Resources Group, Inc	A-	A2

Source C A Turner, *Utility Reports*, January 2003

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies Dividend Yields July 2003 - December 2003

	Stock Price July '03 - December '03			Dividend	Yield
	High	Low	Average		
AGL Resources, Inc	\$ 29 35	\$ 25 35	\$ 27.35	\$ 1 12	4 10%
Atmos Energy Corp	\$ 25 50	\$ 23 00	\$ 24 25	\$ 1.22	5 03%
Energen Corporation	\$ 42 00	\$ 31 35	\$ 36 68	\$ 0 74	2 02%
KeySpan Corp	\$ 37 09	\$ 32 30	\$ 34 70	\$ 1.78	5 13%
New Jersey Resources Corp	\$ 39.54	\$ 33 70	\$ 36.62	\$ 1.30	3 55%
NICOR, Inc	\$ 37 70	\$ 32.03	\$ 34 87	\$ 1 86	5 33%
Northwest Natural Gas Co	\$ 31 30	\$ 27 02	\$ 29 16	\$ 1 30	4 46%
Piedmont Natural Gas Co , Inc	\$ 43 95	\$ 37 23	\$ 40 59	\$ 1 66	4 09%
South Jersey Industries, Inc	\$ 40 70	\$ 36.60	\$ 38 65	\$ 1 62	4 19%
WGL Holdings, Inc	\$ 28.55	\$ 25.21	\$ 26.88	\$ 1 28	4 76%
Average					4 27%

Sources America Online, January 29, 2003 and S&P Stock Guide, January, 2004

Montana-Dakota Utilities Co.

**Projected Earnings Retention Growth Rates
 for Selected Natural Gas Distribution Companies**

	<u>Value Line Forecast 2006-2008</u>			Retention	Retention
	<u>EPS</u>	<u>DPS</u>	<u>ROE</u>	<u>Rate</u>	<u>Growth</u>
AGL Resources, Inc	\$ 2.25	\$ 1.12	11.50%	50.22%	5.78%
Atmos Energy Corp	\$ 2.00	\$ 1.32	12.50%	34.00%	4.25%
Energen Corporation	\$ 3.85	\$ 0.81	17.00%	78.96%	13.42%
KeySpan Corp	\$ 3.30	\$ 1.90	12.00%	42.42%	5.09%
New Jersey Resources Corp	\$ 3.10	\$ 1.40	12.50%	54.84%	6.85%
NICOR, Inc.	\$ 3.05	\$ 2.10	16.50%	31.15%	5.14%
Northwest Natural Gas Co	\$ 2.35	\$ 1.37	10.00%	41.70%	4.17%
Piedmont Natural Gas Co., Inc.	\$ 3.05	\$ 1.90	11.50%	37.70%	4.34%
South Jersey Industries, Inc	\$ 3.30	\$ 1.77	11.50%	46.36%	5.33%
WGL Holdings, Inc.	\$ 2.05	\$ 1.33	11.00%	35.12%	3.86%
Average					5.82%

Source *Value Line*, Dec 19, 2003

Montana-Dakota Utilities Co.

Second-Stage Retention Growth Rate Estimates for Selected Natural Gas Distribution Companies

		2/3 Zacks 5-Yr Earnings Growth Est.	1/3 Retention Growth	Weighted Average
AGL Resources, Inc.	ATG	5.20%	5.8%	5.39%
Atmos Energy Corp	ATO	6.00%	4.3%	5.42%
Energen Corporation	EGN	8.30%	13.4%	10.01%
KeySpan Corp	KSE	5.50%	5.1%	5.36%
New Jersey Resources Corp	NJR	6.30%	6.9%	6.48%
NICOR, Inc	GAS	4.30%	5.1%	4.58%
Northwest Natural Gas Co	NWN	4.20%	4.2%	4.19%
Piedmont Natural Gas Co, Inc	PNY	5.50%	4.3%	5.11%
South Jersey Industries, Inc.	SJI	6.30%	5.3%	5.98%
WGL Holdings, Inc.	WGL	3.90%	3.9%	3.89%
Average		5.55%	5.82%	5.64%

Source: Zacks.com and page 4

Montana-Dakota Utilities Co.

**Second-Stage Retention Growth DCF Calculation
 for Selected Natural Gas Distribution Companies**

	Dividend Yield	Dividend Yield Times (1 + .625g)	Expected Growth Rate (g)	Investor Required Return	Flotation Cost Adjustment	Cost of Capital
AGL Resources, Inc	4.10%	4.23%	5.39%	9.62%	1.0475	10.08%
Atmos Energy Corp.	5.03%	5.20%	5.42%	10.62%	1.0475	11.12%
Energen Corporation	2.02%	2.14%	10.01%	12.15%	1.0475	12.73%
KeySpan Corp.	5.13%	5.30%	5.36%	10.67%	1.0475	11.17%
New Jersey Resources Corp.	3.55%	3.69%	6.48%	10.18%	1.0475	10.66%
NICOR, Inc	5.33%	5.49%	4.58%	10.07%	1.0475	10.55%
Northwest Natural Gas Co	4.46%	4.57%	4.19%	8.76%	1.0475	9.18%
Piedmont Natural Gas Co., Inc	4.09%	4.22%	5.11%	9.33%	1.0475	9.78%
South Jersey Industries, Inc	4.19%	4.35%	5.98%	10.33%	1.0475	10.82%
WGL Holdings, Inc	4.76%	4.88%	3.89%	8.77%	1.0475	9.18%
Average						10.53%
High				12.15%		12.73%
Median				10.12%		10.60%
Low				8.76%		9.18%

Montana-Dakota Utilities Co.

**Basic DCF Calculation
 for Selected Natural Gas Distribution Companies**

	Dividend Yield	Dividend Yield Times (1 + .625g)	Expected Growth Rate (g)	Investor Required Return	Flotation Cost Adjustment	Cost of Capital
AGL Resources, Inc	4.10%	4.23%	5.20%	9.43%	1.0475	9.88%
Atmos Energy Corp	5.03%	5.22%	6.00%	11.22%	1.0475	11.75%
Energen Corporation	2.02%	2.12%	8.30%	10.42%	1.0475	10.92%
KeySpan Corp	5.13%	5.31%	5.50%	10.81%	1.0475	11.32%
New Jersey Resources Corp	3.55%	3.69%	6.30%	9.99%	1.0475	10.46%
NICOR, Inc	5.33%	5.48%	4.30%	9.78%	1.0475	10.24%
Northwest Natural Gas Co	4.46%	4.58%	4.20%	8.78%	1.0475	9.19%
Piedmont Natural Gas Co., Inc.	4.09%	4.23%	5.50%	9.73%	1.0475	10.19%
South Jersey Industries, Inc.	4.19%	4.36%	6.30%	10.66%	1.0475	11.16%
WGL Holdings, Inc	4.76%	4.88%	3.90%	8.78%	1.0475	9.19%
Average						10.43%
High				11.22%		11.75%
Median				9.88%		10.35%
Low				8.78%		9.19%

Montana-Dakota Utilities Co.

Primary DCF Analysis Computation of the Cost of Capital for Selected Natural Gas Distribution Companies

Growth Rate Estimate (g)	<u>5.00%</u>	<u>6.50%</u>
Current Dividend Yield (D/P)	4.27%	4.27%
Quarterly Model Dividend Yield Factor (1 + .625 g)	<u>X 1.031</u>	<u>X 1.041</u>
DCF Dividend Yield Component (Y)	4.40%	4.44%
Investor Required Return (Y + g)	9.40%	10.94%
Flotation Cost Adjustment	<u>X 1.0475</u>	<u>X 1.0475</u>
Cost of Capital	9.85%	11.46%
Mid-Point	10.65%	

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies Capital Structures

	<u>Long-Term Debt</u> (Millions)	<u>%</u>	<u>Preferred Stock</u> (Millions)	<u>%</u>	<u>Common Equity</u> (Millions)	<u>%</u>	<u>Total Capital</u>
AGL Resources, Inc	\$ 945.5	45.44%	\$ 226.7	10.90%	\$ 908.5	43.66%	\$ 2,080.7
Atmos Energy Corp	\$ 873.3	50.45%	\$ -	0.00%	\$ 857.5	49.55%	\$ 1,730.8
Energen Corporation	\$ 523.0	43.26%	\$ -	0.00%	\$ 685.9	56.74%	\$ 1,209.0
KeySpan Corp	\$ 4,938.8	54.43%	\$ 83.7	0.92%	\$ 4,050.8	44.65%	\$ 9,073.3
New Jersey Resources Corp.	\$ 260.3	38.32%	\$ -	0.00%	\$ 418.9	61.68%	\$ 679.3
NICOR, Inc	\$ 396.7	34.96%	\$ 1.7	0.15%	\$ 736.2	64.89%	\$ 1,134.6
Northwest Natural Gas Co *	\$ 485.9	48.86%	\$ 7.5	0.75%	\$ 501.1	50.39%	\$ 994.4
Piedmont Natural Gas Co, Inc **	\$ 462.0	41.73%	\$ -	0.00%	\$ 645.1	58.27%	\$ 1,107.1
South Jersey Industries, Inc	\$ 337.0	56.70%	\$ -	0.00%	\$ 257.3	43.30%	\$ 594.3
WGL Holdings, Inc	\$ 648.7	43.39%	\$ -	0.00%	\$ 846.4	56.61%	\$ 1,495.1
		44.42%		0.00%		53.50%	

Sources: Zacks.com

*as of 06/30/03

**as of 10/31/03

Montana-Dakota Utilities Co.

Common Equity Flotation Costs of Natural Gas Distribution/Transmission Companies 1992-2002

Issuer	Date of Offering	Number of Shares	Issue Price	Net Proceeds Per Share	Financing Costs as a Percent of Net Proceeds
Bay State Gas Co	3/13/1992	1,550,000	\$23 250	\$22 280	4 35%
El Paso Natural Gas Co	5/12/1992	5,000,000	\$19 000	\$17 770	6 92%
New Jersey Resources Co	9/15/1992	1,500,000	\$22 250	\$21 270	4 61%
Washington Energy Co	9/29/1992	2,750,000	\$21 000	\$20 190	4 01%
Equitable Resources	9/22/1993	2,400,000	\$38 500	\$37 250	3 36%
Brooklyn Union Gas	9/29/1993	1,700,000	\$25 750	\$24 770	3 96%
S E Michigan Gas Enterprises	1/19/1994	650,000	\$20 500	\$19 620	4 49%
Connecticut Energy Corp	3/3/1994	900,000	\$20 125	\$19 220	4 71%
Mobile Gas Service Corp	9/14/1994	400,000	\$22 000	\$20 300	8 37%
Northwest Natural Gas	2/15/1995	1,000,000	\$29 750	\$28 590	4 06%
MCN Corp	3/14/1995	5,000,000	\$17 875	\$17 210	3 86%
Piedmont Natural Gas	3/20/1995	1,500,000	\$20 000	\$19 140	4 49%
Laclede Gas	5/15/1995	1,550,000	\$19 000	\$18 120	4 86%
United Cities	6/8/1995	1,200,000	\$14 500	\$13 880	4 47%
Atlanta Gas Light	6/12/1995	1,300,000	\$33 625	\$32 510	3 43%
WICOR, INC	12/5/1995	1,100,000	\$31 875	\$30 630	4 06%
Connecticut Natural Gas	6/5/1996	640,000	\$23 250	\$22 190	4 78%
Delta Natural Gas	7/15/1996	350,000	\$16 000	\$15 070	6 17%
Tejas Gas	7/22/1996	3,075,000	\$35 000	\$33 420	4 73%
KN Energy	7/31/1996	3,100,000	\$32 250	\$31 010	4 00%
Cascade Natural Gas	8/13/1996	1,350,000	\$15 250	\$14 450	5 54%
Energen	1/17/1997	1,500,000	\$29 500	\$28 390	3 91%
KCS Energy	1/29/1997	3,000,000	\$39 000	\$36 910	5 66%
Energen	9/18/1997	1,200,000	\$35 500	\$34 160	3 92%
COHO Energy, Inc ,	9/29/1997	8,585,000	\$10 500	\$9 870	6 38%
Fall River Gas Co	10/30/1997	340,000	\$13 250	\$12 060	9 87%
Connecticut Energy Corp	11/12/1997	900,000	\$24 250	\$23 170	4 66%
Roanoke Gas Co	2/22/1998	166,000	\$20 000	\$18 668	7 13%
KN Energy	3/4/1998	11,000,000	\$52 000	\$49 902	4 20%
Enron Corp	5/5/1998	15,000,000	\$50 000	\$48 466	3 17%
Washington Gas Light	12/12/1998	2,000,000	\$25 063	\$24 089	4 04%
Laclede Gas	5/5/1999	1,100,000	\$20 188	\$19 252	4 86%
Semco	6/12/2000	9,000,000	\$10 000	\$9 600	4 17%
WGL Holdings	6/26/2001	1,790,000	\$26 730	\$25 804	3 59%
Utilicorp	1/25/2002	11,000,000	\$23 000	\$22 252	3 36%
MDU Resources Group	11/29/2002	2,100,000	\$24 000	\$23 188	3 50%
Average 1992-2002					4.77%
Selected Flotation Costs for Cost of Equity					4.75%

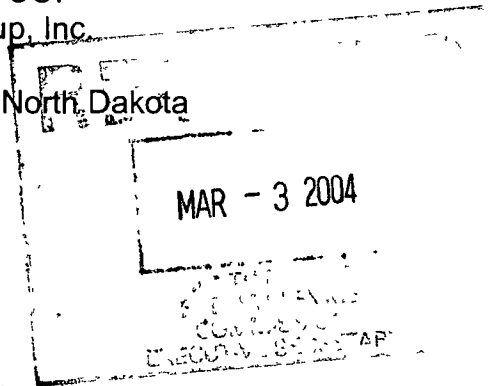
Sources EBASCO, *Analysis of Public Utility Financing* and *Public Utility Financing Tracker*

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-399-04-__

Direct Testimony
of
Craig A. Keller, CPA



1 Q. Would you please state your name, business address and position?

2 A. Yes. My name is Craig A. Keller and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501. I am the Vice
4 President, Controller and Chief Accounting Officer (CAO) for Montana-
5 Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources
6 Group, Inc.

7 Q. Would you please describe your duties?

8 A. As Vice President, Controller and Chief Accounting Officer, I am
9 responsible for providing the overall direction and management of the
10 accounting, information systems, financial forecasting/planning,
11 procurement and purchasing functions, including the analysis and reporting
12 of all financial transactions for Montana-Dakota.

13 Q. Would you please outline your educational and professional background?

14 A. I graduated from the University of Mary with a Bachelor of Science
15 degree in Accounting and obtained a Masters degree in Business
16 Administration from the University of Montana. I am a certified public
17 accountant and a member of the AICPA and the North Dakota Society of
18 Certified Public Accountants. I was employed with Montana-Dakota in

1 1986 as an Internal Auditor and during my career with the company have
2 held positions of Income Tax Supervisor, Corporate Financial Planning
3 Manager, and General Accounting Manager.

4 Q. Have you testified in other proceedings before regulatory bodies?

5 A. Yes, I have presented testimony before the Public Service
6 Commission of North Dakota.

7 Q. Are you familiar with the territory served by Montana-Dakota and
8 the facilities of the Company utilized in providing gas service?

9 A. Yes, I am.

10 Q. What is the purpose of your testimony in this proceeding?

11 A. I am responsible for presenting Statement A, Statement B, and
12 Statement F.

13 Q. Would you describe Statement A, Statement B and Statement F?

14 A. Statement A, pages 1 and 2 show Montana-Dakota's balance
15 sheet as of December 31, 2002 and December 31, 2003. Statement B
16 consists of Montana-Dakota's income statement for the twelve months
17 ended December 31, 2003. These statements have been prepared from
18 the Company's books and records that are maintained in accordance with
19 the Federal Energy Regulatory Commission (FERC) Uniform System of
20 Accounts.

21 Statement F shows the gas utility capital structure of Montana-
22 Dakota for the twelve months ended December 31, 2003 and the
23 projected average capital structure for 2004 and 2005. Statement F

1 includes the associated costs of debt, preferred stock and common
2 equity. This capital structure and the associated costs serve as the basis
3 for the overall rate of return requested by Montana-Dakota in this rate
4 filing of 9.887%. The basis for the requested 11.50% return on common
5 equity contained within the overall requested rate of return is supported by
6 the testimony of Dr. J. Stephen Gaske.

7 Q. Were these statements and the data contained therein prepared by you or
8 under your supervision?

9 A. Yes, they were.

10 Q. Are they true to the best of your knowledge and belief?

11 A. Yes, they are.

12 Q. Would you please explain Statement F?

13 A. Pages 1 through 3 of Statement F summarize the actual average
14 gas utility capital structure at December 31, 2003 and the projected
15 average capital structure and the related utility costs of capital for 2004
16 and 2005. As shown on page 3, the components of the 2005 projected
17 overall annual rate of return, which are used by Ms. Mulkern to calculate
18 the revenue requirement, are:

	Weighted Cost of Capital
Long Term Debt	3.708%
Preferred Stock	0.210%
Common Equity	5.969%
Required Rate of Return	9.887%

19

1 The debt costs reflected on Statement F, pages 1 through 3
2 represent the actual weighted embedded costs of the long-term debt at
3 December 31, 2003 and that projected to be outstanding at December 31,
4 2004 and December 31, 2005 and are supported by Statement F,
5 Schedule F-1. In calculating the debt costs the "Yield-to-Maturity" method
6 (also referred to as the Internal Rate of Return ("IRR") method) is used to
7 determine the total cost for each respective debt issue as presented on
8 Schedule F-1, page 4 of 7. The yield-to-maturity calculation of each debt
9 issue outstanding gives consideration to the stated rates of interest being
10 paid on such debt, the timing of the interest payments, related issuance
11 expenses, underwriters' commissions and indenture revision costs, the
12 discount or premium realized upon issuance and the amortization of
13 losses on bond redemption transactions. This is the same method
14 Montana-Dakota has used to calculate long term debt costs in previous
15 proceedings before this Commission.

16 Statement F, Schedule F-2, supports the cost of Montana-Dakota's
17 preferred stock capital, representing the weighted cost of the issues at
18 December 31, 2003 and projected to be outstanding at December 31,
19 2004 and December 31, 2005.

20 Statement F, Schedule F-3, supports the Company's average utility
21 common equity balance at December 31, 2003, and the projected
22 average balances for 2004 and 2005.

23 Q. What does Statement F, Schedule F-1 show?

24 A. Page 1 is a summary showing the Company's long-term debt at
25 December 31, 2003 and average cost of debt. Page 2 shows the
26 projected average long-term debt and costs for 2004 and page 3 shows

1 the same information for projected 2005. Page 4 shows the cost and the
2 debt balance by issue at December 31, 2003

3 Q How did you derive the projected cost of debt for 2004 and 2005?

4 A. The projected cost of debt for 2004 and 2005 is based upon the
5 yield to maturity of each debt issue outstanding

6 Q Would you please describe Statement F, Schedule F-1, pages 5 through
7 7 and explain the amortization method utilized?

8 A. Pages 5 through 7 reflect the detail by issue of the annual
9 amortization of net discounts (losses) on advance purchases of debt that
10 are necessary to meet sinking fund requirements For this proceeding,
11 the amortization has been computed on a straight-line basis over the
12 remaining life of the issues, the same calculation as is used by the
13 Company for accounting purposes.

14 Q. What does Statement F, Schedule F-2 show?

15 A. Pages 1 through 3 present the preferred stock balances at
16 December 31, 2003 and the projected average balances for 2004 and
17 2005 The anticipated weighted average cost of preferred stock is also
18 shown Page 4 sets forth the various preferred stock issues outstanding
19 at December 31, 2003.

20 Q. What does Statement F, Schedule F-3 show?

21 A Pages 1 through 3 present the common equity balances at
22 December 31, 2003 and the projected average balances for 2004 and
23 2005 including the projected changes in the balances each year.

24 Q What does Statement F, Schedule F-4 show?

25 A. Schedule F-4 indicates that, during the five-year period preceding
26 December 31, 2003, MDU Resources Group, Inc. issued 37.9 million

1 additional shares of common stock in connection with a three-for-two
2 stock split. Also during that period, the number of authorized shares of
3 common stock was increased from 75 million at a par value of \$3.33 to
4 150 million with a par value of \$1.00.

5 Q. Would you please describe Statement F, Schedule F-5?

6 A. This schedule presents various financial and market data relative to
7 the Company's common stock for the years 1999 through 2003, and for
8 each month of the twelve month period ended December 31, 2003.

9 Q. Would you please describe Statement F, Schedule F-6?

10 A. This schedule shows that there was no reacquisition activity for
11 bonds and provides a summary of scheduled retirements of preferred
12 stock for the five years ended December 31, 2003.

13 Q. Does this conclude your direct testimony?

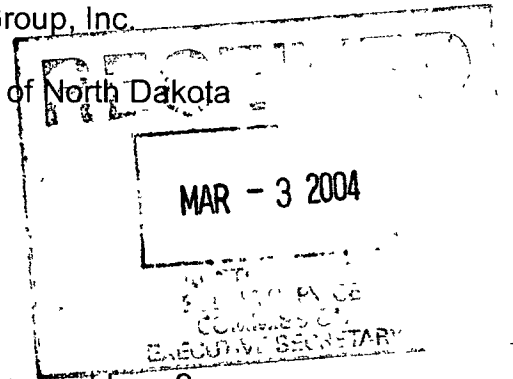
14 A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-399-04-

Direct Testimony
of
Rita A. Mulkern



1 Q. Would you please state your name and business address?

2 A. Yes. My name is Rita A. Mulkern and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. What is your position with Montana-Dakota Utilities Co.?

5 A. I am the Regulatory Analysis Manager of Montana-Dakota Utilities
6 Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 A. Would you please describe your duties as Regulatory Analysis Manager?

8 A. I am responsible for the preparation of cost of service studies, fuel
9 cost adjustments, purchased gas cost adjustments and gas tracking
10 adjustments in each of the jurisdictions in which Montana-Dakota
11 operates.

12 Q. Would you please describe your education and professional background?

13 A. I graduated from North Dakota State University in 1981 with a
14 Bachelor of Arts degree with majors in Economics and Business
15 Administration and a minor in Statistics. I joined Montana-Dakota in July
16 1981 as a Regulatory Statistician, became Cost of Service Supervisor in
17 1986 and assumed my current position in 1999

18 Q. Have you testified in other proceedings before regulatory bodies?

- 1 A. Yes, I have presented testimony before the Public Service
2 Commissions of Montana, North Dakota, and Wyoming and Public Utilities
3 Commissions of Minnesota and South Dakota
- 4 Q. Are you familiar with the territory served by Montana-Dakota and the
5 facilities of the Company utilized in providing gas service?
- 6 A. Yes, I am.
- 7 Q. Are you familiar with the books and records of Montana-Dakota and the
8 manner in which they are kept?
- 9 A. Yes Montana-Dakota's books and records are kept in accordance
10 with the Federal Energy Regulatory Commission (FERC) Uniform System
11 of Accounts.
- 12 Q. What is the purpose of your testimony in this proceeding?
- 13 A. The purpose of my testimony is to present the per books cost of
14 service for the twelve months ended December 31, 2003, the projected
15 cost of service for 2004 and 2005, the calculation of the revenue
16 deficiency and the calculation of the interim request.
- 17 Q. What statements, schedules and exhibits are you sponsoring?
- 18 A. I am sponsoring Statements C through E, Statements G through L,
19 Statements N and O and Exhibit No.____(RAM-1) and Exhibit
20 No.____(RAM-2)
- 21 Q. Were these statements and exhibits prepared by you or under your direct
22 supervision?
- 23 A. Yes, they were
- 24 Q. What were the results of North Dakota gas operations for 2003?

1 A. Statement L, pages 1 and 2 show the per books income statement
2 and rate base for total Company and North Dakota gas operations for
3 2003. The details for each line item, i.e. sales revenue, other revenue,
4 plant in service, etc., are included in the applicable Statement listed

5 Q. How was the per books cost of service allocated to North Dakota?

6 A. The Company utilizes a jurisdictional accounting system that
7 directly assigns and/or allocates every item of revenue, expense and rate
8 base to the jurisdictions as part of the regular accounting process on a
9 monthly basis, resulting in jurisdictional results on an ongoing basis. The
10 allocation methods and procedures are the same as have previously been
11 adopted by this Commission and are based on the principle of assigning
12 and/or allocating costs to the cost causer. The total Company and North
13 Dakota information included in the Statements is from the books and
14 records of the Company.

15 Q. What test period are you using to determine the revenue requirement?

16 A. The revenue requirement is based on a projected average 2005
17 test year. Since final rates will become effective in late 2004, an average
18 2005 cost of service will best match the cost and customer levels at the
19 time that the rates will go into effect. The final rates from this proceeding
20 will be in effect for 2005 and the closer that revenues, expenses and rate
21 base reflect levels to be experienced in 2005, the better the match will be
22 and the better opportunity Montana-Dakota will have to earn its authorized
23 return. Montana-Dakota is using a future test year in accordance with
24 North Dakota Century Code §49-05-04.1.

1 Q. Would you describe the development of the projected cost of service for
2 2004 and 2005?

3 A. The projected 2004 and 2005 cost of service is presented in
4 Statement N, which contains all of the schedules supporting the income
5 statement on page 1, and Statement O, which contains all of the
6 schedules supporting the rate base on page 1. The revenues and
7 expenses reflect the annual level that will be experienced when the new
8 rates become effective. Likewise, the rate base reflects average 2004 and
9 2005 plant and related balances.

10 Q. Would you describe the development of the projected revenues and
11 expenses contained in Statement N?

12 A. Sales and transportation revenues are shown on page 2 and reflect
13 projected sales and transportation volumes for all classes. The projected
14 residential and firm general service sales volumes for 2004 and 2005 were
15 based on actual historical data and forecasted for 2004 and 2005. The
16 forecasted volumes reflect the projected growth in the number of firm
17 customers at approximately 10 percent per year along with continuing
18 conservation of 1.0% per year. The projected firm revenues were
19 calculated based on the projected volumes and number of customers
20 using the currently effective rates inclusive of the PGA effective February
21 1, 2004, exclusive of the surcharge adjustment and margin sharing
22 adjustment.

1 The sales and transportation volumes for the U.S Air Force, small
2 interruptible and large interruptible classes were projected on a customer-
3 by-customer basis and the revenues were calculated using current rates.

4 Miscellaneous revenues, shown on page 3, are projected to remain
5 at the 2003 level.

6 Q Would you describe the development of the operation and maintenance
7 expenses?

8 A. Yes. Pages 4 through 7 of Statement N summarize the projected
9 2004 and 2005 operation and maintenance (O&M) expenses, with the
10 details provided on pages 8 through 30. The cost of gas, shown on page
11 8, uses the projected sales volumes, adjusted for losses, and current gas
12 costs effective February 1, 2004.

13 Q. How were other O&M expenses projected for 2004 and 2005?

14 A. The Company's 2004 budget provided the basis for most of the
15 O&M expense items by individual resources, such as labor, benefits,
16 insurance, etc. Each resource was reviewed and projected for 2004 and
17 2005.

18 Q. Would you describe the development of the projected other O&M?

19 A. Yes. Labor expense is shown on page 9, with actual labor expense
20 for the twelve months ended December 31, 2003 as the starting point.
21 The labor expense for 2004 and 2005 was developed by applying the
22 projected percentage increase in total Company labor costs to the 2003
23 per books North Dakota labor expense. Projected total Company labor
24 costs were based on the labor amounts budgeted for 2004, with bonuses

1 adjusted to reflect a three year average, and results in a 6.82 percent
2 increase for 2004. A labor increase of 5.35% was applied to the 2004
3 labor expense to arrive at the 2005 labor expense.

4 Benefits expense consists of medical/dental insurance, pension
5 expense, the Supplemental Income Security Plan (SISP), 401K, post-
6 retirement, workers compensation and other benefits. Each of these
7 items, excluding the other benefits, was projected individually for 2004
8 using the 2004 budgeted amounts and applying the projected increase
9 from 2004 to each type of benefit. The benefits expense for 2005 was
10 calculated by applying the projected increase by type of benefit. Mr. Paul
11 W. Conley discusses the inclusion of the SISP expense in his testimony.

12 Insurance expense, as shown on page 11, reflects the current
13 insurance level for 2004, which is an 11.62 percent decrease from the
14 2003 level and a projected 2.50% increase for 2005.

15 Contract labor and consulting expense was reviewed by function,
16 with distribution related expenses increasing 27.89 percent and the
17 customer accounting, sales and A&G functions decreasing by 11.05
18 percent in 2004 and all functions increasing 2.50 percent in 2005. The
19 increase in contract labor in the distribution function reflects the increase
20 in expense associated with the services performed by outside parties,
21 such as the costs of line locating, parking lot, and building and grounds
22 maintenance, with the decrease in the other functions related to expenses
23 incurred in 2003 that are not projected to recur in 2004 or 2005

1 Materials, capital installation credits and reimbursements overall
2 decrease in 2004. Expenditures for materials were higher than normal in
3 2003 and reflect a decrease in 2004. Capital installation credits and
4 reimbursements, which are indirectly related to materials, are projected to
5 increase 4.18 percent and 18.87 percent, respectively in 2004. All these
6 items are projected to increase 2.50 percent in 2005.

7 Vehicles and work equipment expense is shown on page 14 and is
8 calculated based on the projected plant and the current depreciation rates
9 in Statement O. The depreciation expense on these items is not charged
10 to depreciation expense but rather is charged to a clearing account where
11 it is then charged to O&M expense as the vehicles or work equipment is
12 used

13 Postage expense is projected to decrease 2.93 percent in 2004 due
14 to higher than normal expenses in 2003 and to increase 2.50 percent in
15 2005.

16 Telephone expense reflects a 0.35 percent increase in 2004 and
17 2.50 percent in 2005. There were some expense items incurred in 2003
18 that are not projected to occur in 2004, resulting in expense for 2004 that
19 is relatively flat.

20 Office Supplies show a decrease in 2004 of 14.66 percent and an
21 increase of 2.50 percent in 2005. There were some expenses in this
22 category in 2003 that are not projected to recur in 2004.

23 Company consumption is the expense for electric and natural gas
24 consumption in Company buildings. The electric component is projected

1 to increase 1.18 percent in 2004 and remain flat in 2005. The natural gas
2 component is expected to increase 14.92 percent in 2004 and remain flat
3 in 2005.

4 Uncollectible accounts are projected based on the five year
5 average of net write-offs to sales and transportation revenues applied to a
6 projected revenue, which results in an increase in uncollectible accounts
7 for 2004 and is projected to remain flat in 2005.

8 Computer rental reflects the addition of a new server for the
9 Company's geographic information system (GIS) in 2004 and the full
10 annual effect of the server in 2005.

11 Industry dues are listed on pages 21 and 22 and are projected for
12 2004 and 2005.

13 Advertising is shown on page 23. Promotional advertising has
14 been eliminated, pursuant to North Dakota Administrative Code (NDAC)
15 §69-09-01-29. The informational and institutional advertising are
16 projected to remain at the 2003 levels.

17 Page 24 reflects the inclusion of contributions to Energy Share of
18 North Dakota.

19 Rate case expense is shown on page 25. The projected 2004 and
20 2005 level incorporates the projected rate case expenses from this case,
21 along with the costs pertaining to Case No. PU-399-02-183 that were not
22 included in the current amortization, amortized over a three-year period.

1 Page 26 shows the North Dakota portion of expenses associated
2 with the cost of performing a depreciation study for the gas and common
3 property, amortized over a five year period.

4 Q What other O&M expenses are included in Statement N?

5 The items adjusted individually above represent approximately 88
6 percent of total North Dakota gas O&M. The remaining items, which make
7 up approximately 12 percent of other O&M, are projected to remain flat in
8 2004 and increase 2.50 percent in 2005

9 Q. Would you describe the calculation of depreciation expense?

10 A. Yes. Depreciation expense for projected 2004 and 2005 is shown
11 on page 30 and was calculated using projected plant in service and the
12 depreciation rates as authorized in Case No. PU-399-02-183 and derived
13 from a study by AUS Consultants. The authorized depreciation rates are
14 included in Statement I. The composite depreciation rates and calculation
15 are shown on Statement O, pages 5 and 6.

16 Q. Would you describe the calculation of taxes other than income?

17 A. Yes. Taxes other than income are shown on pages 31 through 34.
18 Ad valorem taxes were calculated using the projected 2004 and 2005
19 plant in service and applying the effective tax rates based on the 2003
20 ratio of ad valorem taxes to plant.

21 Payroll taxes projected for 2004 and 2005 follow labor expense.
22 The ratio of payroll taxes to labor expense for 2003 was calculated and
23 applied to the projected 2004 and 2005 labor expense to determine the

1 projected levels. All other taxes other than income were projected to
2 remain at the 2003 level.

3 Q Would you describe the calculation of federal and state income taxes?

4 A The current income tax calculation is shown on pages 35 through
5 37 Interest expense is calculated on the projected rate base using the
6 weighted cost of long term debt from Statement F. The tax deductions on
7 page 37 were individually projected. The tax rate of 39 55% reflects the
8 composite state and federal rate. Deferred income taxes are shown on
9 page 38 and include the full normalization of federal and state deferred
10 income taxes.

11 Q. Would you please describe the development of the projected rate base for
12 2004 and 2005?

13 A. Yes. The rate base was developed as shown in Statement O.
14 Page 1 shows the 2003 actual and projected 2004 and 2005 average rate
15 base for North Dakota gas operations. Pages 2 and 3 show the projected
16 plant in service for 2004 and 2005 The projected plant was developed by
17 adding the capital budget items for 2004 to the 2003 plant in service
18 balances. Retirements, based on a three-year average of retirements by
19 function, were deducted and the average 2004 balance calculated. The
20 process was repeated for 2005.

21 The accumulated reserve for depreciation was calculated using the
22 reserve balances at December 31, 2003, adding the calculated
23 depreciation expense and deducting retirements based on a three-year
24 average of retirements. The average 2004 balances were then calculated

1 and are shown on pages 4 through 6. The process was repeated to arrive
2 at the average 2005 reserve balances.

3 Q. How were the working capital items derived?

4 A. The projected working capital items are shown on pages 7 through
5 12. Materials and supplies were restated to a thirteen month average
6 balance on page 8 and the propane fuel stocks are restated to a thirteen
7 month balance on page 9.

8 Prepayments, made up of prepaid insurance and the prepaid tax-
9 free option plan, as shown on page 10, are also restated to a thirteen-
10 month average balance. Projected 2004 is based on the actual balances
11 as of December 31, 2003 and projected monthly levels based on the
12 projected insurance expense for 2004 and 2005.

13 The unamortized portion of the gas IRP and gas supply analysis
14 costs arising from the ten year amortization of the costs are restated to
15 reflect the current amortization and a thirteen month average and are
16 shown on page 11. These costs will be completely amortized in 2004.

17 Customer Advances for construction are restated to a thirteen
18 month balance as of December 2003.

19 The accumulated deferred income tax balances on page 13 were
20 derived by adding the deferred income taxes related to property for 2004
21 and 2005 to the 2003 balance from Statement N, page 31 and calculating
22 average balances.

1 The accumulated investment tax credit balances were derived by
2 subtracting the projected amortization for 2004 and 2005 from the 2003
3 balance and calculating average balances.

4 Q. What does Exhibit No.____(RAM-1) show?

5 A Exhibit No.____(RAM-1), page 1, which is identical to Statement L,
6 page 4, shows the calculation of the revenue deficiency of \$3,337,000
7 based on the projected 2005 operating income and rate base and using
8 the overall rate of return of 9.887% from Statement F, page 1. Page 2
9 shows the per books and projected average rate base for 2004 and 2005
10 and is identical to Statement O, page 1.

11 Q. Is Montana-Dakota seeking an interim increase in this case?

12 A. Yes, it is. As stated by Mr. Imsdahl, Montana-Dakota is seeking
13 interim rate relief in this case pursuant to North Dakota §49-09-06.

14 Q. What does Exhibit No.____(RAM-2) show?

15 A. Exhibit No.____(RAM-2), which is identical to the Interim Revenue
16 Requirement, page 1, shows the calculation of the revenue deficiency of
17 \$1,871,000 based on the 2004 projected cost of service and adjusted for
18 items previously not allowed by the Commission. The revenue
19 requirement uses the projected 2004 capital structure and costs with the
20 exception of the return on equity, which is the return on equity last
21 authorized by this Commission in Case No. PU-399-02-183.

22 Q. Does that complete your testimony?

23 A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
GAS UTILITY - NORTH DAKOTA
PROJECTED 2005
(000s)

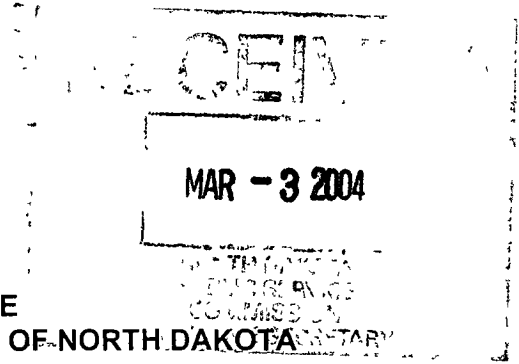
	Before Additional Revenue Re- quirements	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$119,307	\$3,337	\$122,644
Transportation	783		783
Other	406		406
Total Revenues	120,496	3,337	123,833
Operating Expenses			
Operation and Maintenance			
Cost of Gas	99,473		99,473
Other O&M	17,546		17,546
Total O&M	117,019		117,019
Depreciation	2,615		2,615
Taxes Other Than Income	1,421		1,421
Current Income Taxes	263	1,320	1,583
Deferred Income Taxes	(873)		(873)
Total Expenses	120,445	1,320	121,765
Operating Income	\$51	\$2,017	\$2,068
Rate Base	\$20,914		\$20,914
Rate of Return			
	0.244%		9.887%

MONTANA-DAKOTA UTILITIES CO
AVERAGE RATE BASE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003
PROJECTED 2004-2005
 (000s)

	2003	Projected	
		2004	2005
Gas Plant in Service	\$72,556	\$75,096	\$77,873
Accumulated Reserve for Depreciation	49,644	51,343	53,572
Net Gas Plant in Service	22,912	23,753	24,301
CWIP in Service Pending Reclassification	427		
Total Gas Plant in Service	23,339	23,753	24,301
Additions			
Materials and Supplies	393	475	475
Fuel Stock	25	22	22
Prepayments	50	181	190
Other	44	4	0
Total Additions	512	682	687
Total Before Deductions	\$23,851	\$24,435	\$24,988
Deductions			
Accumulated Deferred Income Taxes	\$3,909	\$3,845	\$3,674
Accumulated Investment Tax Credits	207	166	146
Customer Advances	297	254	254
Total Deductions	4,413	4,265	4,074
Total Rate Base	\$19,438	\$20,170	\$20,914

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
INTERIM
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)

	Before Additional Revenue Re- quirements	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$119,376	\$1,871	\$121,247
Transportation	783		783
Other	406		406
Total Revenues	<u>120,565</u>	<u>1,871</u>	<u>122,436</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	99,630		99,630
Other O&M	16,299		16,299
Total O&M	<u>115,929</u>		<u>115,929</u>
Depreciation	2,537		2,537
Taxes Other Than Income	1,362		1,362
Current Income Taxes	516	740	1,256
Deferred Income Taxes	(620)		(620)
Total Expenses	<u>119,724</u>	<u>740</u>	<u>120,464</u>
Operating Income	<u>\$841</u>	<u>\$1,131</u>	<u>\$1,972</u>
Rate Base	<u>\$20,170</u>		<u>\$20,170</u>
Rate of Return	4.170%		9.776% 1/



BEFORE THE
PUBLIC SERVICE COMMISSION OF NORTH DAKOTA

IN THE Matter of the Notice of
Montana-Dakota Utilities Co.
for a Gas Rate Change

Case No PU-399-04-_____

DIRECT TESTIMONY OF

PAUL W. CONLEY

ON BEHALF OF Montana-Dakota Utilities Co

March 2004

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**DIRECT TESTIMONY OF
PAUL W. CONLEY**

INTRODUCTION

Q. Please state your name and business address.

A. My name is Paul W Conley I am employed by Towers Perrin at 8000 Norman Center Drive, Suite 1200, Minneapolis, Minnesota 55437-1097.

Q. Please describe your education and professional background.

A I am a Principal at Towers Perrin and am the leader of the Executive Compensation practice in Towers Perrin's Minneapolis office I have been with Towers Perrin for eight years. I received an undergraduate degree from the St John's University in Collegeville, Minnesota, and a Masters in Industrial Relations (MAIR) from the University of Minnesota I am certified as a Certified Compensation Professional (CCP) by World at Work, and a Senior Practitioner in Human Resources (SPHR) by the Society for Human Resource Management Before joining Towers Perrin, I was the Director of Executive Compensation for International Multifoods

Q. Please provide a brief overview of Towers Perrin.

A. Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm has approximately 8,000 employees in approximately 75 offices worldwide. Towers Perrin's compensation practice is one of the largest in the world. Towers Perrin has dedicated energy and utility industry practitioners specializing in compensation, human resources, benefits, and organization design.

Q. Please summarize the purpose of your testimony.

A The purpose of my testimony is to comment on Towers Perrin's analysis of the competitiveness and appropriateness of MDU Resources Group Inc 's

33 (MDU) Supplemental Employee Retirement Program (SERP) called the
34 Supplemental Income Security Plan (SISP), as part of its total executive
35 compensation program.

36

37 **THE SUPPLEMENTAL INCOME SECURITY PLAN**

38

39 **Q. What is the SISP and what is the plan designed to do?**

40 A The SISP is a plan that provides a supplemental pension benefit to key
41 employees. It was designed to attract and retain key employees in a
42 number of positions within the Company and provide equitable retirement
43 benefits for those employees.

44

45 **Q. Who are the employees that participate in the SISP plan?**

46 A. Participants are officers and senior managers of MDU Resources and
47 Montana-Dakota. While all employees are important to MDU, these
48 participants are directly responsible for planning for the future, identifying
49 and implementing appropriate strategies for the Company, implementing
50 effective cost reduction programs, streamlining the organization,
51 implementing new technologies and maintaining and increasing the
52 efficiencies of the Company. These employees have the primary
53 management responsibility for keeping the Company competitive in the
54 industry and maintaining an adequate supply of low-cost energy for MDU's
55 customers.

56

57 **Q. What is the difference between a qualified pension plan and a
58 supplemental plan?**

59 A. A qualified pension plan is designed to provide a certain level of retirement
60 benefits to participants, generally based on replacing a certain amount of
61 income as the retirement benefit. These qualified plans are subject to IRS
62 limitations on both recognized pay and benefit payouts. As such, a
63 qualified pension plan cannot provide the full amount called for by its
64 formula to officers and senior managers subject to these limitations.

65 Supplemental plans help restore retirement benefits to their original
66 intended level, in order to ensure a competitive overall retirement program.

67

68 **Q. How prevalent are programs like the SISP in the utility industry and**
69 **more generally in the labor market for managerial talent?**

70 A. Among MDU's peer companies, we observed nearly 100% prevalence of
71 the provision of retirement benefits beyond those provided in the qualified
72 plan. This is also true for the broader labor market. Programs such as
73 these represent a normal cost of doing business.

74

75 **Q. Why are supplemental retirement plans so common?**

76 A. The retirement benefits normally provided in the qualified plan are limited
77 by IRS regulations (for those whose income exceeds the IRS limits), and
78 as such are not provided in the full amount called for in the qualified plan
79 design. Supplemental programs like the SISP help to restore the
80 retirement benefits to their intended level, as well as ensure a competitive
81 and appropriate overall retirement program. The removal of the SISP
82 program, like the removal of any other component of MDU's overall reward
83 program, would unduly hamper the company from meeting its overall
84 reward objectives.

85

86 **Q. How do the overall retirement benefits for employees included in the**
87 **SISP compare with the retirement benefits for those employees not**
88 **included in the SISP?**

89 A. As an employee moves up the income scale, the percentage of the
90 employee's preretirement income replaced by social security and qualified
91 retirement plans significantly decreases based on retirement plan design
92 requirements and government limitations on retirement plans. The SISP,
93 as a supplemental plan, has been designed to replace some, but not all, of
94 the income that is not replaced by Social Security, the Defined Benefit
95 Pension Plan, and the 401 (k) Plan. At the highest participating income
96 levels, less than 50 percent of the annual income is replaced through the

97 combination of social security, qualified plans, and the SISP as compared
98 to approximately 80 percent at lower income levels for those employees
99 not participating in SISP.

100

101 **COMPETITIVENESS OF MDU'S EXECUTIVE COMPENSATION PLAN**
102 **INCLUDING SISP**

103

104 **Q. How is MDU's executive compensation plan derived?**

105 A. The Compensation Committee of MDU's Board of Directors is responsible
106 for determining the compensation of the Company's executive officers.
107 The Committee is composed entirely of outside (or non-employee)
108 Directors who meet several times each year to review and determine
109 compensation for the executives. The Compensation Committee seeks to
110 set appropriate compensation levels that attract, motivate, and retain
111 high-quality employees. To implement this philosophy, the Committee
112 analyzes trends in compensation among comparable companies and
113 relies in part on information and recommendations by outside advisors and
114 data sources in making their decisions. MDU has retained Towers Perrin
115 to provide information, analysis and recommendations to assist the Board
116 of Directors in their decision making.

117

118 **Q. Without compromising the proprietary nature of the information**
119 **provided by Towers Perrin, could you describe in more detail the**
120 **scope of its review and the methods it uses?**

121 A Yes Towers Perrin annually provides a report to MDU that includes
122 competitive market data regarding compensation plans from hundreds of
123 companies throughout the region and nation that have similar types of
124 positions and responsibilities. This information is provided for MDU's
125 internal use only.

126 Towers Perrin also provides an updated analysis of MDU's executive
127 compensation programs. Specifically, Towers Perrin provides a current
128 market assessment of competitive pay levels for base salary, total annual

129 cash (base salary plus annual bonus) and total direct compensation (total
130 annual cash plus the expected value of long-term incentives) for all
131 identified management positions and a recommended updated salary
132 grade structure based on the above competitive analyses. In addition,
133 benefits data are reviewed periodically to ensure the competitiveness of
134 the overall rewards program.

135

136 **Q. When was a competitive assessment like this last conducted for**
137 **MDU?**

138 A Towers Perrin last completed a review of the competitiveness of MDU's
139 compensation and benefits programs in the spring and summer of 2003.

140

141 **Q. What is the process Towers Perrin uses to conduct this analysis?**

142 A. Towers Perrin provides a consistent approach each year to ensure that the
143 comparative data are valid over time. This includes confirming positions to
144 be included in the analysis, identifying material changes to MDU's jobs, if
145 any, updating current compensation information, gathering and analyzing
146 relevant salary survey data, validating survey data, and summarizing and
147 reporting results.

148

149 **Q. Does Towers Perrin use only its own salary database?**

150 A Towers Perrin considers data from both general industry and
151 industry-specific surveys. Competitive information was collected from the
152 following sources:

153 1) Towers Perrin's 2002 Energy Services Executive Compensation
154 Database, which is conducted in partnership with the Edison Electric
155 Institute (EEI). This source is the most comprehensive survey of
156 executive compensation for the U.S electric and gas industry,
157 comprising data for 89 investor-owned utilities and public power
158 authorities.

159 2) Towers Perrin's 2002 Compensation Data Bank General Industry
160 Survey, which is one of the most reputable sources of data on

161 executive compensation in the U S. It includes data on approximately
162 800 companies ranging in size from less than \$100 million in annual
163 sales to greater than \$10 billion.

164 3) Watson Wyatt's 2002 Industry Report on Top Management
165 Compensation, covering more than 2,000 organizations across the
166 U.S , ranging in size from less than \$10 million in annual sales to
167 greater than \$1 billion.

168 4) Effective Compensation Association, Inc.'s American Gas Association
169 2002 Executive Compensation Survey, comprising approximately 70
170 organizations with annual revenues ranging from less than \$10 million
171 in annual sales to greater than \$1 billion

172 5) Hay Group's 2002 Natural Gas Transmission Survey, comprising 20
173 organizations with annual revenues ranging from approximately \$100
174 million to greater than \$5 billion

175 6) Mercer HR Consulting's 2002 Energy Compensation Survey,
176 comprising approximately 120 organizations ranging in size from less
177 than \$100 million to greater than \$1 billion in annual revenues

178 7) Towers Perrin's Employee Benefit Information Center (EBIC)
179 database, from which a custom cut of data on 16 organizations of
180 similar size and industry to MDU were gathered These data were
181 utilized to compare MDU's benefits Program to these other
182 comparable organizations.

183 8) A study by Towers Perrin of the 2003 proxy filings from approximately
184 15 public companies similar to MDU in size and industry used to
185 assess prevalence and competitive levels of retirement benefits
186 including qualified and nonqualified retirement plans

187

188 **Q. How does Towers Perrin use the information from the various**
189 **databases to establish market levels for its analysis of MDU's**
190 **executive compensation?**

191 A. Competitive data are gathered from the above databases based on a
192 number of criteria in order to estimate market levels for MDU These

193 criteria include industry and size comparability, the degree of match
194 between the responsibility level of MDU's positions and those in the
195 databases, and reliability of the database results over time. Survey data
196 are blended to arrive at an overall market estimate for MDU.

197

198 **Q. How does the Compensation Committee of the Board of Directors**
199 **use the information it receives from Towers Perrin?**

200 A. When the Compensation Committee develops MDU's "Total
201 Compensation" plan, it focuses on the competitive salaries and benefits,
202 including the SISP, that are necessary to maintain its ability to attract,
203 retain, and appropriately reward the individuals needed to provide reliable,
204 safe, efficient, and cost effective service to MDU's customers. It should be
205 emphasized that in setting executive compensation, the Compensation
206 Committee looks at the total compensation picture, not just one element by
207 itself

208

209 **Q. How does Towers Perrin define competitive compensation?**

210 A. Towers Perrin defines competitive compensation as generally falling
211 between plus or minus 10% of the market median (50th percentile)
212 Competitive data can vary from one year to the next, our goal is to help
213 MDU position its reward programs to approximate the middle of the market
214 in a stable fashion over time. The median (or 50th percentile) is used as a
215 statistic rather than average as a better representation of the middle-range
216 of competitive practice. Accordingly, half of the responding organizations
217 pay less than this amount, and half pay more than this amount. The mean
218 or average tends to be somewhat higher than the median, and can be
219 influenced more easily by outliers.

220

221 **Q. What are the typical components included in a company's total**
222 **compensation program for management-level employees?**

223 A. Companies normally provide the following elements as a cost of doing
224 business and as part of their overall program to attract, retain and motivate

225 management employees: base salaries, annual incentives, long-term
226 incentives, retirement benefits (including both qualified and nonqualified
227 plans), and health and welfare benefits. In addition, other important reward
228 elements normally provided are learning and development opportunities
229 and investments in the overall work environment. While these other
230 elements are important and often included in a definition of total rewards,
231 in this case we are focused primarily on traditional elements of
232 compensation and benefits since these elements represent the
233 overwhelming majority of a company's cost for reward programs.

234

235 **Q. Which elements are considered in Towers Perrin's competitive**
236 **evaluation of MDU's total rewards program?**

237 A. The elements included are base salary, annual incentives, long-term
238 incentives, retirement benefits (including qualified and nonqualified plans),
239 and health and welfare benefits

240

241 **Q. What is MDU's competitive position for each of the elements that**
242 **Towers Perrin has assessed?**

243 A. Based on the results of the 2003 assessment by Towers Perrin (with
244 competitive data updated to be effective as of January 1, 2004), the
245 relative market position of each of the elements studied, based on the
246 competitive studies referenced above, is as follows:

247 For MDU's corporate and utility company executives, the overall base
248 salary competitive position is approximately 91% of the market 50th
249 percentile. For total annual cash compensation (base salary plus annual
250 bonus), the overall competitive position is approximately 99% of the
251 market 50th percentile. For total direct compensation, the overall
252 competitive position is approximately 107% of the market 50th percentile.
253 For the total benefits program (excluding the value of SERP benefits),
254 MDU corporate is at 100% of the market 50th percentile. The utility
255 company is 95% of the market 50th percentile. For the combined qualified
256 and nonqualified retirement benefit program (which includes the SISP for

257 MDU and SERPs provided by MDU's peers, and assuming a senior
258 manager with \$200,000 in final average pay (salary plus annual bonus)
259 and 30 years of service, MDU's retirement program is approximately 105%
260 of the market 50th percentile.

261

262 **Q. How does Towers Perrin therefore view the overall competitiveness**
263 **of MDU's compensation program?**

264 A. Towers Perrin considers an organization that is within plus or minus 10%
265 of the market 50th percentile to be within the competitive range. Given the
266 fact that most of MDU's program elements fall within plus or minus 5% of
267 the market 50th percentile, we find the overall program to be competitive
268 and appropriate. Therefore, the removal of any of these elements would
269 represent a competitive shortfall in MDU's ability to attract and retain
270 qualified executives.

271

272 **Q. Why is the SISP an important piece of MDU's total compensation**
273 **plan?**

274 A MDU's total compensation package, including SISP, is currently within the
275 competitive range of plus or minus 10% of the market 50th percentile.
276 Removal of any piece of the total compensation package would reduce the
277 competitive position of MDU's compensation package. To remain within
278 the competitive range of the market's 50th percentile, MDU would
279 potentially be required to increase other elements of executive
280 compensation. Replacement of the SISP benefit with some alternative
281 form of compensation might actually result in increased costs to provide an
282 equivalent benefit level. SISP therefore is an important element of a
283 balanced and competitive compensation package for executive employees
284 who tend to be experienced employees who consider retirement benefits
285 an important part of a total compensation package.

286

287 **Q. Does this conclude your testimony?**

288 A. Yes.

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-399-04-

Direct Testimony
of
Tamie A. Aberle

MAR - 3 2004

- 1 Q. Would you please state your name and business address?
- 2 A. Yes. My name is Tamie A. Aberle, and my business address is
- 3 400 North Fourth Street, Bismarck, North Dakota 58501.
- 4 Q. What is your position with Montana-Dakota Utilities Co.?
- 5 A. I am the Pricing & Tariff Manager in the Regulatory Affairs
- 6 Department of Montana-Dakota Utilities Co. (Montana-Dakota), a Division
- 7 of MDU Resources Group, Inc.
- 8 Q. What are your responsibilities as the Pricing & Tariff Manager?
- 9 A. My responsibilities include the preparation of rate design and
- 10 miscellaneous tariff revision filings to ensure that the applicable revenue
- 11 requirements are properly recovered from various customer classes via
- 12 applicable rate forms. I also administer utility tariffs and rules and regula-
- 13 tions effective in each of the jurisdictions in which Montana-Dakota
- 14 provides utility service.
- 15 Q. Would you please outline your educational and professional background?
- 16 A. I graduated from Moorhead State University, Moorhead, Minnesota
- 17 in 1982 with a Bachelor of Science degree in Accounting. I began my
- 18 career with Montana-Dakota in 1983 in the Regulatory Affairs Department,
- 19 I was promoted to Rate Administration Supervisor in 1990 and achieved

1 my present position in May 1999.

2 Q. Have you testified in other proceedings before regulatory bodies?

3 A. Yes. I have previously presented testimony before this

4 Commission, the Public Service Commissions of Montana and Wyoming,

5 and the Public Utilities Commissions of Minnesota and South Dakota.

6 Q. What is the purpose of your testimony in this proceeding?

7 A. The purpose of my testimony is to present the results of the class

8 cost of service study and to address the effect of the proposed revenue

9 requirement, as identified by Ms. Mulkern in her direct testimony, on each

10 of the Company's gas rates, including how the distribution of the revenue

11 requirement was made among the various classes of customers served.

12 In addition, my testimony will discuss the extent to which Montana-Dakota

13 is proposing changes in rate design and/or tariff conditions.

14 Q. What statements and exhibits are you sponsoring in this proceeding?

15 A. I am sponsoring Statement M and Exhibit No. ____ (TAA-1) and

16 Exhibit No. ____ (TAA-2). I also sponsor the proposed rate schedules to

17 be effective on a final basis and the proposed rate schedules appended to

18 the Application for Interim Rate Relief.

19 Q. What is the total revenue effect of the proposed gas rate changes?

20 A. The proposed interim rates will produce additional revenues of

21 \$1,869,539 or 1.6% annually based on the interim level of test period

22 sales, while the final proposed rates will produce additional revenues of

23 \$3,334,226 or 2.8% annually based on projected throughput. Exhibit No.

24 ____ (TAA-1) represents summaries by rate classification of the proposed

25 interim and final revenue increase on pages 1 and 2 respectively. The

26 exhibit shows the rate number and a description along with the revenues

1 calculated under the present and proposed rates. The amount and
2 percentage increase is also shown for the proposed revenue increase.

3 Q. Would you please explain the embedded class cost of service study
4 contained in Statement M?

5 A. Yes. Turning to Statement M, Schedule M-1, the first report
6 appearing therein is entitled "Cost of Service by Component." This report
7 shows the total dollars and unit cost required under each rate if the overall
8 requested 9.887% rate of return was to be earned for the demand, energy
9 and customer cost components of each rate schedule.

10 The next report appearing on Statement M, Schedule M-1, page 4
11 is entitled "Summary." This report shows the results of all of the
12 succeeding reports in summary form. Following this summary report is a
13 detailed report showing the development of each line on the Summary
14 Report.

15 Statement M, Schedule M-2 entitled "Allocation Assignment
16 Report," is a report that shows how the various allocation factors and
17 items directly assigned were applied in producing the various reports
18 shown in Schedule M-1.

19 Statement M, Schedule M-3 entitled "Allocation Factor Report," is
20 simply a list of the allocation factors used to produce the various reports
21 shown in Schedule M-1. By using the Allocation Assignment Report and
22 the Allocation Factor Report, it can be readily determined how the various
23 components of revenue, expense, and plant were allocated or assigned
24 among the classes of service.

25 The class cost of service study is based on the results for North
26 Dakota gas operations recorded for the 12 months ended December 31,

1 2003 as adjusted to reflect the Projected 2005 test period underlying the
2 total cost of service in this case.

3 Q. What were the results of the cost of service study?

4 A. The results for the Projected 2005 test year are summarized on
5 Statement M, Schedule M-1, page 4. The overall North Dakota gas rate
6 of return based on the projected 2005 overall cost of service is .24%. The
7 returns by customer class are as shown below:

8	Residential Service	(3.26)%
9	Firm General Service	2.69 %
10	Air Force	27.12 %
11	Small Interruptible	18.91 %
12	Large Interruptible	39.26 %

13 Q. For what purpose has the class cost of service study been used?

14 A. The study results have been used as a guide in the distribution of
15 total revenue requirements among customers and for the purpose of
16 pricing the various components comprising the total rate applicable to
17 each customer class.

18 Q. What methodology did you use to apportion the proposed rate increase
19 among the customer classes?

20 A. In designing the proposed rates to reflect the additional revenue
21 requirements, I have attempted to group the class rates of return more
22 closely about the overall system return.

23 Given the disparity between the firm and interruptible class
24 contributions to the overall return, the proposed increase was allocated to
25 the Residential and Firm General Service classes only.

26 Q. How was the proposed interim revenue requirement apportioned among

1 the customer classes?

2 A. The interim revenue increase of \$1,871,000 was applied to the
3 rate classes on a equal percentage basis to the Residential and Firm
4 General Service classes which is consistent with the revenue allocations
5 authorized in Case No. PU-399-02-183. The Distribution Delivery Charge
6 was increased while the Basic Service Charge amounts remain the same
7 as authorized in Case No. PU-399-02-183. The rate design calculations
8 supporting the interim rate levels are included in Appendix B attached to
9 the Application for Interim Increase in Natural Gas Rates.

10 Q. What is the percentage of the proposed interim and final increase by class
11 of customer?

12 A. As shown on Exhibit No. ____ (TAA-1), the proposed interim and
13 final increase to each of the classes is shown in the table below:

14 **Table 1 - % Increase in Revenues**

<u>Class</u>	<u>Interim</u>	<u>Final</u>
Residential	1.7%	3.5%
Firm General Service	1.7%	2.3%
Air Force	0.0%	0.0%
Small Interruptible	0.0%	0.0%
Large Interruptible	<u>0.0%</u>	<u>0.0%</u>
Overall	1.6%	2.8%

15 Q. What is the effect of the proposed final revenue increase on the class
16 returns?

17 A. The revenue allocation, on a final basis, results in an increase in
18 the residential class return from (3.26)% to 7.75% and an increase in the
19 firm general service class return from 2.69% to 11.35%.

20 Q. How are you proposing to collect the allocated final increase from the
21 Residential and Firm General Service classes?

1 A. First, I am proposing modest increases to the Basic Service
2 Charges applicable under each of the firm service rate schedules. The
3 Basic Service Charge under Residential Rate 60 has been set at \$0.30
4 per day which reflects an average monthly charge of \$9.12, an increase of
5 \$.30 per month from the currently effective charge. The Basic Service
6 Charge applicable to Firm General Service customers with meters rated
7 less than 500 cubic feet per hour has been set at \$0.52 per day and \$1.75
8 per day for customers requiring the larger meters capable of measuring
9 gas flows of 500 cubic feet per hour or greater. The resulting average
10 monthly charges will be \$15.81 and \$53.20 respectively representing an
11 increase of \$ 61 per month in the Basic Service Charge applicable to
12 customers using meters rated less than 500 cubic feet per hour and an
13 increase of \$1.52 per month in the Basic Service Charge for customers
14 requiring meters rated at 500 cubic feet per hour or higher.

15 The remaining increase in revenues, after taking into account the
16 revenue increase associated with the changes in the Basic Service
17 Charge, will be collected through the applicable Distribution Delivery
18 Charge components.

19 Q. Would you please explain Exhibit No. ____ (TAA-2)?

20 A. Yes. Exhibit No. ____ (TAA-2) depicts bill comparisons based on
21 typical monthly consumption levels for an annual period for residential and
22 firm general service customers. As shown by the comparisons, the
23 proposed rate structure will result in an average increase of approximately

1 \$2.62 per month for the typical Residential customer using 110 dk on an
2 annual basis.

3 Q. Would you please explain the Distribution Delivery Stabilization
4 Mechanism tariff you are proposing as part of this rate case?

5 A. Yes. A Distribution Delivery Stabilization Mechanism (DDSM) is
6 being proposed as a means of adjusting customers' bills to reflect normal
7 weather. The proposed DDSM Rate 87 tariff specifies the procedure to
8 be utilized to correct for the over/under collection of distribution delivery
9 charge revenues due to weather fluctuations during the heating season,
10 defined as November 1 through March 31. The DDSM will provide a
11 better matching, with regard to volumes used in the case to determine the
12 charge per dk necessary to recover the authorized distribution costs and
13 the collection of distribution revenues. Because the volumes used to
14 calculate the distribution delivery charge are based on volumes expected
15 under normal weather conditions, the Company will either over collect
16 distribution revenues if weather is colder than normal or under collect
17 distribution revenues if weather is warmer than normal. As described in
18 the proposed tariff (Rate 87), A DDSM will be determined for each rate
19 schedule subject to the DDSM and shall be expressed as rate per dk.
20 Monthly bills beginning with the first billing cycle following May 1, 2005
21 and each May 1st thereafter, will be adjusted (decreased or increased) by
22 the application of a DDSM rate computed in accordance with the
23 procedures based on temperature conditions for the winter heating

1 season beginning November 1, 2004 ending March 31, 2005, and each
2 heating season thereafter, compared to normal temperature levels
3 established in the most recent general rate case. The DDSM rate will be
4 stated as a surcharge or credit on all rate schedules to which the DDSM is
5 applicable. A DDSM rate will be computed for each applicable rate
6 schedule to be effective for a period of one year. Following the initial one-
7 year term, and annually thereafter, the DDSM rate calculation will include
8 any over or under collection of DDSM revenue from the preceding twelve-
9 month recovery period. If weather is colder than normal the DDSM will be
10 a credit adjustment and reduce customers' bills. If weather is warmer
11 than normal the DDSM will be a positive adjustment and increase
12 customers' bills.

13 Q. Would you please briefly describe other changes made to the Company's
14 gas tariff?

15 A. Yes, following is a description of other changes the Company is
16 proposing to make to its gas tariff:

- 17 • A provision regarding standby service has been added to the
18 Residential and Firm General Service rate schedules. As
19 noted, natural gas service provided by Montana-Dakota is not to
20 be used as a standby fuel source. Customers who do so are
21 not adequately contributing toward fixed cost recovery because
22 a substantial portion of the Company's fixed distribution costs
23 are recovered through the Distribution Delivery Charge and

1 therefore dependent upon a customer actually using natural gas
2 volumes. In other words, customers utilizing natural gas service
3 as a standby energy source are causing increased peak
4 demand without the typical annual consumption associated with
5 a heating customer. The proposed standby charge of \$8 00 per
6 month for residential customers and \$15.00 per month for firm
7 general service customers was designed to recover the fixed
8 customer and distribution demand related costs not recovered
9 through the Basic Service Charge. Any larger Firm General
10 Service customer, defined as a customer using a meter rated
11 greater than 500 cubic feet per hour, will be charged an amount
12 for applicable pipeline demand and storage costs based on the
13 customer's potential maximum daily demand, in addition to the
14 monthly fixed charge of \$15.00.

- 15 • In the last case (PU-399-02-183) the reconnection fees for
16 customers that reconnect service at the same location where
17 service was disconnected by the same customer during the
18 preceding 12-month period was tied to the Basic Service
19 Charge that would have been applied during the period the
20 customer was out of service. As a refinement to that process,
21 the Company is proposing to provide seasonal business
22 concerns such as irrigation, grain drying and asphalt processing
23 a credit for distribution revenues contributed during the time in

1 service in order to recognize that while not connected for a full
2 12-month period, the seasonal business customers typically use
3 volumes of gas equal to or greater than a typical firm general
4 service customer although in a shorter time frame. Given a
5 substantial portion of the company's fixed costs are recovered
6 through the distribution delivery or commodity charge it is
7 appropriate to recognize volumes used when determining the
8 appropriate reconnection charge for the seasonal business
9 customer.

- 10 • Minor changes which are self explanatory have been made to
11 the majority of the rate schedules. These changes are clearly
12 denoted on the tariff sheets reflecting the legislative format.

13 Q. Does this conclude your direct testimony?

14 A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Proposed Interim Rates

Customer Class/Rate	Projected 2004			Total Proposed Revenue	Proposed Revenue Increase	Percent Increase	Increase per Dk
	Customers	Dk	Revenue				
Residential - Rate 60	74,149	8,150,298	\$66,710,124	\$67,834,865	\$1,124,741	1 7%	\$0 138
Firm General Service - Rate 70	11,470	5,773,626	44,197,944	44,942,742	744,798	1 7%	0 129
Air Force - Rate 64							
Firm	1	37,297	252,218	252,218	0	0 0%	0 000
Interruptible	2	842,568	4,734,108	4,734,108	0	0 0%	0 000
Total Air Force	<u>3</u>	<u>879,865</u>	<u>4,986,326</u>	<u>4,986,326</u>	<u>0</u>	<u>0 0%</u>	<u>0 000</u>
Small Interruptible							
Sales - Rate 71	82	570,263	3,481,200			0 0%	0 000
Transport - Rate 81	57	703,084	401,449			0 0%	0 000
Total Small Interruptible	<u>139</u>	<u>1,273,347</u>	<u>3,882,649</u>	<u>3,882,649</u>	<u>0</u>	<u>0 0%</u>	<u>0 000</u>
Large Interruptible							
Sales - Rate 85	0	0	0				
Transport - Rate 82	10	2,229,392	381,588				
Total Large Interruptible	<u>10</u>	<u>2,229,392</u>	<u>381,588</u>	<u>381,588</u>	<u>0</u>	<u>0 0%</u>	<u>0 000</u>
Total North Dakota	<u>85,771</u>	<u>18,306,528</u>	<u>\$120,158,631</u>	<u>\$122,028,170</u>	<u>\$1,869,539</u>	<u>1 6%</u>	

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Proposed Final Rates

Customer Class/Rate	Projected 2005			Total Proposed Revenue	Proposed Revenue Increase	Percent Increase
	Customers	Dk	Revenue			
Residential - Rate 60	74,919	8,152,728	\$66,809,177	\$69,145,273	\$2,336,096	3.5%
Firm General Service - Rate 70	11,532	5,747,216	44,030,409	45,028,539	998,130	2.3%
Air Force - Rate 64						
Firm	1	37,297	252,218	252,218	0	0.0%
Interruptible	2	842,568	4,734,108	4,734,108	0	0.0%
Total Air Force	<u>3</u>	<u>879,865</u>	<u>4,986,326</u>	<u>4,986,326</u>	<u>0</u>	<u>0.0%</u>
Small Interruptible						
Sales - Rate 71	82	570,263	3,481,200			0.0%
Transport - Rate 81	57	703,084	401,449			0.0%
Total Small Interruptible	<u>139</u>	<u>1,273,347</u>	<u>3,882,649</u>	<u>3,882,649</u>	<u>0</u>	<u>0.0%</u>
Large Interruptible						
Sales - Rate 85	0	0	0			
Transport - Rate 82	10	2,229,392	381,588			
Total Large Interruptible	<u>10</u>	<u>2,229,392</u>	<u>381,588</u>	<u>381,588</u>	<u>0</u>	<u>0.0%</u>
Total North Dakota	<u><u>86,603</u></u>	<u><u>18,282,548</u></u>	<u><u>\$120,090,149</u></u>	<u><u>\$123,424,375</u></u>	<u><u>\$3,334,226</u></u>	<u><u>2.8%</u></u>

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 RATE 60 BILL COMPARISON
 RESIDENTIAL GAS SERVICE**

Month	Dk	Present Rate	Proposed Rate	Amount of Increase	% Increase
January	19	\$147.58	\$152.69	\$5.11	3.46%
February	14	110.24	114.06	3.82	3.47%
March	14	111.11	114.96	3.85	3.47%
April	9	74.35	76.92	2.57	3.46%
May	6	52.75	54.58	1.83	3.47%
June	3	30.58	31.64	1.06	3.47%
July	2	23.58	24.39	0.81	3.44%
August	2	23.58	24.39	0.81	3.44%
September	4	37.88	39.19	1.31	3.46%
October	8	67.34	69.68	2.34	3.47%
November	12	96.23	99.56	3.33	3.46%
December	17	132.99	137.60	4.61	3.47%
Total	110	\$908.21	\$939.66	\$31.45	3.46%

Average Increase per Month \$2.62

RATE 60	Current 1/	Proposed 2/
Basic Delivery Charge	\$0.29	\$0.30
Distribution Delivery	\$0.641	\$0.894
Cost of Gas	6.653	\$6.653

1/ Rate effective February 1, 2004
 2/ Includes February 2004 cost of gas

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 RATE 70 BILL COMPARISON
 FIRM GENERAL GAS SERVICE (< 500 Cubic Feet Per Hour Meters)**

MONTH	DK	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE	% INCREASE
January	51	\$378 93	\$387 35	\$8 42	2.22%
February	39	291 91	298.44	6 53	2 24%
March	39	293 41	300 00	6 59	2 25%
April	24	186 02	190 30	4.28	2 30%
May	15	122 39	125 31	2 92	2.39%
June	9	79 13	81 11	1 98	2 50%
July	6	58 26	59 79	1 53	2 63%
August	6	58.26	59.79	1.53	2 63%
September	12	100 51	102 95	2 44	2 43%
October	21	165 15	168.98	3 83	2 32%
November	33	250 16	255 81	5 65	2 26%
December	45	336 17	343 68	7 51	2 23%
Total	300	\$2,320 30	\$2,373 51	\$53 21	2 29%

RATE 70	Current 1/	Proposed 2/
Basic Delivery Charge	\$0 50	\$0 52
Distribution Delivery	\$0 473	\$0 626
Cost of Gas	6 653	\$6 653

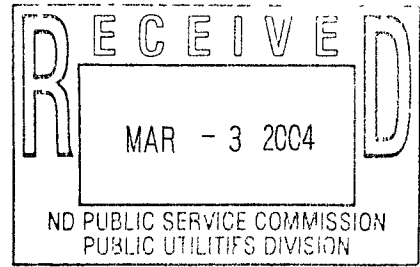
1/ Rate effective February 1, 2004
 2/ Includes February 2004 cost of gas

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 RATE 70 BILL COMPARISON
 FIRM GENERAL GAS SERVICE (> 500 Cubic Feet Per Hour Meters)**

MONTH	DK	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE	% INCREASE
January	153	\$1,142.98	\$1,167.94	\$24.96	2.18%
February	117	881.34	900.64	19.30	2.19%
March	117	886.44	905.89	19.45	2.19%
April	72	564.07	576.59	12.52	2.22%
May	45	373.37	381.81	8.44	2.26%
June	27	243.40	249.03	5.63	2.31%
July	18	180.97	185.27	4.30	2.38%
August	18	180.97	185.27	4.30	2.38%
September	36	307.54	314.54	7.00	2.28%
October	63	501.64	512.83	11.19	2.23%
November	99	756.47	773.12	16.65	2.20%
December	135	1,014.71	1,036.92	22.21	2.19%
Total	900	\$7,033.90	\$7,189.85	\$155.95	2.22%

RATE 70	Current 1/	Proposed 2/
Basic Delivery Charge	\$1.70	\$1.75
Distribution Delivery	\$0.473	\$0.626
Cost of Gas	6.653	\$6.653

1/ Rate effective February 1, 2004
 2/ Includes February 2004 cost of gas



**MONTANA-DAKOTA UTILITIES CO.
CASE NO. PU-399-04-_____
STATEMENTS A - O**

**In the Matter of the Application of
Montana-Dakota Utilities Co. for
Authority to Establish Increased Rates
For Natural Gas Service in the
State of North Dakota**

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
DECEMBER 31, 2002 AND
DECEMBER 31, 2003

	2002	2003
<u>Assets and Other Debits</u>		
Utility Plant	\$845,518,266	\$881,126,491
Construction Work in Progress	18,641,586	11,357,572
Less Acc Provision for Depreciation and Amortization	496,483,634	512,484,759
Net Utility Plant	367,676,218	379,999,304
Gas Stored Underground - Noncurrent	1,913,520	2,361,258
 <u>Other Property and Investments</u>		
Nonutility Property	174,544	1,036,084
(Less) Accum Prov for Depr And Amort	79,695	353,568
Investment in Subsidiary Companies	1,130,703,822	1,278,850,163
Other investments	26,757,835	22,254,889
Net Other Property and Investments	1,157,556,506	1,301,787,568
 <u>Current and Accrued Assets</u>		
Cash	5,959,888	861,378
Special Deposits	1,200	1,200
Working Fund	130,965	15,965
Temporary Cash Investments	3,297,879	8,529,412
Customer Accounts Receivable	28,398,322	37,004,255
Other Accounts Receivable	2,365,820	3,987,038
(Less) Accum Prov For Uncollectible Acct - Credit	241,038	319,419
Accounts Receivable from Assoc Companies	16,147,799	17,473,063
Fuel Stock	2,233,437	2,753,765
Plant Materials and Operating Supplies	5,894,011	6,197,652
Merchandise	1,012,624	1,139,740
Gas Stored Underground - Current	15,322,047	18,438,454
Prepayments	7,220,656	8,839,446
Interest and Dividends Receivable		
Accrued Utility Revenues	20,628,893	27,625,923
Miscellaneous Current and Accrued Assets	57,814	117,438
Total Current and Accrued Assets	108,430,317	132,665,310
 <u>Deferred Debits</u>		
Unamortized Debt Expenses	1,123,696	1,533,592
Other Regulatory Assets	3,651,680	4,744,491
Prelim Survey and Investigation Charges (Electric)	1,686,727	1,127,322
Clearing Accounts	(40,451)	(124,215)
Miscellaneous Deferred Debits	19,360,006	22,910,284
Unamortized Loss on Reaquired Debt	5,627,511	4,518,768
Accumulated Deferred Income Taxes	20,176,715	21,238,378
Unrecovered Purchased Gas Costs	(2,396,235)	10,518,527
Total Deferred Debits	49,189,649	66,467,147
 Total Assets and Other Debits	 \$1,684,766,210	 \$1,883,280,587

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
DECEMBER 31, 2002 AND
DECEMBER 31, 2003

	2002	2003
<u>Liabilities and Other Credits</u>		
<u>Proprietary Capital</u>		
Common Stock Issued	\$74,282,038	\$113,716,632
Preferred Stock Issued	16,300,000	16,200,000
Premium on Capital Stock	751,331,277	761,023,634
(Less) Capital Stock Expense	3,236,160	3,236,160
Retained Earnings	44,231,211	47,203,550
Unappropriated Undistributed Sub Earnings	430,566,718	528,082,638
Accumulated Other Comprehensive Income	(9,803,865)	(7,528,653)
Total Proprietary Capital	1,303,671,219	1,455,461,641
 <u>Long-Term Debt</u>		
Bonds	130,850,000	160,850,000
Other Long-Term Debt	52,000,000	41,500,000
(Less) Unamortized Discount on Long-Term Debt-Debit	41,116	36,671
Total Long-Term Debt	182,808,884	202,313,329
 <u>Other Noncurrent Liabilities</u>		
Accumulated Provision for Injuries and Damages	1,415,463	1,017,175
Accumulated Provision for Pensions and Benefits	24,086,968	29,785,661
Accumulated Provision for Rate Refunds	67,067	299,228
Asset Retirement Obligations	0	602,589
Total Other Noncurrent Liabilities	25,569,498	31,704,653
 <u>Current and Accrued Liabilities</u>		
Notes Payable	8,000,000	0
Accounts Payable	18,828,269	26,572,779
Accounts Payable to Associated Companies	5,882,199	7,113,407
Customer Deposits	1,472,979	1,584,497
Taxed Accrued	(464,747)	10,323,491
Interest Accrued	2,212,959	2,307,669
Dividends Declared	17,959,379	19,458,320
Tax Collections Payable	1,210,339	1,662,094
Miscellaneous Current and Accrued Liabilities	10,489,414	10,665,144
Total Current and Accrued Assets	65,590,791	79,687,401
 <u>Deferred Debits</u>		
Customer Advances for Construction	1,533,151	1,284,167
Accumulated Deferred Investment Tax Credit	3,058,287	2,461,954
Other Deferred Credits	14,584,248	16,816,218
Other Regulatory Liabilities	15,563,924	15,633,652
Accumulated Deferred Income Taxes	72,386,208	77,917,572
Total Deferred Credits	107,125,818	114,113,563
Total Liabilities and Equity	\$1,684,766,210	\$1,883,280,587

NOTES TO THE FINANCIAL STATEMENTS

MDU RESOURCES GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements of MDU Resources Group, Inc. and its subsidiaries (Company) include the accounts of the following businesses: electric, natural gas distribution, utility services, pipeline and energy services, natural gas and oil production, construction materials and mining, and independent power production and other. The electric, natural gas distribution, and pipeline and energy services businesses are substantially all regulated. Utility services, natural gas and oil production, construction materials and mining, and independent power production and other are nonregulated. For further descriptions of the Company's businesses, see Note 14. The statements also include the ownership interests in the assets, liabilities and expenses of two jointly owned electric generation stations.

The Company uses the equity method of accounting for certain investments including its 49 percent interest in MPX Participacoes, Ltda. (MPX), which was formed to develop electric generation and transmission, steam generation, power equipment and coal mining projects in Brazil. For more information on the Company's equity investments, see new accounting standards in Note 1, as well as Note 2.

The Company's regulated businesses are subject to various state and federal agency regulation. The accounting policies followed by these businesses are generally subject to the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC). These accounting policies differ in some respects from those used by the Company's nonregulated businesses.

The Company's regulated businesses account for certain income and expense items under the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Regulation." SFAS No. 71 requires these businesses to defer as regulatory assets or liabilities certain items that would have otherwise been reflected as expense or income, respectively, based on the expected regulatory treatment in future rates. The expected recovery or flowback of these deferred items generally is based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are being amortized consistently with the regulatory treatment established by the FERC and the applicable state public service commissions. See Note 4 for more information regarding the nature and amounts of these regulatory deferrals.

Prior to the sale of the Company's coal operations in 2001, as discussed in Note 14, intercompany coal sales, which were made at prices approximately the same as those charged to others, and the related utility fuel purchases were not eliminated in accordance with the provisions of SFAS No. 71. All other significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts

The Company's allowance for doubtful accounts as of December 31, 2003 and 2002, was \$8.1 million and \$8.2 million, respectively.

Natural gas in underground storage

Natural gas in underground storage for the Company's regulated operations is carried at cost using the last-in, first-out method. The portion of the cost of natural gas in underground storage expected to be used within one year was included in inventories and amounted to \$19.6 million at December 31, 2003, and \$18.2 million at December 31, 2002. The remainder of natural gas in underground storage was included in other assets and was \$42.6 million at December 31, 2003, and \$42.2 million at December 31, 2002.

Inventories

Inventories, other than natural gas in underground storage for the Company's regulated operations, consisted primarily of aggregates held for resale of \$54.7 million and \$39.6 million, materials and supplies of \$27.2 million and \$23.0 million, and other inventories of \$12.6 million and \$12.3 million, as of December 31, 2003 and 2002, respectively. These inventories were stated at the lower of average cost or market.

Property, plant and equipment

Additions to property, plant and equipment are recorded at cost when first placed in service. Acquired aggregate reserves at the Company's construction materials and mining business are classified based on type of ownership. Owned mineral rights are classified as property, plant and equipment, whereas leased mineral rights are classified as other intangible assets, net. For more information on other intangible assets, net, see Note 3. When regulated assets are retired, or otherwise disposed of in the ordinary course of business, the original cost of the asset is charged to accumulated depreciation. With respect to the retirement or disposal of all other assets, except for natural gas and oil production properties as described in natural gas and oil properties in Note 1, the resulting gains or losses are recognized as a component of income. The Company is permitted to capitalize an allowance for funds used during construction (AFUDC) on regulated construction projects and to include such amounts in rate base when the related facilities are placed in service. In addition, the Company capitalizes interest, when applicable, on certain construction projects associated with its other operations. The amount of AFUDC and interest capitalized was \$7.4 million, \$7.6 million and \$6.6 million in 2003, 2002 and 2001, respectively. Generally, property, plant and equipment are depreciated on a straight-line basis over the average useful lives of the assets, except for depletable reserves, which are depleted based on the units-of-production method based on recoverable deposits, and natural gas and oil production properties, which are amortized on the units-of-production method based on total reserves.

Property, plant and equipment at December 31, 2003 and 2002, was as follows:

	2003	2002	Estimated Depreciable Life in Years
	<i>(Dollars in thousands, as applicable)</i>		
Regulated:			
Electric:			
Electric generation, distribution and transmission plant	\$ 639,893	\$ 619,230	4-50
Natural gas distribution:			
Natural gas distribution plant	252,591	244,930	4-40
Pipeline and energy services:			
Natural gas transmission, gathering and storage facilities	340,841	262,971	3-70
Nonregulated:			
Utility services:			
Land	2,505	2,601	---
Buildings and improvements	10,123	8,768	10-40
Machinery, vehicles and equipment	58,843	54,833	2-10
Other	5,400	4,458	3-10
Pipeline and energy services:			
Natural gas gathering and other facilities	119,613	108,179	3-20
Energy services	1,339	1,270	3-15
Natural gas and oil production:			
Natural gas and oil properties	862,839	748,843	(a)
Other	8,518	6,945	5-7
Construction materials and mining:			
Land	89,545	85,376	---
Buildings and improvements	48,907	43,144	1-40
Machinery, vehicles and equipment	569,295	493,349	1-25
Construction in progress	14,392	10,151	---
Depletable reserves	171,841	172,235	(b)
Independent power production and other:			
Electric generation	153,947	58,000	5-30
Construction in progress	29,805	19,342	---
Land	2,001	2,001	---
Other	15,381	15,182	3-20
Less accumulated depreciation, depletion and amortization	1,175,326	1,019,438	
<u>Net property, plant and equipment</u>	<u>\$2,222,293</u>	<u>\$1,942,370</u>	

- (a) Amortized on the units-of-production method based on total proved reserves at an Mcf equivalent rate of \$.89, \$.80, and \$.78 for the years ended December 31, 2003, 2002 and 2001, respectively. Includes natural gas and oil production properties accounted for under the full-cost method, of which \$104,339 and \$145,692 were excluded from amortization at December 31, 2003 and 2002, respectively.
- (b) Depleted based on the units-of-production method based on recoverable deposits.
-

Impairment of long-lived assets

The Company reviews the carrying values of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. No long-lived assets have been impaired and, accordingly, no impairment losses have been recorded in 2003, 2002 and 2001. Unforeseen events and changes in circumstances could require the recognition of other impairment losses at some future date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangibles," and ceased amortization of its goodwill. Goodwill is required to be tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill may be impaired. In accordance with SFAS No. 142, the Company performed its transitional goodwill impairment testing as of January 1, 2002, and performed its annual goodwill impairment testing as of October 31, 2003 and 2002, and determined that no impairments existed at those dates. Therefore, no impairment loss has been recorded for the years ended December 31, 2003 and 2002. For more information on goodwill, see Note 3.

Natural gas and oil properties

The Company uses the full-cost method of accounting for its natural gas and oil production activities. Under this method, all costs incurred in the acquisition, exploration and development of natural gas and oil properties are capitalized and amortized on the units-of-production method based on total proved reserves. Any conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of the properties with no gain or loss recognized. Capitalized costs are subject to a "ceiling test" that limits such costs to the aggregate of the present value of future net revenues of proved reserves based on single point-in-time spot market prices, as mandated under the rules of the Securities and Exchange Commission, and the lower of cost or fair value of unproved properties.

Future net revenue is estimated based on end-of-quarter spot market prices adjusted for contracted price changes. If capitalized costs exceed the full-cost ceiling at the end of any quarter, a permanent noncash write-down is required to be charged to earnings in that quarter unless subsequent price changes eliminate or reduce an indicated write-down.

At December 31, 2003 and 2002, the Company's full-cost ceiling exceeded the Company's capitalized cost. However, sustained downward movements in natural gas and oil prices subsequent to December 31, 2003, could result in a future write-down of the Company's natural gas and oil properties.

The following table summarizes the Company's natural gas and oil properties not subject to amortization at December 31, 2003, in total and by year in which such costs were incurred:

	Total	Year Costs Incurred			2000 and prior
		2003	2002	2001	
<i>(In thousands)</i>					
Acquisition	\$ 48,355	\$ 630	\$17,108	\$---	\$30,617
Development	39,160	28,351	5,120	---	5,689
Exploration	4,885	4,828	---	23	34
Capitalized interest	11,939	5,642	6,297	---	---
Total costs not subject to amortization	\$104,339	\$39,451	\$28,525	\$ 23	\$36,340

Costs not subject to amortization as of December 31, 2003, consisted primarily of lease acquisition costs, unevaluated drilling costs and capitalized interest associated with coalbed development in the Powder River Basin of Montana and Wyoming. The Company expects that the majority of these costs will be evaluated over the next three- to five-year period and included in the amortization base as the properties are developed and evaluated and proved reserves are established or impairment is determined.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is probable. The Company recognizes utility revenue each month based on the services provided to all utility customers during the month. The Company recognizes construction contract revenue at its construction businesses using the percentage-of-completion method as discussed later. The Company recognizes revenue from natural gas and oil production activities only on that portion of production sold and allocable to the Company's ownership interest in the related well. Revenues at the independent power production operations are recognized based on electricity delivered and capacity provided, pursuant to contractual commitments. The Company recognizes all other revenues when services are rendered or

goods are delivered.

Percentage-of-completion method

The Company recognizes construction contract revenue from fixed price and modified fixed price construction contracts at its construction businesses using the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Costs in excess of billings on uncompleted contracts of \$31.8 million and \$19.4 million for the years ended December 31, 2003 and 2002, respectively, represents revenues recognized in excess of amounts billed and was included in receivables, net. Billings in excess of costs on uncompleted contracts of \$20.4 million and \$24.5 million for the years ended December 31, 2003 and 2002, respectively, represents billings in excess of revenues recognized and was included in accounts payable. Also included in receivables, net were amounts representing balances billed but not paid by customers under retainage provisions in contracts that amounted to \$34.3 million and \$25.6 million as of December 31, 2003 and 2002, respectively, which are expected to be paid within one year or less.

Derivative instruments

The Company's policy allows the use of derivative instruments as part of an overall energy price, foreign currency and interest rate risk management program to efficiently manage and minimize commodity price, foreign currency and interest rate risk. The Company's policy prohibits the use of derivative instruments for speculating to take advantage of market trends and conditions and the Company has procedures in place to monitor compliance with its policies. The Company is exposed to credit-related losses in relation to derivative instruments in the event of nonperformance by counterparties. The Company's policy requires settlement of natural gas and oil price derivative instruments monthly and all interest rate derivative transactions must be settled over a period that will not exceed 90 days, and any foreign currency derivative transaction settlement periods may not exceed a 12-month period. The Company has policies and procedures that management believes minimize credit-risk exposure. These policies and procedures include an evaluation of potential counterparties' credit ratings and credit exposure limitations. Accordingly, the Company does not anticipate any material effect to its financial position or results of operations as a result of nonperformance by counterparties.

Advertising

The Company expenses advertising costs as incurred and the amount of advertising expense for the years 2003, 2002 and 2001, was \$3.9 million, \$3.4 million and \$2.9 million, respectively.

Natural gas costs recoverable or refundable through rate adjustments

Under the terms of certain orders of the applicable state public service commissions, the Company is deferring natural gas commodity, transportation and storage costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments within a period ranging from 24

months to 28 months from the time such costs are paid. Natural gas costs recoverable through rate adjustments amounted to \$10.5 million at December 31, 2003, which is included in prepayments and other current assets. Natural gas costs refundable through rate adjustments amounted to \$2.4 million at December 31, 2002, which is included in other accrued liabilities.

Insurance

Certain subsidiaries of the Company are insured for workers' compensation losses, subject to deductibles ranging up to \$500,000 per occurrence. Automobile liability and general liability losses are insured, subject to deductibles ranging up to \$500,000 per accident or occurrence. These subsidiaries have excess coverage on a claims first-made basis beyond the deductible levels. The subsidiaries of the Company are retaining losses up to the deductible amounts accrued on the basis of estimates of liability for claims incurred and claims incurred but not reported.

Other income - net

Other income - net consisted of the following:

Years ended December 31,	2003	2002	2001
		<i>(In thousands)</i>	
Interest and dividend income	\$ 6,722	\$ 8,160	\$ 5,734
Earnings from equity method investments (Note 2)	5,968	1,341	154
Other income	9,517	4,071	20,933
Total other income - net	\$22,207	\$13,572	\$26,821

Income taxes

The Company provides deferred federal and state income taxes on all temporary differences between the book and tax basis of the Company's assets and liabilities. Excess deferred income tax balances associated with the Company's rate-regulated activities resulting from the Company's adoption of SFAS No. 109, "Accounting for Income Taxes," have been recorded as a regulatory liability and are included in other liabilities. These regulatory liabilities are expected to be reflected as a reduction in future rates charged to customers in accordance with applicable regulatory procedures.

The Company uses the deferral method of accounting for investment tax credits and amortizes the credits on electric and natural gas distribution plant over various periods that conform to the ratemaking treatment prescribed by the applicable state public service commissions.

Foreign currency translation adjustment

The functional currency of the Company's investment in a 220-megawatt natural gas-fired electric generating facility in Brazil, as further discussed in Note 2, is the Brazilian real. Translation from the Brazilian real to the U.S. dollar for assets and liabilities is performed using the exchange rate in effect at the balance sheet date. Revenues and expenses have been translated using the weighted average exchange rate for each month prevailing during the period reported. Adjustments resulting from such translations are reported as a separate component of other comprehensive income (loss) in common stockholders' equity.

Transaction gains and losses resulting from the effect of exchange rate changes on transactions denominated in a currency other than the functional currency of the reporting entity are recorded in income.

Common stock split

On August 14, 2003, the Company's Board of Directors approved a three-for-two common stock split. For more information on the common stock split, see Note 11.

Earnings per common share

Basic earnings per common share were computed by dividing earnings on common stock by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share were computed by dividing earnings on common stock by the total of the weighted average number of shares of common stock outstanding during the year, plus the effect of outstanding stock options, restricted stock grants and performance share awards. For the years ended December 31, 2003, 2002 and 2001, 209,805 shares, 3,674,925 shares and 225,945 shares, respectively, with an average exercise price of \$24.56, \$20.08 and \$24.57, respectively, attributable to the exercise of outstanding options, were excluded from the calculation of diluted earnings per share because their effect was antidilutive. For the years ended December 31, 2003, 2002 and 2001, no adjustments were made to reported earnings in the computation of earnings per share. Common stock outstanding includes issued shares less shares held in treasury.

Stock-based compensation

The Company has stock option plans for directors, key employees and employees. In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and began expensing the fair market value of stock options for all awards granted on or after January 1, 2003. Compensation expense recognized for awards granted on or after January 1, 2003, for the year ended December 31, 2003, was \$41,000 (after tax).

As permitted by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123," the Company accounts for stock options granted prior to January 1, 2003, under APB Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation expense has been recognized for stock options granted prior to January 1, 2003, as the options granted had an exercise price equal

to the market value of the underlying common stock on the date of the grant.

Since the Company adopted SFAS No. 123 effective January 1, 2003, for newly granted options only, the following table illustrates the effect on earnings and earnings per common share for the years ended December 31, 2003, 2002 and 2001, as if the Company had applied SFAS No. 123 and recognized compensation expense for all outstanding and unvested stock options based on the fair value at the date of grant:

	2003	2002	2001
	(In thousands, except per share amounts)		
Earnings on common stock, as reported	\$174,607	\$147,688	\$155,087
Stock-based compensation expense included in reported earnings, net of related tax effects	41	---	---
Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(2,139)	(2,862)	(3,799)
<u>Pro forma earnings on common stock</u>	<u>\$172,509</u>	<u>\$144,826</u>	<u>\$151,288</u>
Earnings per common share -- basic -- as reported:			
Earnings before cumulative effect of accounting change	\$ 1.64	\$ 1.39	\$ 1.54
Cumulative effect of accounting change	(.07)	---	---
<u>Earnings per common share -- basic</u>	<u>\$ 1.57</u>	<u>\$ 1.39</u>	<u>\$ 1.54</u>
Earnings per common share -- basic -- pro forma:			
Earnings before cumulative effect of accounting change	\$ 1.62	\$ 1.36	\$ 1.50
Cumulative effect of accounting change	(.07)	---	---
<u>Earnings per common share -- basic</u>	<u>\$ 1.55</u>	<u>\$ 1.36</u>	<u>\$ 1.50</u>
Earnings per common share -- diluted -- as reported:			
Earnings before cumulative effect of accounting change	\$ 1.62	\$ 1.38	\$ 1.52
Cumulative effect of accounting change	(.07)	---	---
<u>Earnings per common share -- diluted</u>	<u>\$ 1.55</u>	<u>\$ 1.38</u>	<u>\$ 1.52</u>
Earnings per common share -- diluted -- pro forma:			
Earnings before cumulative effect of accounting change	\$ 1.60	\$ 1.36	\$ 1.49
Cumulative effect of accounting change	(.07)	---	---
<u>Earnings per common share -- diluted</u>	<u>\$ 1.53</u>	<u>\$ 1.36</u>	<u>\$ 1.49</u>

For more information on the Company's stock-based compensation, see Note 12.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as impairment testing of long-lived assets, goodwill and natural gas and oil properties; fair values of acquired assets and liabilities under the purchase method of accounting; natural gas and oil reserves; property depreciable lives; tax provisions; uncollectible accounts; environmental and other loss contingencies; accumulated provision for revenues subject to refund; costs on construction contracts; unbilled revenues; actuarially determined benefit costs; asset retirement obligations; the valuation of stock-based compensation; and the fair value of derivative instruments, including the fair value of an embedded derivative in a power purchase agreement related to an equity method investment in Brazil, as discussed in Note 2. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Cash flow information

Cash expenditures for interest and income taxes were as follows:

Years ended December 31,	2003	2002	2001
		<i>(In thousands)</i>	
Interest, net of amount capitalized	\$47,474	\$37,788	\$42,267
Income taxes	\$31,737	\$60,988	\$75,284

Reclassifications

The Consolidated Statements of Income have been reclassified to include additional disclosures relating to the components comprising operating revenues and operation and maintenance expense.

Certain other reclassifications have been made in the financial statements for prior years to conform to the current presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

New accounting standards

The Company has stock option plans for directors, key employees and employees. In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, and began expensing the fair market value of stock options for all awards granted on or after January 1, 2003. For a discussion of the effect of the adoption of the fair value recognition provisions of SFAS No. 123 on earnings and earnings per share, see stock-based compensation in Note 1.

In June 2001, the Financial Accounting Standards Board (FASB) approved SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an

asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for the recorded amount or incurs a gain or loss. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. For more information on the adoption of SFAS No. 143, see Note 9.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FASB No. 4 required all gains or losses from extinguishment of debt to be classified as extraordinary items net of income taxes. SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of APB Opinion No. 30, and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 did not have a material effect on the Company's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 clarifies the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing certain types of guarantees. Certain types of guarantees are not subject to the initial recognition and measurement provisions of FIN 45 but are subject to its disclosure requirements. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The guarantor's previous accounting for guarantees issued prior to the date of the initial application of FIN 45 is not required to be revised or restated. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ended after December 15, 2002. The Company is applying the initial recognition and initial measurement provisions of FIN 45 to guarantees issued or modified after December 31, 2002. For more information on the Company's guarantees and the disclosure requirements of FIN 45, as applicable to the Company, see Note 19.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 provides clarification on the financial accounting and reporting of derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities; and requires contracts with similar characteristics to be accounted for on a comparable basis. SFAS No. 149 is generally effective for contracts

entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company will apply SFAS No. 150 to any financial instruments entered into or modified after May 31, 2003. Beginning in 2003, the Company reported its preferred stock subject to mandatory redemption as a liability in accordance with SFAS No. 150. The transition to SFAS No. 150 did not have a material effect on the Company's financial position or results of operations.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised 2003), "Consolidation of Variable Interest Entities" (FIN 46 (revised)), which revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 (revised) clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated support. An enterprise shall consolidate a variable interest entity if that enterprise is the primary beneficiary. An enterprise is considered the primary beneficiary if it has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns or both.

FIN 46 (revised) shall be applied to all entities subject to FIN 46 (revised) no later than the end of the first reporting period that ends after March 15, 2004. However, an entity that applied FIN 46 to an entity prior to the effective date of FIN 46 (revised) shall either continue to apply FIN 46 until the effective date of FIN 46 (revised) or apply FIN 46 (revised) at an earlier date.

The Company had evaluated the provisions of FIN 46 and determined that MPX is a variable interest entity. MPX was formed in August 2001, as a result of MDU Brasil Ltda. (MDU Brasil), an indirect wholly owned Brazilian subsidiary of the Company, entering into a joint venture agreement with a Brazilian firm. MDU Brasil has a 49 percent interest in MPX. Although the Company has determined that MPX is a variable interest entity, MDU Brasil is not considered the primary beneficiary of MPX because MDU Brasil does not absorb a majority of MPX's expected losses, receive a majority of MPX's expected residual returns or both.

Therefore, MDU Brasil does not have a controlling financial interest in MPX and is not required to consolidate MPX in its financial statements. MPX is being accounted for under the equity method of accounting. For more information on this equity method investment, see Note 2. The adoption of FIN 46 did not have an effect on the Company's financial position or results of operations. The Company will continue to apply FIN 46 until the effective date of FIN 46 (revised).

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pension and Other Postretirement Benefits." SFAS No. 132 (revised 2003) retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003) is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by SFAS No. 132 (revised 2003) are effective for interim periods beginning after December 15, 2003. The Company applied SFAS No. 132 (revised 2003) to its consolidated financial statements issued after December 15, 2003. For more information on the Company's pension and other postretirement benefits, see Note 16.

In January 2004, the FASB issued FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FASB Staff Position No. FAS 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (2003 Medicare Act). SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pension," requires enacted changes in relevant laws to be considered in current period measurements of postretirement benefit costs and accumulated postretirement benefit obligation. The Company provides prescription drug benefits to certain eligible employees and has elected the one-time deferral of accounting for the effects of the 2003 Medicare Act. These consolidated financial statements and accompanying notes do not reflect the effects of the 2003 Medicare Act on the postretirement benefit plans. The Company intends to analyze the 2003 Medicare Act, along with the authoritative guidance, when issued, to determine if its benefit plans need to be amended and how to record the effects of the 2003 Medicare Act. Specific guidance on the accounting for the federal subsidy provided by the 2003 Medicare Act is pending and that guidance, when issued, could require the Company to change previously reported postretirement benefit information. For more information on the Company's postretirement benefits, see Note 16.

Comprehensive income

Comprehensive income is the sum of net income as reported and other comprehensive income (loss). The Company's other comprehensive income (loss) resulted from gains and losses on derivative instruments qualifying as hedges, minimum pension liability adjustments and foreign currency translation adjustments.

The components of other comprehensive income (loss), and their related tax effects for the years ended December 31, 2003, 2002 and 2001, were as follows:

	2003	2002	2001
	<i>(In thousands)</i>		
Other comprehensive income (loss):			
Net unrealized gain (loss) on derivative instruments qualifying as hedges:			
Unrealized loss on derivative instruments at January 1, 2001, due to cumulative effect of a change in accounting principle, net of tax of \$3,970 in 2001	\$ ---	\$ ---	\$(6,080)
Net unrealized gain (loss) on derivative instruments arising during the period, net of tax of \$2,132, \$2,903 and \$1,448 in 2003, 2002 and 2001, respectively	(3,335)	(4,541)	2,218
Less: Reclassification adjustment for gain (loss) on derivative instruments included in net income, net of tax of \$2,903, \$1,448 and \$3,970 in 2003, 2002 and 2001, respectively	(4,541)	2,218	(6,080)
Net unrealized gain (loss) on derivative instruments qualifying as hedges	1,206	(6,759)	2,218
Minimum pension liability adjustment, net of tax of \$38 and \$2,876 in 2003 and 2002, respectively	21	(4,464)	---
Foreign currency translation adjustment	1,048	(799)	---
Total other comprehensive income (loss)	\$ 2,275	\$(12,022)	\$ 2,218

The after-tax components of accumulated other comprehensive income (loss) as of December 31, 2003, 2002 and 2001, were as follows:

	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Minimum Pension Liability Adjustment	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	<i>(In thousands)</i>			
Balance at December 31, 2001	\$ 2,218	\$ ---	\$ ---	\$ 2,218
Balance at December 31, 2002	\$ (4,541)	\$ (4,464)	\$ (799)	\$ (9,804)
Balance at December 31, 2003	\$ (3,335)	\$ (4,443)	\$ 249	\$ (7,529)

NOTE 2

Equity Method Investments

The Company has a number of equity method investments, including MPX, which was formed in August 2001 when MDU Brasil entered into a joint venture agreement with a Brazilian firm. MDU Brasil has a 49 percent interest in MPX, which is being accounted for under the equity method of accounting, as discussed in Note 1. MPX, through a wholly owned subsidiary, owns a 220-megawatt natural gas-fired electric generating facility (Brazil Generating Facility) in the Brazilian state of Ceara. At December 31, 2003, MPX has assets of approximately \$109.6 million and long-term debt of approximately \$86.8 million, including a loan of \$20.0 million from Centennial Energy Resources International Inc, an indirect wholly owned subsidiary of the Company. Petrobras, the Brazilian state-controlled energy company, has agreed to purchase all of the capacity and market all of the Brazil Generating Facility's energy. The power purchase agreement with Petrobras expires in May 2008. Petrobras also is under contract to supply natural gas to the Brazil Generating Facility during the term of the power purchase agreement. This natural gas supply contract is renewable by a wholly owned subsidiary of MPX for an additional 13 years. The functional currency for the Brazil Generating Facility is the Brazilian real. The power purchase agreement with Petrobras contains an embedded derivative, which derives its value from an annual adjustment factor, which largely indexes the contract capacity payments to the U.S. dollar. For the year ended December 31, 2003, the Company's 49 percent share of the loss from the change in the fair value of the embedded derivative in the power purchase agreement was \$11.3 million (after tax). For the year ended December 31, 2002, the Company's 49 percent share of the gain from the change in the fair value of the embedded derivative in the power purchase agreement was \$13.6 million (after tax). The Company's 49 percent share of the foreign currency gain resulting from the revaluation of the Brazilian real was \$2.8 million (after tax) for the year ended December 31, 2003. The Company's 49 percent share of the foreign currency loss resulting from devaluation of the Brazilian real was \$9.4 million (after tax) for the year ended December 31, 2002. The Company's investment in the Brazil Generating Facility was approximately \$25.2 million, including undistributed earnings of \$4.6 million at December 31, 2003. The

Company's investment in the Brazil Generating Facility was approximately \$27.8 million at December 31, 2002.

The Company's share of income from its equity method investments, including MPX, was \$6.0 million, \$1.3 million and \$154,000 for the years ended December 31, 2003, 2002 and 2001, respectively, and was included in other income - net.

NOTE 3

Goodwill and Other Intangible Assets

On January 1, 2002, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company ceased amortization of its goodwill recorded in business combinations that occurred on or before June 30, 2001. The following information is presented as if SFAS No. 142 was adopted as of January 1, 2001. The reconciliation of previously reported earnings and earnings per common share to the amounts adjusted for the exclusion of goodwill amortization, net of the related income tax effects, for the years ended December 31, 2003, 2002 and 2001, were as follows:

	2003	2002	2001
	<i>(In thousands, except per share amounts)</i>		
Reported earnings on common stock	\$174,607	\$147,688	\$155,087
Add: Goodwill amortization, net of tax	---	---	3,649
<u>Adjusted earnings on common stock</u>	<u>\$174,607</u>	<u>\$147,688</u>	<u>\$158,736</u>
Reported earnings per common share -- basic	\$ 1.57	\$ 1.39	\$ 1.54
Add: Goodwill amortization, net of tax	---	---	.03
<u>Adjusted earnings per common share -- basic</u>	<u>\$ 1.57</u>	<u>\$ 1.39</u>	<u>\$ 1.57</u>
Reported earnings per common share -- diluted	\$ 1.55	\$ 1.38	\$ 1.52
Add: Goodwill amortization, net of tax	---	---	.04
<u>Adjusted earnings per common share -- diluted</u>	<u>\$ 1.55</u>	<u>\$ 1.38</u>	<u>\$ 1.56</u>

The changes in the carrying amount of goodwill for the year ended December 31, 2003, were as follows:

	Balance as of January 1, 2003	Goodwill Acquired During the Year	Balance as of December 31, 2003
<i>(In thousands)</i>			
Electric	\$ ---	\$ ---	\$ ---
Natural gas distribution	---	---	---
Utility services	62,487	117	62,604
Pipeline and energy services	9,494	---	9,494
Natural gas and oil production	---	---	---
Construction materials and mining	111,887	8,311	120,198
Independent power production and other	7,131	---	7,131
Total	\$190,999	\$8,428	\$199,427

The changes in the carrying amount of goodwill for the year ended December 31, 2002, were as follows:

	Balance as of January 1, 2002	Goodwill Acquired During the Year	Balance as of December 31, 2002
<i>(In thousands)</i>			
Electric	\$ ---	\$ ---	\$ ---
Natural gas distribution	---	---	---
Utility services	61,909	578	62,487
Pipeline and energy services	9,336	158	9,494
Natural gas and oil production	---	---	---
Construction materials and mining	102,752	9,135	111,887
Independent power production and other	---	7,131	7,131
Total	\$173,997	\$17,002	\$190,999

Other intangible assets at December 31, 2003 and 2002, were as follows:

	2003	2002
	<i>(In thousands)</i>	
Amortizable intangible assets:		
Leasehold rights	\$186,419	\$172,496
Accumulated amortization	(11,779)	(7,494)
	174,640	165,002
Noncompete agreements	12,075	12,075
Accumulated amortization	(9,690)	(9,366)
	2,385	2,709
Other	17,734	7,224
Accumulated amortization	(2,265)	(374)
	15,469	6,850
Unamortizable intangible assets	960	1,603
Total	\$193,454	\$176,164

Acquired aggregate reserves at our construction materials and mining business are classified based on type of ownership. Owned mineral rights are classified as property, plant and equipment, whereas leased mineral rights are classified as leasehold rights in other intangible assets, net.

The unamortizable intangible assets were recognized in accordance with SFAS No. 87, "Employers' Accounting for Pensions," which requires that if an additional minimum liability is recognized an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost. The unamortizable intangible asset will be eliminated or adjusted as necessary upon a new determination of the amount of additional liability.

Amortization expense for amortizable intangible assets for the years ended December 31, 2003 and 2002, was \$5.9 million and \$3.4 million, respectively. Estimated amortization expense for amortizable intangible assets is \$6.2 million in 2004, \$6.4 million in 2005, \$5.2 million in 2006, \$5.2 million in 2007, \$5.2 million in 2008 and \$164.3 million thereafter.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review for impairment. Intangible assets with a determinable useful life will continue to be amortized over that period. The amortization provisions apply to goodwill and intangible assets acquired after June 30, 2001. SFAS No. 141, "Business Combinations," and SFAS No. 142 clarify that more assets should be distinguished and classified between tangible and intangible. The Company did not change or reclassify contractual mineral rights included in property, plant and equipment related to its natural gas and oil production business upon adoption of SFAS No. 142. The Company has included such mineral rights as part of property, plant

and equipment under the full-cost method of accounting for natural gas and oil properties. An issue has arisen within the natural gas and oil industry as to whether contractual mineral rights under SFAS No. 142 should be classified as intangible rather than as part of property, plant and equipment. This accounting matter is anticipated to be addressed by the FASB's Emerging Issues Task Force. The resolution of this matter may result in certain reclassifications of amounts in the Consolidated Balance Sheets, as well as changes to Notes to Consolidated Financial Statements in the future. The applicable provisions of SFAS No. 141 and SFAS No. 142 only affect the balance sheet and associated footnote disclosure, so any reclassifications that might be required in the future will not affect the Company's cash flows or results of operations. The Company believes that the resolution of this matter will not have a material effect on the Company's financial position because the mineral rights acquired by its natural gas and oil production business after the June 30, 2001, effective date of SFAS No. 142 were not material.

NOTE 4

Regulatory Assets and Liabilities

The following table summarizes the individual components of unamortized regulatory assets and liabilities as of December 31:

	2003	2002
	<i>(In thousands)</i>	
Regulatory assets:		
Deferred income taxes	\$ 29,850	\$ 27,378
Natural gas costs recoverable through rate adjustments	10,519	---
Long-term debt refinancing costs	4,519	5,627
Plant costs	2,697	2,330
Postretirement benefit costs	562	616
Other	7,159	4,788
Total regulatory assets	55,306	40,739
Regulatory liabilities:		
Plant removal and decommissioning costs	76,176	68,551
Reserves for regulatory matters	11,970	9,856
Taxes refundable to customers	11,751	11,699
Deferred income taxes	10,663	5,491
Natural gas costs refundable through rate adjustments	---	2,396
Other	658	2,779
Total regulatory liabilities	111,218	100,772
Net regulatory position	\$ (55,912)	\$ (60,033)

As of December 31, 2003, substantially all of the Company's regulatory assets, other than certain deferred income taxes, were being reflected in rates charged to customers and are being recovered over the next one to 19 years.

If, for any reason, the Company's regulated businesses cease to meet the criteria for application of SFAS No. 71 for all or part of their

operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statement of income as an extraordinary item in the period in which the discontinuance of SFAS No. 71 occurs.

NOTE 5

Derivative Instruments

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to offset the related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

SFAS No. 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivative instruments be reported in net income or other comprehensive income (loss), as appropriate, as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." On January 1, 2001, the Company reported a net-of-tax cumulative-effect adjustment of \$6.1 million in accumulated other comprehensive loss to recognize at fair value all derivative instruments that are designated as cash flow hedging instruments, which the Company reclassified into earnings during the year ended December 31, 2001. The transition to SFAS No. 133 did not have an effect on the Company's net income at adoption.

In the event a derivative instrument being accounted for as a cash flow hedge does not qualify for hedge accounting because it is no longer highly effective in offsetting changes in cash flows of a hedged item; or if the derivative instrument expires or is sold, terminated or exercised; or if management determines that designation of the derivative instrument as a hedge instrument is no longer appropriate, hedge accounting will be discontinued, and the derivative instrument would continue to be carried at fair value with changes in its fair value recognized in earnings. In these circumstances, the net gain or loss at the time of discontinuance of hedge accounting would remain in accumulated other comprehensive income (loss) until the period or periods during which the hedged forecasted transaction affects earnings, at which time the net gain or loss would be reclassified into earnings. In the event a cash flow hedge is discontinued because it is unlikely that a forecasted transaction will occur, the derivative instrument would continue to be carried on the balance sheet at its fair value, and gains and losses that had accumulated in other comprehensive income (loss) would be recognized immediately in earnings. In the event of a

sale, termination or extinguishment of a foreign currency derivative, the resulting gain or loss would be recognized immediately in earnings. The Company's policy requires approval to terminate a derivative instrument prior to its original maturity.

As of December 31, 2003, an indirect wholly owned subsidiary of the Company held derivative instruments designated as cash flow hedging instruments.

Hedging activities

The subsidiary of the Company utilizes natural gas and oil price swap and collar agreements to manage a portion of the market risk associated with fluctuations in the price of natural gas and oil on the subsidiary's forecasted sales of natural gas and oil production. Each of the natural gas and oil price swap and collar agreements was designated as a hedge of the forecasted sale of natural gas and oil production.

On an ongoing basis, the balance sheet is adjusted to reflect the current fair market value of the swap and collar agreements. The related gains or losses on these agreements are recorded in common stockholders' equity as a component of other comprehensive income (loss). At the date the underlying transaction occurs, the amounts accumulated in other comprehensive income (loss) are reported in the Consolidated Statements of Income. To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value is recorded directly in earnings.

For the years ended December 31, 2003, 2002 and 2001, the subsidiary of the Company recognized the ineffectiveness of cash flow hedges, which is included in operating revenues for the natural gas and oil price swap and collar agreements. For the years ended December 31, 2003, 2002 and 2001, the amount of hedge ineffectiveness recognized was immaterial. For the years ended December 31, 2003, 2002 and 2001, the subsidiary did not exclude any components of the derivative instruments' gain or loss from the assessment of hedge effectiveness and there were no reclassifications into earnings as a result of the discontinuance of hedges.

Gains and losses on derivative instruments that are reclassified from accumulated other comprehensive income (loss) to current-period earnings are included in the line item in which the hedged item is recorded. As of December 31, 2003, the maximum term of the subsidiary's swap and collar agreements, in which the subsidiary of the Company is hedging its exposure to the variability in future cash flows for forecasted transactions, is 12 months. The subsidiary of the Company estimates that over the next 12 months net losses of approximately \$3.3 million will be reclassified from accumulated other comprehensive income (loss) into earnings, subject to changes in natural gas and oil market prices, as the hedged transactions affect earnings.

Foreign currency derivative

MDU Brasil has a 49 percent equity investment in the Brazil Generating Facility, which has a portion of its borrowings and payables denominated

in U.S. dollars. MDU Brasil has exposure to currency exchange risk as a result of fluctuations in currency exchange rates between the U.S. dollar and the Brazilian real. On August 12, 2002, MDU Brasil entered into a foreign currency collar agreement for a notional amount of \$21.3 million with a fixed price floor of R\$3.10 and a fixed price ceiling of R\$3.40 to manage a portion of its foreign currency risk. The term of the collar agreement was from August 12, 2002, through February 3, 2003, and the collar agreement settled on February 3, 2003. The foreign currency collar agreement was not designated as a hedge and was recorded at fair value on the Consolidated Balance Sheets. Gains or losses on this derivative instrument were recorded in other income - net. The Company recorded a gain of \$39,000 (after tax) on the foreign currency collar agreement for the year ended December 31, 2003, and a gain of \$566,000 (after tax) for the year ended December 31, 2002.

Energy marketing

The Company had entered into other derivative instruments that were not designated as hedges in its energy marketing operations. In the third quarter of 2001, the Company sold the vast majority of its energy marketing operations. Net unrealized gains and losses on these derivative instruments were not material for the year ended December 31, 2001.

NOTE 6

Fair Value of Other Financial Instruments

The estimated fair value of the Company's long-term debt and preferred stock subject to mandatory redemption is based on quoted market prices of the same or similar issues. As discussed in Note 1, the Company, upon adoption of SFAS No. 150 in 2003, began reporting its preferred stock subject to mandatory redemption as a liability. The estimated fair values of the Company's natural gas and oil price swap and collar agreements were included in current liabilities at December 31, 2003 and 2002. The estimated fair value of the Company's foreign currency collar agreement was included in current assets at December 31, 2002. The estimated fair values of the Company's natural gas and oil price swap and collar agreements and foreign currency collar agreement reflect the estimated amounts the Company would receive or pay to terminate the contracts at the reporting date based upon quoted market prices of comparable contracts.

The estimated fair value of the Company's long-term debt, preferred stock subject to mandatory redemption, natural gas and oil price swap and collar agreements and foreign currency collar agreement at December 31 was as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		<i>(In thousands)</i>		
Long-term debt	\$967,096	\$1,012,547	\$841,641	\$888,066
Preferred stock subject to mandatory redemption	\$ ---	\$ ---	\$ 1,300	\$ 1,168
Natural gas and oil price swap and collar agreements	\$ (5,467)	\$ (5,467)	\$ (7,444)	\$ (7,444)
Foreign currency collar agreement	\$ ---	\$ ---	\$ 903	\$ 903

The carrying amounts of the Company's remaining financial instruments included in current assets and current liabilities (excluding unsettled derivative instruments) approximate their fair values because of their short-term nature.

NOTE 7

Short-term Borrowings

MDU Resources Group, Inc.

At December 31, 2002, \$8.0 million of MDU Resources Group, Inc. (MDU Resources) commercial paper program borrowings were classified as short-term borrowings. The commercial paper borrowings classified as short term were supported by short-term bank lines of credit. There were no amounts outstanding under the bank lines of credit at December 31, 2002. MDU Resources did not have any short-term bank lines of credit at December 31, 2003. For more information on MDU Resources' commercial paper program, see Note 8.

International operations

A subsidiary of the Company had a short-term credit agreement that expired in 2003. Under this agreement \$12.0 million was outstanding at December 31, 2002.

NOTE 8**Long-term Debt and Indenture Provisions**

Long-term debt outstanding at December 31 was as follows:

	2003	2002
	<i>(In thousands)</i>	
First mortgage bonds and notes:		
Pollution Control Refunding Revenue Bonds, Series 1992, 6.65%, due June 1, 2022	\$ 20,850	\$ 20,850
Secured Medium-Term Notes, Series A at a weighted average rate of 7.59%, due on dates ranging from October 1, 2004 to April 1, 2012	110,000	110,000
Senior Notes, 5.98%, due December 15, 2033	30,000	---
Total first mortgage bonds and notes	160,850	130,850
Senior notes at a weighted average rate of 6.24%, due on dates ranging from October 30, 2004 to October 30, 2018	718,000	549,100
Commercial paper at a weighted average rate of 1.12%, supported by revolving credit agreements	72,500	151,900
Term credit agreements at a weighted average rate of 5.14%, due on dates ranging from July 15, 2004 to December 1, 2013	14,286	7,873
Pollution control note obligation, 6.20%, due March 1, 2004	1,500	2,000
Discount	(40)	(82)
Total long-term debt	967,096	841,641
Less current maturities	27,646	22,083
Net long-term debt	\$939,450	\$819,558

The amounts of scheduled long-term debt maturities for the five years and thereafter following December 31, 2003, aggregate \$27.6 million in 2004; \$70.9 million in 2005; \$173.2 million in 2006; \$105.8 million in 2007; \$160.2 million in 2008 and \$429.4 million thereafter.

Certain debt instruments of the Company and its subsidiaries, including those discussed below, contain restrictive covenants, all of which the Company and its subsidiaries were in compliance with at December 31, 2003.

MDU Resources Group, Inc.

MDU Resources has a revolving credit agreement with various banks totaling \$90 million at December 31, 2003. There were no amounts outstanding under the credit agreement at December 31, 2003 and 2002. The credit agreement supports MDU Resources' \$75 million commercial paper program. Under the MDU Resources' commercial paper program, \$40 million was outstanding at December 31, 2003, which was classified as

long-term debt, and \$58.0 million was outstanding at December 31, 2002, of which \$8.0 million was classified as short-term borrowings and \$50.0 million was classified as long-term debt. As discussed in Note 7, the commercial paper borrowings classified as short term were supported by short-term bank lines of credit. The commercial paper borrowings classified as long-term debt are intended to be refinanced on a long-term basis through continued MDU Resources commercial paper borrowings and as further supported by the credit agreement, which expires on July 18, 2006.

In order to borrow under the MDU Resources credit agreement, MDU Resources must be in compliance with the applicable covenants and certain other conditions. The significant covenants include maximum leverage ratios, minimum interest coverage ratio, limitation on sale of assets and limitation on investments. MDU Resources was in compliance with these covenants and met the required conditions at December 31, 2003.

There are no credit facilities that contain cross-default provisions between MDU Resources and any of its subsidiaries.

MDU Resources' issuance of first mortgage debt is subject to certain restrictions imposed under the terms and conditions of its Indenture of Mortgage. Generally, those restrictions require MDU Resources to pledge \$1.43 of unfunded property to the trustee for each dollar of indebtedness incurred under the Indenture and that annual earnings (pretax and before interest charges), as defined in the Indenture, equal at least two times its annualized first mortgage bond interest costs. Under the more restrictive of the two tests, as of December 31, 2003, MDU Resources could have issued approximately \$313 million of additional first mortgage bonds.

Approximately \$421.2 million of the Company's net electric and natural gas distribution properties at December 31, 2003, with certain exceptions, are subject to the lien of the Indenture of Mortgage dated May 1, 1939, as supplemented, amended and restated, from the Company to The Bank of New York and Douglas J. MacInnes, successor trustee, and are subject to the junior lien of the Indenture dated as of December 15, 2003, as supplemented, from the Company to The Bank of New York, as trustee.

Centennial Energy Holdings, Inc.

Centennial Energy Holdings, Inc. (Centennial) has two revolving credit agreements with various banks that support \$275 million of Centennial's \$350 million commercial paper program. There were no outstanding borrowings under the Centennial credit agreements at December 31, 2003 or 2002. Under the Centennial commercial paper program, \$32.5 million and \$101.9 million were outstanding at December 31, 2003 and 2002, respectively. The Centennial commercial paper borrowings are classified as long-term debt as Centennial intends to refinance these borrowings on a long-term basis through continued Centennial commercial paper borrowings and as further supported by the Centennial credit agreements. The Centennial credit

agreements are for \$137.5 million each. One of these agreements expires on September 3, 2004, and allows for subsequent borrowings up to a term of one year. The other agreement expires on September 5, 2006. Centennial intends to negotiate the extension or replacement of these agreements prior to their maturities.

Centennial has an uncommitted long-term master shelf agreement that allows for borrowings of up to \$400 million. Under the terms of the master shelf agreement, \$384.0 million was outstanding at December 31, 2003, and \$360.6 million was outstanding at December 31, 2002. The amount outstanding under the uncommitted long-term master shelf agreement is included in senior notes in the preceding long-term debt table.

In order to borrow under Centennial's credit agreements and the Centennial uncommitted long-term master shelf agreement, Centennial and certain of its subsidiaries must be in compliance with the applicable covenants and certain other conditions. The significant covenants include maximum capitalization ratios, minimum interest coverage ratios, minimum consolidated net worth, limitation on priority debt, limitation on sale of assets and limitation on loans and investments. Centennial and such subsidiaries were in compliance with these covenants and met the required conditions at December 31, 2003.

Certain of Centennial's financing agreements contain cross-default provisions. These provisions state that if Centennial or any subsidiary of Centennial fails to make any payment with respect to any indebtedness or contingent obligation, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, the applicable agreements, will be in default. Certain of Centennial's financing agreements and Centennial's practice limit the amount of subsidiary indebtedness.

Williston Basin Interstate Pipeline Company

Williston Basin Interstate Pipeline Company (Williston Basin), an indirect wholly owned subsidiary of the Company, has an uncommitted long-term master shelf agreement that allows for borrowings of up to \$100 million. Under the terms of the master shelf agreement, \$55.0 million and \$30.0 million was outstanding at December 31, 2003 and 2002, respectively.

In order to borrow under Williston Basin's uncommitted long-term master shelf agreement, it must be in compliance with the applicable covenants and certain other conditions. The significant covenants include limitation on consolidated indebtedness, limitation on priority debt, limitation on sale of assets and limitation on investments. Williston Basin was in compliance with these covenants and met the required conditions at December 31, 2003.

NOTE 9**Asset Retirement Obligations**

The Company adopted SFAS No. 143 on January 1, 2003, as discussed in Note 1. The Company recorded obligations related to the plugging and abandonment of natural gas and oil wells, decommissioning of certain electric generating facilities, reclamation of certain aggregate properties and certain other obligations associated with leased properties. Removal costs associated with certain natural gas distribution, transmission, storage and gathering facilities have not been recognized as these facilities have been determined to have indeterminate useful lives.

Upon adoption of SFAS No. 143, the Company recorded an additional discounted liability of \$22.5 million and a regulatory asset of \$493,000, increased net property, plant and equipment by \$9.6 million and recognized a one-time cumulative effect charge of \$7.6 million (net of deferred income tax benefits of \$4.8 million). The Company believes that any expenses under SFAS No. 143 as they relate to regulated operations will be recovered in rates over time and accordingly, deferred such expenses as a regulatory asset upon adoption. The Company will continue to defer those SFAS No. 143 expenses that it believes will be recovered in rates over time. In addition to the \$22.5 million liability recorded upon the adoption of SFAS No. 143, the Company had previously recorded a \$7.5 million liability related to retirement obligations.

A reconciliation of the Company's liability for the year ended December 31 was as follows:

	2003
	<i>(In thousands)</i>
Balance at January 1, 2003	\$29,997
Liabilities incurred	2,405
Liabilities acquired	1,803
Liabilities settled	(1,555)
Accretion expense	1,906
Revisions in estimates	77
<u>Balance at December 31, 2003</u>	<u>\$34,633</u>

This liability is included in other liabilities. If SFAS No. 143 had been in effect during 2002 and 2001, the Company's liability would have been approximately \$30.0 million at December 31, 2002, and \$27.0 million at December 31, 2001.

The fair value of assets that are legally restricted for purposes of settling asset retirement obligations at December 31, 2003, was \$5.1 million.

NOTE 10**Preferred Stocks**

Preferred stocks at December 31 were as follows:

	2003	2002
	<i>(Dollars in thousands)</i>	
Authorized:		
Preferred --		
500,000 shares, cumulative,		
par value \$100, issuable in series		
Preferred stock A --		
1,000,000 shares, cumulative, without par		
value, issuable in series (none outstanding)		
Preference --		
500,000 shares, cumulative, without par		
value, issuable in series (none outstanding)		
Outstanding:		
Subject to mandatory redemption --		
Preferred --		
5.10% Series - 13,000 shares in 2002	\$ ---	\$ 1,300
Other preferred stock --		
4.50% Series -- 100,000 shares	10,000	10,000
4.70% Series -- 50,000 shares	5,000	5,000
	15,000	15,000
Total preferred stocks	15,000	16,300
Less sinking fund requirements	---	100
Net preferred stocks	\$15,000	\$16,200

As discussed in Note 1, the Company upon adoption of SFAS No. 150 in 2003, began reporting its preferred stock subject to mandatory redemption as a liability. Restatement of prior year information is not permitted under SFAS No. 150.

The 4.50% Series and 4.70% Series preferred stocks outstanding are subject to redemption, in whole or in part, at the option of the Company with certain limitations on 30 days notice on any quarterly dividend date at a redemption price, plus accrued dividends, of \$105 and \$102, respectively.

In the event of a voluntary or involuntary liquidation, all preferred stock series holders are entitled to \$100 per share, plus accrued dividends.

The affirmative vote of two-thirds of a series of the Company's outstanding preferred stock is necessary for amendments to the Company's charter or by-laws that adversely affect that series; creation of or increase in the amount of authorized stock ranking senior to that series (or an affirmative majority vote where the authorization relates to a new class of stock that ranks on parity with such series); a voluntary liquidation or sale of substantially all of the Company's assets; a merger or consolidation, with certain exceptions; or the partial

retirement of that series of preferred stock when all dividends on that series of preferred stock have not been paid. The consent of the holders of a particular series is not required for such corporate actions if the equivalent vote of all outstanding series of preferred stock voting together has consented to the given action and no particular series is affected differently than any other series.

Subject to the foregoing, the holders of common stock exclusively possess all voting power. However, if cumulative dividends on preferred stock are in arrears, in whole or in part, for one year the holders of preferred stock would obtain the right to one vote per share until all dividends in arrears have been paid and current dividends have been declared and set aside.

NOTE 11

Common Stock

On August 14, 2003, the Company's Board of Directors approved a three-for-two common stock split to be effected in the form of a 50 percent common stock dividend. The additional shares of common stock were distributed on October 29, 2003, to common stockholders of record on October 10, 2003. Common stock information appearing in the accompanying consolidated financial statements has been restated to give retroactive effect to the stock split. Additionally, preference share purchase rights have been appropriately adjusted to reflect the effects of the split.

At the Annual Meeting of Stockholders held on April 23, 2002, the Company's common stockholders approved an amendment to the Certificate of Incorporation increasing the authorized number of common shares from 150 million shares to 250 million shares with a par value of \$1.00 per share.

The Company's Dividend Reinvestment and Direct Stock Purchase Plan (Stock Purchase Plan) provides interested investors the opportunity to make optional cash investments and to reinvest all or a percentage of their cash dividends in shares of the Company's common stock. The Company's 401(k) Retirement Plan (K-Plan) is partially funded with the Company's common stock. Since January 1, 2001, the Stock Purchase Plan and K-Plan, with respect to Company stock, have been funded by the purchase of shares of common stock on the open market. At December 31, 2003, there were 12.1 million shares of common stock reserved for original issuance under the Stock Purchase Plan and K-Plan.

In November 1998, the Company's Board of Directors declared, pursuant to a stockholders' rights plan, a dividend of one preference share purchase right (right) for each outstanding share of the Company's common stock. Each right becomes exercisable, upon the occurrence of certain events, for two-thirds of one one-thousandth of a share of Series B Preference Stock of the Company, without par value, at an exercise price of \$125, subject to certain adjustments. The rights are currently not exercisable and will be exercisable only if a person or group (acquiring person) either acquires ownership of 15 percent or more of the Company's common stock or commences a tender or exchange offer that would result

in ownership of 15 percent or more. In the event the Company is acquired in a merger or other business combination transaction or 50 percent or more of its consolidated assets or earnings power are sold, each right entitles the holder to receive, upon the exercise thereof at the then current exercise price of the right multiplied by the number of two-thirds of one one-thousandth of a Series B Preference Stock for which a right is then exercisable, in accordance with the terms of the rights agreement, such number of shares of common stock of the acquiring person having a market value of twice the then current exercise price of the right. The rights, which expire on December 31, 2008, are redeemable in whole, but not in part, for a price of \$.00667 per right, at the Company's option at any time until any acquiring person has acquired 15 percent or more of the Company's common stock.

NOTE 12

Stock-based Compensation

The Company has stock option plans for directors, key employees and employees. In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123 and began expensing the fair market value of stock options for all awards granted on or after January 1, 2003. As permitted by SFAS No. 148, the Company accounts for stock options granted prior to January 1, 2003, under APB Opinion No. 25.

For a discussion of the adoption of SFAS No. 123 and the effect on earnings and earnings per common share for the years ended December 31, 2003, 2002 and 2001, as if the Company had applied SFAS No. 123, and recognized compensation expense for all outstanding and unvested stock options based on the fair value at the date of grant, see Note 1.

Options granted to key employees automatically vest after nine years, but the plan provides for accelerated vesting based on the attainment of certain performance goals or upon a change in control of the Company, and expire 10 years after the date of grant. Options granted to directors and employees vest at date of grant and three years after date of grant, respectively, and expire 10 years after the date of grant.

A summary of the status of the stock option plans at December 31, 2003, 2002 and 2001, and changes during the years then ended was as follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of year	4,861,268	\$18.58	5,208,311	\$18.60	1,837,439	\$13.74
Granted	27,015	17.29	160,605	19.15	4,039,680	20.09
Forfeited	(188,486)	20.05	(453,840)	19.77	(111,423)	18.16
Exercised	(517,341)	13.88	(53,808)	12.20	(557,385)	13.49
Balance at end of year	4,182,456	19.09	4,861,268	18.58	5,208,311	18.60
Exercisable at end of year	611,404	\$15.06	1,135,050	\$14.56	1,155,213	\$14.27

Summarized information about stock options outstanding and exercisable as of December 31, 2003, was as follows:

Range of Exercisable Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 8.22 - 13.00	23,451	2.5	\$ 9.77	23,451	\$ 9.77
13.01 - 17.00	647,085	4.3	14.13	511,453	14.15
17.01 - 21.00	3,302,115	7.2	19.77	36,000	19.54
21.01 - 25.70	209,805	7.2	24.56	40,500	25.70
Balance at end of year	4,182,456	6.7	19.09	611,404	15.06

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options granted and the assumptions used to estimate the fair value of options were as follows:

	2003	2002	2001
Weighted average fair value of options at grant date	\$4.67	\$5.38	\$4.92
Weighted average risk-free interest rate	3.91%	5.14%	5.19%
Weighted average expected price volatility	32.28%	30.80%	26.05%
Weighted average expected dividend yield	3.43%	3.43%	3.53%
Expected life in years	7	7	7

In addition, the Company granted restricted stock awards under a long-term incentive plan and deferred compensation agreements totaling 525,588 shares in 2001. The restricted stock awards granted vest to the participants at various times ranging from two years to nine years from date of issuance, but certain grants may vest early based upon the attainment of certain performance goals or upon a change in control of the Company. The weighted average grant date fair value of the restricted stock grant in 2001 was \$21.03. The Company also has granted stock awards totaling 31,855 shares, 21,390 shares and 19,009 shares in 2003, 2002 and 2001, respectively, under a nonemployee director stock compensation plan. The weighted average grant date fair value of the stock grants was \$21.40, \$19.20 and \$20.09, in 2003, 2002 and 2001, respectively. Nonemployee directors may receive shares of common stock instead of cash in payment for directors' fees under the nonemployee director stock compensation plan. Compensation expense recognized for restricted stock grants and stock grants was \$4.8 million, \$5.2 million and \$4.9 million in 2003, 2002 and 2001, respectively.

In 2003, key employees of the Company were awarded performance share awards. Entitlement to performance shares is based on the Company's total shareholder return over designated performance periods as measured

against a selected peer group. Target grants of performance shares were made for the following performance periods:

Grant Date	Performance Period	Target Grant of Shares
February 2003	2003-2004	57,655
February 2003	2003-2005	57,655

Participants may earn additional performance shares if the Company's total shareholder return exceeds that of the selected peer group. The final value of the performance units may vary according to the number of shares of Company stock that are ultimately granted based on the performance criteria. Compensation expense recognized for the performance share awards for the year ended December 31, 2003, was \$879,000.

The Company is authorized to grant options, restricted stock and stock for up to 14.3 million shares of common stock and has granted options, restricted stock and stock on 6.2 million shares through December 31, 2003.

NOTE 13

Income Taxes

Income tax expense for the years ended December 31 was as follows:

	2003	2002	2001
	<i>(In thousands)</i>		
Current:			
Federal	\$26,313	\$46,389	\$66,211
State	7,408	9,082	11,160
Foreign	264	---	(44)
	<u>33,985</u>	<u>55,471</u>	<u>77,327</u>
Deferred:			
Income taxes --			
Federal	55,660	26,373	16,972
State	9,861	4,632	4,773
Foreign	(338)	338	---
Investment tax credit	(596)	(584)	(731)
	<u>64,587</u>	<u>30,759</u>	<u>21,014</u>
Total income tax expense	<u>\$98,572</u>	<u>\$86,230</u>	<u>\$98,341</u>

Components of deferred tax assets and deferred tax liabilities recognized at December 31 were as follows:

	2003	2002
	<i>(In thousands)</i>	
Deferred tax assets:		
Regulatory matters	\$ 37,072	\$ 34,792
Accrued pension costs	12,122	12,112
Deferred compensation	9,090	6,395
Asset retirement obligations	7,017	263
Bad debts	3,188	2,798
Deferred investment tax credit	954	1,185
Other	21,269	18,444
<u>Total deferred tax assets</u>	<u>90,712</u>	<u>75,989</u>
Deferred tax liabilities:		
Depreciation and basis differences on property, plant and equipment	406,589	354,842
Basis differences on natural gas and oil producing properties	105,826	70,464
Regulatory matters	10,663	5,491
Other	9,309	10,412
<u>Total deferred tax liabilities</u>	<u>532,387</u>	<u>441,209</u>
<u>Net deferred income tax liability</u>	<u>\$ (441,675)</u>	<u>\$ (365,220)</u>

As of December 31, 2003 and 2002, no valuation allowance has been recorded associated with the above deferred tax assets.

The following table reconciles the change in the net deferred income tax liability from December 31, 2002, to December 31, 2003, to deferred income tax expense:

	2003
	<i>(In thousands)</i>
Net change in deferred income tax liability from the preceding table	\$ 76,455
Deferred taxes associated with acquisitions	(15,056)
Deferred taxes associated with the cumulative effect of accounting change	4,821
Deferred taxes associated with other comprehensive income	(809)
Other	(824)
<u>Deferred income tax expense for the period</u>	<u>\$ 64,587</u>

Total income tax expense differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for this difference were as follows:

Years ended December 31,	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
<i>(Dollars in thousands)</i>						
Computed tax at federal statutory rate	\$98,520	35.0	\$82,136	35.0	\$88,966	35.0
Increases (reductions) resulting from:						
State income taxes, net of federal income tax benefit	11,857	4.2	10,279	4.4	11,311	4.5
Investment tax credit amortization	(596)	(.2)	(584)	(.3)	(731)	(.3)
Depletion allowance	(3,117)	(1.1)	(2,200)	(.9)	(1,820)	(.7)
Renewable electricity production credit	(3,395)	(1.2)	---	---	---	---
Other items	(4,697)	(1.7)	(3,401)	(1.5)	615	.2
Total income tax expense	\$98,572	35.0	\$86,230	36.7	\$98,341	38.7

The Company considers earnings from its foreign equity method investment in a natural gas-fired electric generating facility in Brazil to be reinvested indefinitely outside of the United States and, accordingly, no U.S. deferred income taxes are recorded with respect to such earnings. Should the earnings be remitted as dividends, the Company may be subject to additional U.S. taxes, net of allowable foreign tax credits.

NOTE 14

Business Segment Data

The Company's reportable segments are those that are based on the Company's method of internal reporting, which generally segregates the strategic business units due to differences in products, services and regulation. The Company has six reportable segments consisting of electric, natural gas distribution, utility services, pipeline and energy services, natural gas and oil production, and construction materials and mining. During the fourth quarter of 2002, the Company separated independent power production and other operations from its reportable segments. The independent power production and other operations do not individually meet the criteria to be considered a reportable segment. Substantially all of the operations of independent power production and other began in 2002; therefore, financial information for years prior to 2002 has not been presented.

The vast majority of the Company's operations are located within the United States. The Company also has investments in foreign countries, which largely consist of an investment in a natural gas-fired electric generating facility in Brazil, as discussed in Note 2. The electric segment generates, transmits and distributes electricity, and the natural gas distribution segment distributes natural gas. These operations also supply related value-added products and services in the

northern Great Plains. The utility services segment specializes in electrical line construction, pipeline construction, inside electrical wiring and cabling and the manufacture and distribution of specialty equipment. The pipeline and energy services segment provides natural gas transportation, underground storage and gathering services through regulated and nonregulated pipeline systems primarily in the Rocky Mountain and northern Great Plains regions of the United States. The pipeline and energy services segment also provides energy-related management services, including cable and pipeline magnetization and locating. The natural gas and oil production segment is engaged in natural gas and oil acquisition, exploration and production activities, primarily in the Rocky Mountain region of the United States and in and around the Gulf of Mexico. The construction materials and mining segment mines aggregates and markets crushed stone, sand, gravel and related construction materials, including ready-mixed concrete, cement, asphalt and other value-added products, as well as performs integrated construction services, in the central and western United States and in the states of Alaska and Hawaii. The independent power production and other operations own electric generating facilities in the United States and have an investment in an electric generating facility in Brazil. Electric capacity and energy produced at these facilities are primarily sold under long-term contracts to nonaffiliated entities. These operations also include investments in opportunities that are not directly being pursued by the Company's other businesses.

In 2001, the Company sold its coal operations to Westmoreland Coal Company for \$28.2 million in cash and recorded a gain of \$10.3 million (\$6.2 million after tax) included in other income - net. The sale of the Company's coal operations included active coal mines in North Dakota and Montana, coal sales agreements, reserves and mining equipment, and certain development rights at the Company's former Gascoyne Mine site in North Dakota. The Company retained ownership of lignite deposits and leases at its former Gascoyne Mine site in North Dakota, which were not part of the sale of the coal operations. The Gascoyne Mine site was closed in 1995 due to the cancellation of the coal sale contract. These lignite deposits are currently not being mined and are not associated with an operating mine. These lignite deposits are of a high moisture content and it is not economical to mine and ship the lignite to other distant markets. However, should a power plant be constructed near the area, the Company may have the opportunity to participate in supplying lignite to fuel a plant. As of December 31, 2003, Knife River had under ownership or lease, deposits of approximately 26.9 million tons of recoverable lignite coal.

The information below follows the same accounting policies as described in the Summary of Significant Accounting Policies. Information on the Company's businesses as of December 31 and for the years then ended was as follows:

	2003	2002	2001
	(In thousands)		
External operating revenues:			
Electric	\$ 178,562	\$ 162,616	\$ 168,837
Natural gas distribution	274,608	186,569	255,389
Pipeline and energy services	187,892	110,224	479,108
	<u>641,062</u>	<u>459,409</u>	<u>903,334</u>
Utility services	434,177	458,660	364,746
Natural gas and oil production	140,281	148,158	148,653
Construction materials and mining	1,104,408	962,312	806,899 (a)
Independent power production and other	32,261	2,998	---
	<u>1,711,127</u>	<u>1,572,128</u>	<u>1,320,298</u>
Total external operating revenues	\$ 2,352,189	\$ 2,031,537	\$ 2,223,632
Intersegment operating revenues:			
Electric	\$ ---	\$ ---	\$ ---
Natural gas distribution	---	---	---
Utility services	---	---	4
Pipeline and energy services	64,300	55,034	52,006
Natural gas and oil production	124,077	55,437	61,178
Construction materials and mining	---	---	---
Independent power production and other	2,728	3,778	---
Intersegment eliminations	(191,105)	(114,249)	(113,188)
Total intersegment operating revenues	\$ ---	\$ ---	\$ ---
Depreciation, depletion and amortization:			
Electric	\$ 20,150	\$ 19,537	\$ 19,488
Natural gas distribution	10,044	9,940	9,337
Utility services	10,353	9,871	8,395
Pipeline and energy services	15,016	14,846	14,341
Natural gas and oil production	61,019	48,714	41,690
Construction materials and mining	63,601	54,334	46,666
Independent power production and other	8,154	719	---
Total depreciation, depletion and amortization	\$ 188,337	\$ 157,961	\$ 139,917
Interest expense:			
Electric	\$ 8,013	\$ 7,621	\$ 8,531
Natural gas distribution	3,936	4,364	3,727
Utility services	3,668	3,568	3,807
Pipeline and energy services	7,952	7,670	9,136
Natural gas and oil production	4,767	2,464	1,359
Construction materials and mining	18,747	18,422	19,339
Independent power production and other	5,865	1,122	---
Intersegment eliminations	(154)	(216)	---
Total interest expense	\$ 52,794	\$ 45,015	\$ 45,899

	2003	2002	2001
	(In thousands)		
Income taxes:			
Electric	\$ 9,862	\$ 9,501	\$ 10,511
Natural gas distribution	1,823	(1,325)	1,067
Utility services	3,905	4,781	9,131
Pipeline and energy services	11,188	12,462	11,633
Natural gas and oil production	42,993	30,604	40,486
Construction materials and mining	28,168	29,415	25,513
Independent power production and other	633	792	---
Total income taxes	\$ 98,572	\$ 86,230	\$ 98,341
Cumulative effect of accounting change (Note 9):			
Electric	\$ ---	\$ ---	\$ ---
Natural gas distribution	---	---	---
Utility services	---	---	---
Pipeline and energy services	---	---	---
Natural gas and oil production	(7,740)	---	---
Construction materials and mining	151	---	---
Independent power production and other	---	---	---
Total cumulative effect of accounting change	\$ (7,589)	\$ ---	\$ ---
Earnings on common stock:			
Electric	\$ 16,950	\$ 15,780	\$ 18,717
Natural gas distribution	3,869	3,587	677
Utility services	6,170	6,371	12,910
Pipeline and energy services	18,158	19,097	16,406
Natural gas and oil production	63,027	53,192	63,178
Construction materials and mining	54,412	48,702	43,199
Independent power production and other	12,021	959	---
Total earnings on common stock	\$ 174,607	\$ 147,688	\$ 155,087
Capital expenditures:			
Electric	\$ 28,537	\$ 27,795	\$ 14,373
Natural gas distribution	15,672	11,044	14,685
Utility services	7,820	17,242	70,232
Pipeline and energy services	93,004	21,449	51,054
Natural gas and oil production	101,698	136,424	118,719
Construction materials and mining	128,487	106,893	170,585
Independent power production and other	112,858	95,748	---
Net proceeds from sale or disposition of property	(14,439)	(16,217)	(51,641)
Total net capital expenditures	\$ 473,637	\$ 400,378	\$ 388,007

	2003	2002	2001
	(In thousands)		
Identifiable assets:			
Electric (b)	\$ 327,899	\$ 322,475	\$ 301,982
Natural gas distribution (b)	234,948	208,502	217,402
Utility services	221,824	230,888	239,069
Pipeline and energy services	405,904	312,858	354,336
Natural gas and oil production	602,389	554,420	476,105
Construction materials and mining	1,248,607	1,137,697	1,035,929
Independent power production and other	263,941	148,770	---
Corporate assets (c)	75,080	81,311	51,155
Total identifiable assets	\$3,380,592	\$2,996,921	\$2,675,978

Property, plant and equipment:			
Electric (b)	\$ 639,893	\$ 619,230	\$ 597,080
Natural gas distribution (b)	252,591	244,930	235,771
Utility services	76,871	70,660	59,190
Pipeline and energy services	461,793	372,420	369,775
Natural gas and oil production	871,357	755,788	630,826
Construction materials and mining	893,980	804,255	711,410
Independent power production and other	201,134	94,525	---
Less accumulated depreciation, depletion and amortization	1,175,326	1,019,438	889,816
Net property, plant and equipment	\$2,222,293	\$1,942,370	\$1,714,236

(a) In accordance with the provision of SFAS No. 71, intercompany coal sales of \$5,016 in 2001 were not eliminated.

(b) Includes allocations of common utility property.

(c) Corporate assets consist of assets not directly assignable to a business (i.e., cash and cash equivalents, certain accounts receivable and other miscellaneous current and deferred assets).

Earnings from electric, natural gas distribution and pipeline and energy services are substantially all from regulated operations. Earnings from utility services, natural gas and oil production, construction materials and mining, and independent power production and other are all from nonregulated operations. Capital expenditures for 2003, 2002 and 2001, related to acquisitions, in the preceding table included the following noncash transactions: issuance of the Company's equity securities of \$42.4 million, \$47.2 million and \$57.4 million in 2003, 2002 and 2001, respectively.

NOTE 15

Acquisitions

In 2003, the Company acquired a number of businesses, none of which was individually material, including construction materials and mining businesses in Montana, North Dakota and Texas and a wind-powered electric generation facility in California. The total purchase consideration for these businesses and adjustments with respect to certain other acquisitions acquired in 2002, including the Company's common stock and cash, was \$175.0 million.

In 2002, the Company acquired a number of businesses, none of which was individually material, including utility services companies in California and Ohio, construction materials and mining businesses in Minnesota and Montana, an energy development company in Montana and natural gas-fired electric generating facilities in Colorado. The total purchase consideration for these businesses, consisting of the Company's common stock and cash, was \$139.8 million.

In 2001, the Company acquired a number of businesses, none of which was individually material, including construction materials and mining businesses in Hawaii, Minnesota and Oregon; utility services businesses based in Missouri and Oregon; and an energy services company specializing in cable and pipeline locating and tracking systems. The total purchase consideration for these businesses, consisting of the Company's common stock and cash, was \$170.1 million.

On April 1, 2000, Fidelity Exploration & Production Company (Fidelity), an indirect wholly owned subsidiary of the Company, purchased substantially all of the assets of Preston Reynolds & Co., Inc. (Preston), a coalbed natural gas development operation based in Colorado with related oil and gas leases and properties in Montana and Wyoming. Pursuant to the asset purchase and sale agreement, Preston could, but was not obligated to purchase, acquire and own an undivided 25 percent working interest (Seller's Option Interest) in certain oil and gas leases or properties acquired and/or generated by Fidelity. Fidelity had the right, but not the obligation, to purchase Seller's Option Interest from Preston for an amount as specified in the agreement. On July 10, 2002, Fidelity purchased the Seller's Option Interest.

The above acquisitions were accounted for under the purchase method of accounting and, accordingly, the acquired assets and liabilities assumed have been preliminarily recorded at their respective fair values as of the date of acquisition. Final fair market values are pending the completion of the review of the relevant assets, liabilities and issues identified as of the acquisition date on certain of the above acquisitions made in 2003. The results of operations of the acquired businesses are included in the financial statements since the date of each acquisition. Pro forma financial amounts reflecting the effects of the above acquisitions are not presented, as such acquisitions were not material to the Company's financial position or results of operations.

NOTE 16**Employee Benefit Plans**

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. The Company uses a measurement date of December 31 for all of its pension and postretirement benefit plans. These financial statements and this Note do not reflect the effects of the 2003 Medicare Act on the postretirement benefit plans. For more information on the 2003 Medicare Act, see new accounting standards in Note 1. Changes in benefit obligation and plan assets for the years ended December 31 and amounts recognized in the Consolidated Balance Sheets at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 224,766	\$ 204,046	\$ 74,917	\$ 67,019
Service cost	5,897	5,135	1,857	1,460
Interest cost	15,211	14,877	5,281	4,915
Plan participants' contributions	---	---	977	834
Amendments	210	372	754	---
Actuarial loss	27,701	12,324	10,338	5,678
Benefits paid	(12,450)	(11,988)	(5,743)	(4,989)
Benefit obligation at end of year	261,335	224,766	88,381	74,917
Change in plan assets:				
Fair value of plan assets at beginning of year	189,143	224,667	40,889	45,175
Actual gain (loss) on plan assets	43,087	(26,543)	6,148	(4,196)
Employer contribution	3,263	3,007	4,963	4,065
Plan participants' contributions	---	---	977	834
Benefits paid	(12,450)	(11,988)	(5,743)	(4,989)
Fair value of plan assets at end of year	223,043	189,143	47,234	40,889
Funded status - over (under)	(38,292)	(35,623)	(41,147)	(34,028)
Unrecognized actuarial loss	41,422	35,662	11,862	3,484
Unrecognized prior service cost	8,556	9,501	706	---
Unrecognized net transition obligation (asset)	(297)	(1,247)	19,362	21,513
Prepaid (accrued) benefit cost	\$ 11,389	\$ 8,293	\$ (9,217)	\$ (9,031)
Amounts recognized in the Consolidated Balance Sheets at December 31:				
Prepaid benefit cost	\$ 19,671	\$ 16,175	\$ 614	\$ 780
Accrued benefit liability	(8,282)	(7,882)	(9,831)	(9,811)
Additional minimum liability	---	(4,905)	---	---
Intangible asset	---	533	---	---
Accumulated other comprehensive loss	---	4,372	---	---
Net amount recognized	\$ 11,389	\$ 8,293	\$ (9,217)	\$ (9,031)

Employer contributions and benefits paid in the above table include only those amounts contributed directly to, or paid directly from, plan assets.

The accumulated benefit obligation for the defined benefit pension plans reflected above was \$212.0 million and \$186.4 million at December 31, 2003 and 2002, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets at December 31, 2003, were as follows:

	2003	2002
	(In thousands)	
Projected benefit obligation	\$38,845	\$32,768
Accumulated benefit obligation	\$28,840	\$24,656
Fair value of plan assets	\$24,508	\$20,615

Components of net periodic benefit cost (income) for the Company's pension and other postretirement benefit plans were as follows:

Years ended December 31,	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	2001
	(In thousands)					
Components of net periodic benefit cost:						
Service cost	\$ 5,897	\$ 5,135	\$ 4,716	\$ 1,857	\$ 1,460	\$ 1,376
Interest cost	15,211	14,877	14,498	5,281	4,915	4,691
Expected return on assets	(20,730)	(21,110)	(20,672)	(3,933)	(3,843)	(3,619)
Amortization of prior service cost	1,156	1,148	1,247	48	---	---
Recognized net actuarial gain	(417)	(1,855)	(2,687)	(255)	(566)	(930)
Settlement (gain) loss	---	---	(884)	---	---	15
Amortization of net transition obligation (asset)	(950)	(947)	(965)	2,151	2,151	2,227
Net periodic benefit cost (income)	167	(2,752)	(4,747)	5,149	4,117	3,760
Less amount capitalized	14	(352)	(391)	601	404	329
Net periodic benefit cost (income)	\$ 153	\$ (2,400)	\$ (4,356)	\$ 4,548	\$ 3,713	\$ 3,431

Weighted average assumptions used to determine benefit obligations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.00%	6.75%	6.00%	6.75%
Rate of compensation increase	4.70%	4.50%	4.50%	4.50%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	8.50%	8.50%	7.50%	7.50%
Rate of compensation increase	4.50%	5.00%	4.50%	5.00%

The expected rate of return on plan assets is based on the targeted asset allocation of 70 percent equity securities and 30 percent fixed income securities and the expected rate of return from these asset categories. The expected return on plan assets for other postretirement benefits reflects insurance-related investment costs.

Health care rate assumptions for the Company's other postretirement benefit plans as of December 31 were as follows:

	2003	2002
Health care trend rate assumed for next year	6.0%-9.5%	6.0%-11.0%
Health care cost trend rate - ultimate	5.0%-6.0%	5.0%-6.0%
Year in which ultimate trend rate achieved	1999-2012	1999-2011

The Company's other postretirement benefit plans include health care and life insurance benefits for certain employees. The plans underlying these benefits may require contributions by the employee depending on such employee's age and years of service at retirement or the date of retirement. The accounting for the health care plans anticipates future cost-sharing changes that are consistent with the Company's expressed intent to generally increase retiree contributions each year by the excess of the expected health care cost trend rate over 6 percent.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2003:

	1 Percentage Point Increase	1 Percentage Point Decrease
<i>(In thousands)</i>		
Effect on total of service and interest cost components	\$ 250	\$ (972)
Effect on postretirement benefit obligation	\$3,479	\$(9,554)

The Company's defined benefit pension plans asset allocation at December 31, 2003 and 2002, and weighted average targeted asset allocations at December 31, 2003, were as follows:

Asset Category	Percentage of Plan Assets		Weighted Average Targeted Asset Allocation Percentage
	2003	2002	2003
Equity securities	72%	56%	70%
Fixed income securities	25	40	30*
Other	3	4	---
Total	100%	100%	100%

**Includes target for both fixed income securities and other.*

The Company's pension assets are managed by nine outside investment managers. The Company's other postretirement assets are managed by one outside investment manager. The Company's investment policy with respect to pension and other postretirement assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses. The Company's policy guidelines allow for investment of funds in cash equivalents, fixed income securities and equity securities. The guidelines prohibit investment in commodities and future contracts, equity private placement, employer securities and leveraged or derivative securities. The guidelines also prohibit short selling and margin transactions. The Company's practice is to periodically review and rebalance asset categories based on its targeted asset allocation percentage policy.

The Company's other postretirement benefit plans asset allocation at December 31, 2003 and 2002, and weighted average targeted asset allocation at December 31, 2003, were as follows:

Asset Category	Percentage of Plan Assets		Weighted Average Targeted Asset Allocation Percentage
	2003	2002	2003
Equity securities	66%	50%	70%
Fixed income securities	30	45	30*
Other	4	5	---
Total	100%	100%	100%

**Includes target for both fixed income securities and other.*

The Company expects to contribute approximately \$1.6 million to its defined benefit pension plans and approximately \$5.0 million to its postretirement benefit plans in 2004.

In addition to company-sponsored plans, certain employees are covered under multi-employer defined benefit plans administered by a union.

Amounts contributed to the multi-employer plans were \$27.2 million, \$27.8 million and \$19.9 million in 2003, 2002 and 2001, respectively.

In addition to the qualified plan defined pension benefits reflected in the table at the beginning of Note 16, the Company also has an unfunded, nonqualified benefit plan for executive officers and certain key management employees that provides for defined benefit payments upon the employee's retirement or to their beneficiaries upon death for a 15-year period or as an equivalent life annuity. Investments consist of life insurance carried on plan participants, which is payable to the Company upon the employee's death. The cost of these benefits was \$5.3 million, \$5.1 million and \$4.3 million in 2003, 2002 and 2001, respectively. The total projected obligation for this plan was \$51.1 million and \$40.5 million at December 31, 2003 and 2002, respectively. The accumulated benefit obligation for this plan was \$40.7 million and \$33.3 million at December 31, 2003 and 2002, respectively. The additional minimum liability relating to this plan was \$8.2 million and \$4.0 million at December 31, 2003 and 2002, respectively. The Company has a related intangible asset recognized as of December 31, 2003 and 2002, of \$1.0 million and \$1.1 million, respectively. A discount rate of 6.0 percent and 6.75 percent at December 31, 2003 and 2002, respectively, and a rate of compensation increase of 4.75 percent and 4.50 percent at December 31, 2003 and 2002, respectively, were used to determine benefit obligations.

A discount rate of 6.75 percent and 7.25 percent at December 31, 2003 and 2002, respectively, and a rate of compensation increase of 4.50 percent and 5.00 percent at December 31, 2003 and 2002, respectively, were used to determine net periodic benefit cost. The increase in minimum liability included in other comprehensive income was \$2.6 million in 2003 and \$1.8 million in 2002.

The Company sponsors various defined contribution plans for eligible employees. Costs incurred by the Company under these plans were \$9.8 million in 2003, \$9.6 million in 2002 and \$7.2 million in 2001. The costs incurred in each year reflect additional participants as a result of business acquisitions.

NOTE 17

Jointly Owned Facilities

The consolidated financial statements include the Company's 22.7 percent and 25.0 percent ownership interests in the assets, liabilities and expenses of the Big Stone Station and the Coyote Station, respectively. Each owner of the Big Stone and Coyote stations is responsible for financing its investment in the jointly owned facilities.

The Company's share of the Big Stone Station and Coyote Station operating expenses was reflected in the appropriate categories of operating expenses in the Consolidated Statements of Income.

At December 31, the Company's share of the cost of utility plant in service and related accumulated depreciation for the stations was as follows:

	2003	2002
	<i>(In thousands)</i>	
Big Stone Station:		
Utility plant in service	\$ 52,154	\$ 53,018
Less accumulated depreciation	34,993	34,456
	<u>\$ 17,161</u>	<u>\$ 18,562</u>
Coyote Station:		
Utility plant in service	\$124,086	\$122,476
Less accumulated depreciation	72,850	70,778
	<u>\$ 51,236</u>	<u>\$ 51,698</u>

NOTE 18

Regulatory Matters and Revenues Subject To Refund

On May 30, 2003, Montana-Dakota Utilities Co. (Montana-Dakota), a public utility division of MDU Resources, filed an application with the North Dakota Public Service Commission (NDPSC) for an electric rate increase. Montana-Dakota requested a total of \$7.8 million annually or 9.1 percent above current rates. On July 23, 2003, Montana-Dakota and the NDPSC Staff filed a Settlement Agreement with the NDPSC agreeing on the issues of rate of return, capital structure and cost of capital components. On October 22, 2003, the NDPSC approved the Settlement Agreement. On November 19, 2003, Montana-Dakota and the NDPSC Staff filed an additional Settlement Agreement to resolve all remaining outstanding issues with the NDPSC. This Settlement Agreement reflected an increase of \$1.0 million annually and a sharing mechanism between Montana-Dakota and retail customers of wholesale electric sales margins. On December 18, 2003, the NDPSC approved the November 2003 Settlement Agreement and required Montana-Dakota to file a compliance filing with the NDPSC. On January 14, 2004, the NDPSC approved Montana-Dakota's compliance filing, which was filed on January 7, 2004, with rates effective with service rendered on and after January 23, 2004.

In December 2002, Montana-Dakota filed an application with the South Dakota Public Utilities Commission (SDPUC) for a natural gas rate increase. Montana-Dakota requested a total of \$2.2 million annually or 5.8 percent above current rates. On October 27, 2003, Montana-Dakota and the SDPUC Staff filed a Settlement Stipulation with the SDPUC agreeing to an increase of \$1.3 million annually. On December 2, 2003, the SDPUC approved the Settlement Stipulation effective with service rendered on and after December 2, 2003.

In October 2002, Great Plains Natural Gas Co. (Great Plains), a public utility division of MDU Resources, filed an application with the Minnesota Public Utilities Commission (MPUC) for a natural gas rate increase. Great Plains requested a total of \$1.6 million annually or 6.9 percent above current rates. In December 2002, the MPUC issued an Order setting interim rates that approved an interim increase of \$1.4 million annually effective December 6, 2002. Great Plains began collecting such rates effective December 6, 2002, subject to refund

until the MPUC issued a final order. On October 9, 2003, the MPUC issued a Final Order authorizing an increase of \$1.1 million annually and requiring Great Plains to file a compliance filing with the MPUC. On January 16, 2004, the MPUC issued an Order accepting Great Plains' compliance filing, which was filed on November 10, 2003, effective with service rendered on and after January 16, 2004.

Reserves have been provided for a portion of the revenues that have been collected subject to refund for certain of the above proceedings. The Company believes that such reserves are adequate based on its assessment of the ultimate outcome of the proceedings.

In December 1999, Williston Basin filed a general natural gas rate change application with the FERC. Williston Basin began collecting such rates effective June 1, 2000, subject to refund. In May 2001, the Administrative Law Judge (ALJ) issued an Initial Decision on Williston Basin's natural gas rate change application. The Initial Decision addressed numerous issues relating to the rate change application, including matters relating to allowable levels of rate base, return on common equity, and cost of service, as well as volumes established for purposes of cost recovery, and cost allocation and rate design. On July 3, 2003, the FERC issued its Order on Initial Decision. The Order on Initial Decision affirmed the ALJ's Initial Decision on many of the issues including rate base and certain cost of service items as well as volumes to be used for purposes of cost recovery, and cost allocation and rate design. However, there are other issues as to which the FERC differed with the ALJ including return on common equity and the correct level of corporate overhead expense. On August 4, 2003, Williston Basin requested a rehearing of a number of issues including determinations associated with cost of service, throughput, and cost allocation and rate design, as discussed in the FERC's Order on Initial Decision. On September 3, 2003, the FERC issued an Order granting Williston Basin's request for rehearing of the July 3, 2003, Order on Initial Decision. The Company is awaiting a decision from the FERC on the merits of the Company's rehearing request and is unable to predict the timing of the FERC's decision.

Reserves have been provided for a portion of the revenues that have been collected subject to refund with respect to Williston Basin's pending regulatory proceeding. Williston Basin believes that such reserves are adequate based on its assessment of the ultimate outcome of the proceeding.

NOTE 19

Commitments and Contingencies

Litigation

In January 2002, Fidelity Oil Co. (FOC), one of the Company's natural gas and oil production subsidiaries, entered into a compromise agreement with the former operator of certain of FOC's oil production properties in southeastern Montana. The compromise agreement resolved litigation involving the interpretation and application of contractual provisions regarding net proceeds interests paid by the former operator to FOC for a number of years prior to 1998. The terms of the compromise agreement

are confidential. As a result of the compromise agreement, the natural gas and oil production segment reflected a nonrecurring gain in its financial results for the first quarter of 2002 of approximately \$16.6 million after tax. As part of the settlement, FOC gave the former operator a full and complete release, and FOC is not asserting any such claim against the former operator for periods after 1997.

In June 1997, Jack J. Grynberg (Grynberg) filed a Federal False Claims Act suit against Williston Basin and Montana-Dakota and filed over 70 similar suits against natural gas transmission companies and producers, gatherers, and processors of natural gas. Grynberg, acting on behalf of the United States under the Federal False Claims Act, alleged improper measurement of the heating content and volume of natural gas purchased by the defendants resulting in the underpayment of royalties to the United States. In April 1999, the United States Department of Justice decided not to intervene in these cases. In response to a motion filed by Grynberg, the Judicial Panel on Multidistrict Litigation consolidated all of these cases in the Federal District Court of Wyoming.

The matter is currently in the discovery stage. Grynberg has not specified the amount he seeks to recover. Williston Basin and Montana-Dakota are unable to estimate their potential exposure and will be unable to do so until discovery is completed. Williston Basin and Montana-Dakota believe that the Grynberg case will ultimately be dismissed because Grynberg is not, as is required by the Federal False Claims Act, the original source of the information underlying the action. Failing this, Williston Basin and Montana-Dakota believe Grynberg will not recover damages from Williston Basin and Montana-Dakota because insufficient facts exist to support the allegations. Williston Basin and Montana-Dakota believe the claims of Grynberg are without merit and intend to vigorously contest this suit. Williston Basin and Montana-Dakota believe it is not probable that Grynberg will ultimately succeed given the current status of the litigation.

Fidelity has been named as a defendant in, and/or certain of its operations are the subject of, 11 lawsuits filed in connection with its coalbed natural gas development in the Powder River Basin in Montana and Wyoming. These lawsuits were filed in federal and state courts in Montana between June 2000 and December 2003 by a number of environmental organizations, including the Northern Plains Resource Council and the Montana Environmental Information Center as well as the Tongue River Water Users' Association and the Northern Cheyenne Tribe. Two of the lawsuits have been transferred to Federal District Court in Wyoming. The lawsuits involve allegations that Fidelity and/or various government agencies are in violation of state and/or federal law, including the Federal Clean Water Act and the National Environmental Policy Act. The lawsuits seek injunctive relief, invalidation of various permits and unspecified damages. Fidelity is unable to quantify the damages sought, and will be unable to do so until after completion of discovery. Fidelity is vigorously defending all coalbed-related lawsuits in which it is involved. If the plaintiffs are successful in these lawsuits, the ultimate outcome of the actions could have a material effect on Fidelity's existing coalbed natural gas operations

and/or the future development of its coalbed natural gas properties.

Montana-Dakota has joined with two electric generators in appealing a finding by the North Dakota Department of Health (Department) in September 2003 that the Department may unilaterally revise operating permits previously issued to electric generating plants. Although it is doubtful that any revision of Montana-Dakota's operating permits by the Department would reduce the amount of electricity its plants could generate, the finding, if allowed to stand, could increase costs for sulfur dioxide removal and/or limit Montana-Dakota's ability to modify or expand operations at its North Dakota generation sites. Montana-Dakota and the other electric generators filed their appeal of the order on October 8, 2003, in the Burleigh County District Court in Bismarck, North Dakota. Proceedings have been stayed pending discussions with the United States Environmental Protection Agency (EPA), the Department and the other electric generators.

In a related case, the Dakota Resource Council filed an action in Federal District Court in Denver, Colorado, on September 30, 2003, to require the EPA to enforce certain air quality standards in North Dakota. If successful, the action could require the curtailment of discharges of sulfur dioxide into the atmosphere by existing electric generating facilities and could preclude or hinder the construction of future generating facilities in North Dakota. The Company has filed a Motion to Intervene in the lawsuit and has joined in a brief supporting a Motion to Dismiss filed by the EPA.

The Company cannot predict the outcome of the Department or Dakota Resource Council matters or their ultimate impact on its operations.

The Company is also involved in other legal actions in the ordinary course of its business. Although the outcomes of any such legal actions cannot be predicted, management believes that the outcomes with respect to these other legal proceedings will not have a material adverse effect upon the Company's financial position or results of operations.

Environmental matters

In December 2000, Morse Bros., Inc. (MBI), an indirect wholly owned subsidiary of the Company, was named by the EPA as a Potentially Responsible Party in connection with the cleanup of a commercial property site, acquired by MBI in 1999, and part of the Portland, Oregon, Harbor Superfund Site. Sixty-eight other parties were also named in this administrative action. The EPA wants responsible parties to share in the cleanup of sediment contamination in the Willamette River. To date, costs of the overall remedial investigation of the harbor site for both the EPA and the Oregon State Department of Environmental Quality (DEQ) are being recorded, and initially paid, through an administrative consent order by the Lower Willamette Group (LWG), a group of 10 entities that does not include MBI. The LWG estimates the overall remedial investigation and feasibility study will cost approximately \$10 million. It is not possible to estimate the cost of a corrective action plan until the remedial investigation and feasibility study has been completed, the EPA has decided on a strategy,

and a record of decision has been published. While the remedial investigation and feasibility study for the harbor site has commenced, it is expected to take several years to complete. The development of a proposed plan and record of decision on the harbor site is not anticipated to occur until 2006, after which a cleanup plan will be undertaken.

Based upon a review of the Portland Harbor sediment contamination evaluation by the DEQ and other information available, MBI does not believe it is a Responsible Party. In addition, MBI has notified Georgia-Pacific West, Inc., the seller of the commercial property site to MBI, that it intends to seek indemnity for any and all liabilities incurred in relation to the above matters, pursuant to the terms of their sale agreement.

The Company believes it is not probable that it will incur any material environmental remediation costs or damages in relation to the above administrative action.

Operating leases

The Company leases certain equipment, facilities and land under operating lease agreements. The amounts of annual minimum lease payments due under these leases as of December 31, 2003, were \$18.1 million in 2004, \$12.4 million in 2005, \$8.7 million in 2006, \$5.1 million in 2007, \$3.9 million in 2008 and \$22.1 million thereafter. Rent expense was approximately \$27.2 million, \$26.9 million and \$31.5 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Purchase commitments

The Company has entered into various commitments, largely natural gas and coal supply, purchased power, natural gas transportation, construction materials supply and electric generation construction contracts. These commitments range from one to 21 years. The commitments under these contracts as of December 31, 2003, were \$167.2 million in 2004, \$67.2 million in 2005, \$50.1 million in 2006, \$31.0 million in 2007, \$30.9 million in 2008 and \$146.3 million thereafter. Amounts purchased under these various commitments for the years ended December 31, 2003, 2002 and 2001, were approximately \$204.6 million, \$152.1 million and \$193.0 million, respectively. These commitments are not reflected in the Company's consolidated financial statements.

Guarantees

Centennial has unconditionally guaranteed a portion of certain bank borrowings of MPX in connection with the Company's equity method investment in the natural gas-fired electric generating facility in Brazil, as discussed in Note 2. The Company, through MDU Brasil, owns 49 percent of MPX. The main business purpose of Centennial extending the guarantee to MPX's creditors is to enable MPX to obtain lower borrowing costs. At December 31, 2003, the aggregate amount of borrowings outstanding subject to these guarantees was \$45.5 million and the scheduled repayment of these borrowings is \$11.0 million in 2004,

\$10.7 million in 2005, \$10.7 million in 2006, \$10.7 million in 2007 and \$2.4 million in 2008. The individual investor (who through EBX Empreendimentos Ltda. (EBX), a Brazilian company, owns 51 percent of MPX) has also guaranteed a portion of these loans. In the event MPX defaults under its obligation, Centennial and the individual investor would be required to make payments under their guarantees. Centennial and the individual investor have entered into reimbursement agreements under which they have agreed to reimburse each other to the extent they may be required to make any guarantee payments in excess of their proportionate ownership share in MPX. These guarantees are not reflected on the Consolidated Balance Sheets.

In addition, WBI Holdings, Inc. (WBI Holdings), an indirect wholly owned subsidiary of the Company, has guaranteed certain of its subsidiary's natural gas and oil price swap and collar agreement obligations. The amount of the subsidiary's obligations at December 31, 2003, was \$1.8 million. There is no fixed maximum amount guaranteed in relation to the natural gas and oil price swap and collar agreements, as the amount of the obligation is dependent upon natural gas and oil commodity prices. The amount of hedging activity entered into by the subsidiary is limited by corporate policy. The guarantees of the natural gas and oil price swap and collar agreements at December 31, 2003, expire in 2004; however, the subsidiary continues to enter into additional hedging activities and, as a result, WBI Holdings from time to time may issue additional guarantees on these hedging obligations. At December 31, 2003, the amount outstanding was reflected on the Consolidated Balance Sheets. In the event the above subsidiary defaults under its obligations, WBI Holdings would be required to make payments under its guarantees.

Certain subsidiaries of the Company have outstanding guarantees to third parties that guarantee the performance of other subsidiaries of the Company that are related to natural gas transportation and sales agreements, electric power supply agreements, insurance policies and certain other guarantees. At December 31, 2003, the fixed maximum amounts guaranteed under these agreements aggregated \$46.4 million. The amounts of scheduled expiration of the maximum amounts guaranteed under these agreements aggregate \$20.1 million in 2004; \$5.9 million in 2005; \$3.5 million in 2006; \$500,000 in 2007; \$900,000 in 2009; \$12.0 million in 2012; \$500,000, which is subject to expiration 30 days after the receipt of written notice and \$3.0 million, which has no scheduled maturity date. The amount outstanding by subsidiaries of the Company under the above guarantees was \$372,000 and was reflected on the Consolidated Balance Sheets at December 31, 2003. In the event of default under these guarantee obligations, the subsidiary issuing the guarantee for that particular obligation would be required to make payments under its guarantee.

Fidelity and WBI Holdings have outstanding guarantees to Williston Basin. These guarantees are related to natural gas transportation and storage agreements that guarantee the performance of Prairiелands Energy Marketing, Inc. (Prairiелands), an indirect wholly owned subsidiary of the Company. At December 31, 2003, the fixed maximum amounts guaranteed

under these agreements aggregated \$22.9 million. Scheduled expiration of the maximum amounts guaranteed under these agreements aggregate \$2.9 million in 2005 and \$20.0 million in 2009. In the event of Prairielands' default in its payment obligations, the subsidiary issuing the guarantee for that particular obligation would be required to make payments under its guarantee. The amount outstanding by Prairielands under the above guarantees was \$837,000, which was not reflected on the Consolidated Balance Sheet at December 31, 2003, because these intercompany transactions are eliminated in consolidation.

In addition, Centennial has issued guarantees related to the Company's purchase of maintenance items to third parties for which no fixed maximum amounts have been specified. These guarantees have no scheduled maturity date. In the event a subsidiary of the Company defaults under its obligation in relation to the purchase of certain maintenance items, Centennial would be required to make payments under these guarantees. Any amounts outstanding by subsidiaries of the Company for these maintenance items were reflected on the Consolidated Balance Sheet at December 31, 2003.

As of December 31, 2003, Centennial was contingently liable for the performance of certain of its subsidiaries under approximately \$360 million of surety bonds. These bonds are principally for construction contracts and reclamation obligations of these subsidiaries entered into in the normal course of business. Centennial indemnifies the respective surety bond companies against any exposure under the bonds. The purpose of Centennial's indemnification is to allow the subsidiaries to obtain bonding at competitive rates. In the event a subsidiary of the Company does not fulfill its obligations in relation to its bonded contract or obligation, Centennial may be required to make payments under its indemnification. A large portion of these contingent commitments are expected to expire within the next 12 months; however, Centennial will likely continue to enter into surety bonds for its subsidiaries in the future. The surety bonds were not reflected on the Consolidated Balance Sheets.

Independent Auditors' Report

To the Board of Directors and Stockholders of MDU Resources Group, Inc.:

We have audited the accompanying consolidated balance sheets of MDU Resources Group, Inc. (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, common stockholders' equity, and cash flows for the years then ended. Our audits also included the 2003 and 2002 financial statement schedules listed in the Index at Item 15. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements and financial statement schedule of the Company for the year ended December 31, 2001, before the adjustments described in Note 11, additional transitional disclosures described in Notes 3 and 9, and the reclassifications to the consolidated financial statements described in Note 1, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and stated that such 2001 financial statement schedule, when considered in relation to the 2001 basic consolidated financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein, in their reports dated January 23, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed above, the consolidated financial statements of the Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 11, those consolidated financial statements have been revised to give effect to the stock split on October 29, 2003. We audited the adjustments described in Note 11

that were applied to revise the 2001 consolidated financial statements for such stock split. Our audit procedures included (1) comparing the amounts shown in the earnings per share disclosures for 2001 to the Company's underlying accounting analysis obtained from management, (2) comparing the previously reported shares outstanding and income statement amounts per the Company's accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the additional shares to give effect to the stock split and testing the mathematical accuracy of the underlying analysis. Also, as described in Note 3, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of January 1, 2002. Our audit procedures, with respect to the disclosures in Note 3 with respect to the 2001 disclosures, included (a) comparing the previously reported net income to the previously issued consolidated financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill that is no longer being amortized as a result of initially applying SFAS No. 142 (including any tax effects) to the Company's underlying analysis obtained from management, and (b) testing the mathematical accuracy of (i) the reconciliation of adjusted net income to reported net income and (ii) the related earnings per share amounts. Also, as described in Note 1, these consolidated financial statements have been reclassified to include additional disclosures relating to the components comprising operating revenues and operation and maintenance expenses. Our audit procedures with respect to 2001 as it relates to the reclassifications described in Note 1 included (1) comparing the previously reported operating revenues and operation and maintenance expenses to previously issued consolidated financial statements, (2) comparing the operating revenues and operation and maintenance expenses to the Company's underlying analysis obtained from management, and (3) testing the mathematical accuracy of the underlying analysis. Also, as described in Note 9, these consolidated financial statements have been revised to include disclosures required by SFAS No. 143, *Accounting for Asset Retirement Obligations*, which was adopted by the Company as of January 1, 2003. Our audit procedures with respect to the disclosures in Note 9 as they relate to 2001 included testing the mathematical accuracy of the underlying analysis. In our opinion, the 2001 adjustments for the stock split described in Note 11 have been properly applied, the goodwill disclosures for 2001 in Note 3 and the asset retirement disclosures for 2001 in Note 9 are appropriate, and the reclassifications to the consolidated financial statements described in Note 1 have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such adjustments, reclassifications, and disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

As discussed in Notes 1 and 9 to the consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for asset retirement obligations; and as discussed in Notes 1 and 3 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 17, 2004

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Report of Independent Public Accountants

To MDU Resources Group, Inc.:

We have audited the accompanying consolidated balance sheets of MDU Resources Group, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MDU Resources Group, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, effective January 1, 2001, the company changed its method of accounting for derivative instruments due to the adoption of a new accounting pronouncement.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Minneapolis, Minnesota
January 23, 2002

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ANDERSEN LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS
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To MDU Resources Group, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in MDU Resources Group, Inc.'s annual report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 23, 2002. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. Schedule II is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/S/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
January 23, 2002

MDU RESOURCES GROUP, INC.
SUPPLEMENTARY FINANCIAL INFORMATION

Quarterly Data (Unaudited)

The following unaudited information shows selected items by quarter for the years 2003 and 2002:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	<i>(In thousands, except per share amounts)</i>			
2003				
Operating revenues	\$467,753	\$548,219	\$716,099	\$620,118
Operating expenses	414,806	473,534	600,433	551,344
Operating income	52,947	74,685	115,666	68,774
Income before cumulative effect of accounting change	27,697	43,473	65,521	46,222
Cumulative effect of accounting change	(7,589)	---	---	---
Net income	20,108	43,473	65,521	46,222
Earnings per common share -- basic:				
Earnings before cumulative effect of accounting change	.25	.39	.58	.41
Cumulative effect of accounting change	(.07)	---	---	---
Earnings per common share -- basic	.18	.39	.58	.41
Earnings per common share -- diluted:				
Earnings before cumulative effect of accounting change	.25	.39	.58	.40
Cumulative effect of accounting change	(.07)	---	---	---
Earnings per common share -- diluted	.18	.39	.58	.40
Weighted average common shares outstanding:				
Basic	110,318	110,602	112,359	112,618
Diluted	111,094	111,532	113,368	113,804

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(In thousands, except per share amounts)</i>				
2002				
Operating revenues	\$381,935	\$480,218	\$612,398	\$556,986
Operating expenses	336,138	429,023	522,227	478,032
Operating income	45,797	51,195	90,171	78,954
Net income	23,722	24,853	53,931	45,938
Earnings per common share:				
Basic	.23	.23	.51	.42
Diluted	.22	.23	.50	.42
Weighted average common shares outstanding:				
Basic	104,203	105,684	106,385	108,142
Diluted	105,020	106,540	107,017	108,864
Pro forma amounts assuming retroactive application of accounting change:				
Net income	\$ 23,126	\$ 24,255	\$ 53,332	\$ 45,339
Earnings per common share -- basic	.22	.23	.50	.42
Earnings per common share -- diluted	.22	.23	.50	.41

Certain Company operations are highly seasonal and revenues from and certain expenses for such operations may fluctuate significantly among quarterly periods. Accordingly, quarterly financial information may not be indicative of results for a full year.

Natural Gas and Oil Activities (Unaudited)

Fidelity is involved in the acquisition, exploration, development and production of natural gas and oil resources. Fidelity's activities include the acquisition of producing properties with potential development opportunities, exploratory drilling and the operation and development of natural gas production properties. Fidelity shares revenues and expenses from the development of specified properties located primarily in the Rocky Mountain region of the United States and in and around the Gulf of Mexico in proportion to its ownership interests.

Fidelity owns in fee or holds natural gas leases for the properties it operates in Colorado, Montana, North Dakota and Wyoming. These rights are in the Bonny Field located in eastern Colorado, the Cedar Creek Anticline in southeastern Montana and southwestern North Dakota, the Bowdoin area located in north-central Montana and in the Powder River Basin of Montana and Wyoming.

The information that follows includes Fidelity's proportionate share of all its natural gas and oil interests.

The following table sets forth capitalized costs and accumulated depreciation, depletion and amortization related to natural gas and oil producing activities at December 31:

	2003	2002	2001
		<i>(In thousands)</i>	
Subject to amortization	\$758,500	\$603,151	\$506,155
Not subject to amortization	104,339	145,692	122,354
Total capitalized costs	862,839	748,843	628,509
Less accumulated depreciation, depletion and amortization	305,349	239,964	195,469
<u>Net capitalized costs</u>	<u>\$557,490</u>	<u>\$508,879</u>	<u>\$433,040</u>

Capital expenditures, including those not subject to amortization, related to natural gas and oil producing activities were as follows:

Years ended December 31,	2003*	2002	2001
		<i>(In thousands)</i>	
Acquisitions	\$ 3,027	\$ 31,439	\$ 1,695
Exploration	19,193	5,325	13,938
Development**	77,583	94,943	102,670
<u>Total capital expenditures</u>	<u>\$99,803</u>	<u>\$131,707</u>	<u>\$118,303</u>

* Excludes \$14,724 of additions to property, plant and equipment related to the recognition of future liabilities associated with the plugging and abandonment of natural gas and oil wells in accordance with SFAS No. 143, as discussed in Note 9.

**Includes expenditures for proved undeveloped reserves of \$23.3 million, \$10.1 million and \$15.0 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The following summary reflects income resulting from the Company's operations of natural gas and oil producing activities, excluding corporate overhead and financing costs:

Years ended December 31,	2003	2002*	2001
		<i>(In thousands)</i>	
Revenues:			
Sales to external customers	\$140,034	\$145,170	\$139,939
Sales to affiliates	124,077	55,437	61,178
Production costs	67,292	52,520	44,435
Depreciation, depletion and amortization	60,072**	48,064	41,223
Pretax income	136,747	100,023	115,459
Income tax expense	51,925	36,886	45,245
Results of operations for producing activities before cumulative effect of accounting change	84,822	63,137	70,214
Cumulative effect of accounting change	(7,740)	---	---
Results of operations for producing activities	\$ 77,082	\$ 63,137	\$ 70,214
* Includes the compromise agreement as discussed in Note 19.			
**Includes \$1,356 of accretion of discount for asset retirement obligations in 2003 in accordance with SFAS No. 143, as discussed in Note 1.			

The following table summarizes the Company's estimated quantities of proved natural gas and oil reserves at December 31, 2003, 2002 and 2001, and reconciles the changes between these dates. Estimates of economically recoverable natural gas and oil reserves and future net revenues therefrom are based upon a number of variable factors and assumptions. For these reasons, estimates of economically recoverable reserves and future net revenues may vary from actual results.

	2003		2002		2001	
	Natural Gas	Oil	Natural Gas	Oil	Natural Gas	Oil
<i>(In thousands of Mcf/barrels)</i>						
Proved developed and undeveloped reserves:						
Balance at beginning of year	372,500	17,500	324,100	17,500	309,800	15,100
Production	(54,700)	(1,900)	(48,200)	(2,000)	(40,600)	(2,000)
Extensions and discoveries	113,300	3,300	80,100	2,200	66,400	2,000
Purchases of proved reserves	900	---	1,200	100	1,000	100
Sales of reserves in place	---	(100)	(4,400)	(300)	---	---
Revisions of previous estimates	(20,300)	100	19,700	---	(12,500)	2,300
Balance at end of year	411,700	18,900	372,500	17,500	324,100	17,500

Proved developed reserves:

January 1, 2001	263,400	14,200
December 31, 2001	291,300	17,100
December 31, 2002	331,300	14,800
December 31, 2003	342,800	15,000

All of the Company's interests in natural gas and oil reserves are located in the United States and in and around the Gulf of Mexico.

The standardized measure of the Company's estimated discounted future net cash flows of total proved reserves associated with its various natural gas and oil interests at December 31 was as follows:

	2003	2002	2001
<i>(In thousands)</i>			
Future cash inflows	\$2,547,400	\$1,726,000	\$ 974,200
Future production costs	651,300	513,200	361,600
Future development costs	67,100	61,200	64,600
Future net cash flows before income taxes	1,829,000	1,151,600	548,000
Future income tax expense	601,000	324,000	112,000
Future net cash flows	1,228,000	827,600	436,000
10% annual discount for estimated timing of cash flows	491,200	321,300	174,000
Discounted future net cash flows relating to proved natural gas and oil reserves	\$ 736,800	\$ 506,300	\$ 262,000

The following are the sources of change in the standardized measure of discounted future net cash flows by year:

	2003	2002	2001
		<i>(In thousands)</i>	
Beginning of year	\$ 506,300	\$ 262,000	\$ 921,300
Net revenues from production	(220,000)	(112,900)	(153,500)
Change in net realization	318,600	296,100	(1,119,700)
Extensions, discoveries and improved recovery, net of future production-related costs	245,800	117,000	40,200
Purchases of proved reserves	2,800	3,700	2,600
Sales of reserves in place	(600)	(8,900)	---
Changes in estimated future development costs	(4,000)	(1,100)	(6,700)
Development costs incurred during the current year	35,300	19,400	31,600
Accretion of discount	62,400	27,300	122,700
Net change in income taxes	(172,000)	(124,700)	436,500
Revisions of previous estimates	(35,500)	30,000	(11,700)
Other	(2,300)	(1,600)	(1,300)
Net change	230,500	244,300	(659,300)
End of year	\$ 736,800	\$ 506,300	\$ 262,000

The estimated discounted future cash inflows from estimated future production of proved reserves were computed using year-end natural gas prices and oil prices. Future development and production costs attributable to proved reserves were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future development costs estimated to be spent in each of the next three years to develop proved undeveloped reserves are \$37.1 million in 2004, \$6.7 million in 2005 and \$4.4 million in 2006. Future income tax expenses were computed by applying statutory tax rates (adjusted for permanent differences and tax credits) to estimated net future pretax cash flows.

The standardized measure of discounted future net cash flows does not purport to represent the fair market value of natural gas and oil properties. There are significant uncertainties inherent in estimating quantities of proved reserves and in projecting rates of production and the timing and amount of future costs. In addition, future realization of natural gas and oil prices over the remaining reserve lives may vary significantly from current prices.

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
TWELVE MONTHS ENDING DECEMBER 31, 2003

Operating Income

Electric Utility

Operating Revenues	\$178,561,980
Operating Expenses	
Operation Expenses	101,790,710
Maintenance Expenses	13,176,267
Depreciation Expenses	20,150,400
Taxes Other Than Income Taxes	7,683,325
Income Taxes	
Federal Taxes on Income	7,844,316
State Taxes on Income	1,381,596
Deferred Income Taxes	1,383,686
Total Electric Expenses	153,410,300
Net Electric Operation	\$25,151,680

Gas Utility

Operating Revenues	\$274,607,103
Operating Expenses	
Operation Expenses	250,033,668
Maintenance Expenses	2,792,254
Depreciation Expenses	10,044,705
Taxes Other Than Income Taxes	5,234,669
Income Taxes	
Federal Taxes on Income	(3,267,639)
State Taxes on Income	(564,828)
Deferred Income Taxes	4,510,834
Total Gas Expenses	268,783,663
Net Gas Operation	\$5,823,440

Net Utility Operating Income \$30,975,120

Revenues from Merchandising, Jobbing and Contract Work	\$12,638,073
(Less) Costs and Exp Of Merch , Jobbing and Contract Work	11,055,815
Revenues from Nonutility Operations	211,102
Equity in Earnings of Subsidiary Companies	153,788,920
Interest and Dividend Income	3,636,870
Miscellaneous Nonoperating Income	743
Gain on Disposition of Property	54,123
Total Other Income	159,274,016

Loss on Disposition of Property	9,749
Miscellaneous Income Deductions	2,564,974
Total Other Income Deductions	2,574,723

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
TWELVE MONTHS ENDING DECEMBER 31, 2003

Taxes other than Income Taxes	5,120
Income Taxes - Federal	1,377,137
Income Taxes - State	221,809
Provision for Deferred Income Taxes	(606,763)
Investment Tax Credits	(596,333)
Total Taxes on Other Income and Deductions	<u>400,970</u>
Net Other Income and Deductions	\$156,298,323
Interest On Long-Term Debt	10,629,946
Amortization of Debt Discount and Expense	1,252,461
Other Interest Expense	250,711
(Less) Allow for Borrowed Funds Used during Const	217,797
Net Interest Charges	<u>11,915,321</u>
Net Income	<u><u>\$175,358,122</u></u>

**MONTANA-DAKOTA UTILITIES CO.
PLANT IN SERVICE
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Function</u>	<u>Balance @ 12/31/02</u>	<u>Balance @ 12/31/03</u>	<u>Average 2003</u>
Distribution	\$56,767,544	\$59,033,353	\$57,900,449
General	7,167,081	6,340,261	6,753,671
Intangible Plant - General	181,686	180,280	180,983
Common	5,539,841	5,607,000	5,573,420
Intangible Plant - Common	2,010,760	2,066,890	2,038,825
Gas Plant Leased to Others	11,374	11,374	11,374
Acquisition Adjustment	97,266	97,266	97,266
Construction Work in Progress (CWIP)			
In Service not yet Classified	<u>405,134</u>	<u>449,173</u>	<u>427,154</u>
Total Plant in Service	<u><u>\$72,180,686</u></u>	<u><u>\$73,785,597</u></u>	<u><u>\$72,983,142</u></u>

**MONTANA-DAKOTA UTILITIES CO
PLANT IN SERVICE
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>No</u>	<u>Account</u>	<u>Balance @ 12/31/02</u>	<u>Balance @ 12/31/03</u>	<u>Average Balance</u>
	<u>Distribution Plant</u>			
374 1	Land	\$41,999	\$41,687	\$41,843
374 2	Rights of Way	49,075	49,074	49,075
375	Structures & Improvements	180,117	180,117	180,117
376	Mains	27,754,953	28,904,066	28,329,509
378	Meas & Reg Equip -General	572,331	588,208	580,270
379	Meas & Reg Equip -City Gate	174,002	174,002	174,002
380	Services	12,434,694	12,956,082	12,695,388
381	Positive Meters	12,579,688	13,088,403	12,834,045
383	Service Regulators	1,712,228	1,783,339	1,747,784
385	Ind Meas & Reg Station Eqpt	370,108	370,108	370,108
386 1	Misc Property on Cust Premise	1,680	1,680	1,680
386 2	Other Property on Cust Premise	113,207	113,207	113,207
387 1	Cathodic Protection Equip	451,864	451,864	451,864
387 2	Other Distribution Equip	331,598	331,516	331,557
	Total Distribution Plant	\$56,767,544	\$59,033,353	\$57,900,449
	<u>General Plant</u>			
389	Land	\$154,460	\$154,772	\$154,616
390	Structures and Improvements	892,950	889,138	891,044
391 1	Furniture and Fixtures	218,802	49,595	134,199
391 3	Computer Equip - PC	287,816	361,058	324,436
392 1	Trans Equip , Non-Unitized	41,617	41,617	41,617
392 2	Trans Equip , Unitized	2,173,356	2,265,130	2,219,243
393	Stores Equipment	74,396	45,588	59,992
394 1	Tools,Shop&Gar Eq -Non-Un	1,115,009	550,760	832,884
394 2	Tools,Shop&Gar Eq -Unitized	123,956	39,059	81,508
394 3	Vehicle Maintenance Equip	6,615	6,615	6,615
394 4	Vehicle Refueling Equip	97,809	63,469	80,639
395	Laboratory Equipment	172,593	137,257	154,924
396 1	Power Operated Equip	114,117	111,701	112,909
396 2	Work Equipment Trailers	1,370,028	1,343,917	1,356,973
397 1	Radio Comm Equip -Fixed	119,094	130,522	124,808
397 2	Radio Comm Equip -Mobile	100,180	101,606	100,893
397 3	General Tele Comm Equip	28,055	15,659	21,857
397 5	Supervisory & Tele Equip	1,830		915
397 8	Network Equipment	11,988	11,999	11,994
398	Miscellaneous Equipment	62,410	20,799	41,605
	Total General Plant	\$7,167,081	\$6,340,261	\$6,753,671

**MONTANA-DAKOTA UTILITIES CO.
PLANT IN SERVICE
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>No</u>	<u>Account</u>	<u>Balance @ 12/31/02</u>	<u>Balance @ 12/31/03</u>	<u>Average Balance</u>
303	Intangible Plant - General	\$181,686	\$180,280	\$180,983
	<u>Common Plant</u>			
389	Land	\$213,977	\$215,955	\$214,965
390	Structures and Improvements	2,504,686	2,565,285	2,534,986
391 1	Furniture and Fixtures	482,943	296,124	389,533
391.2	Computer Equip - Bull/AS400	12,498	2,028	7,263
391 3	Computer Equip - PC	557,843	560,899	559,371
391 5	Computer Equip - Other	110,507	9,876	60,192
392 1	Trans Equip , Non-Unitized	36,746	36,464	36,605
392 2	Trans Equip , Unitized	675,194	672,455	673,824
392 3	Aircraft	144,636	629,292	386,964
393	Stores Equipment	5,210	5,244	5,227
394 1	Tools, Shop & Gar Equip	39,294	39,921	39,607
394 3	Vehicle Maint Equip	16,045	17,712	16,879
394 4	Vehicle Refueling Equip	112,825	114,538	113,682
396 2	Work Equipment Trailers	32,647	15,472	24,060
397 1	Radio Comm Equip -Fixed	92,108	55,797	73,952
397 2	Radio Comm Equip -Mobile	167,505	122,577	145,041
397 3	General Tele Comm Equip	101,520	92,273	96,897
397 5	Supervisory & Tele Equip	10,199	9,944	10,072
397 8	Network Equipment	130,996	53,988	92,492
398	Miscellaneous Equipment	92,462	91,156	91,808
	Total Common Plant	\$5,539,841	\$5,607,000	\$5,573,420
303	Intangible Plant - Common	\$2,010,760	\$2,066,890	\$2,038,825
386 3	Gas Plant Leased to Others	11,374	11,374	11,374
114 2	Acquisition Adjustment	97,266	97,266	97,266
	Total Gas Plant in Service	\$71,775,552	\$73,336,424	\$72,555,988

**MONTANA-DAKOTA UTILITIES CO.
 DETAILED COST OF PLANT
 GAS UTILITY
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

Acct No	Account	Balance @ 12/31/02	Additions	Retirements	Transfers	Balance @ 12/31/03
	<u>Distribution Plant</u>					
374 1	Land	\$109,547	\$0	(\$384)	(\$312)	\$108,851
374.2	Rights of Way	95,588	1,496	(65)	0	97,019
375	Structures & Improvements	521,210	10,178	(450)	0	530,938
376	Mains	80,182,712	3,785,387	(234,006)	0	83,734,093
378	Measuring & Regulating Equip - Gen	1,423,150	45,097	(10,744)	0	1,457,503
379	Measuring & Regulating Equip - City Gate	1,009,137	23,172	(4,388)	0	1,027,921
380	Services	33,733,349	2,103,050	(163,649)	0	35,672,750
381	Meters	32,113,684	1,433,811	(13,398)	0	33,534,097
383	Service Regulators	4,402,528	208,127	(11,656)	0	4,598,999
385	Industrial Measuring & Regulating Equip	578,786	55,439	(6,164)	0	628,061
386 1	Misc Property on Customer Premise	1,680	0	0	0	1,680
386 2	Other Property on Customer Premise	432,812	0	0	0	432,812
387 1	Cathodic Protection Equipment	1,476,915	44,534	(5,054)	0	1,516,395
387 2	Other Distribution Equipment	557,184	1,415	(1,945)	0	556,654
	Total Distribution Plant	\$156,638,282	\$7,711,706	(\$451,903)	(\$312)	\$163,897,773
	<u>General Plant</u>					
389	Land	\$851,350	(\$107)	\$0	\$312	\$851,555
390	Structures & Improvements	5,689,188	22,040	(9,314)	0	5,701,914
391 1	Office Furniture & Equipment	755,201	18,121	(404,720)	3,483	372,085
391 3	Computer Equip -PC	786,659	244,662	(57,519)	0	973,802
392 1	Transportation Equipment - Non-Un	155,417	16,065	0	0	171,482
392 2	Transportation Equipment - Unitized	6,457,020	902,779	(551,428)	103,664	6,912,035
393	Stores Equipment	192,629	14,254	(63,868)	0	143,015
394 1	Tools,Shop&Gar Equip -Non-Un	2,610,721	144,680	(1,286,765)	0	1,468,636
394 2	Tools,Shop&Gar Equip -Non-Un	299,810	0	(193,745)	0	106,065
394 3	Vehicle Maintenance Equipment	31,177	0	0	0	31,177
394 4	Vehicle Refueling Equipment	361,344	0	(168,497)	0	192,847
395	Laboratory Equipment	324,158	0	(111,337)	0	212,821
396 1	Work Equipment Trailers	359,619	0	(5,323)	0	354,296

**MONTANA-DAKOTA UTILITIES CO.
 DETAILED COST OF PLANT
 GAS UTILITY
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

Acct No	Account	Balance @ 12/31/02	Additions	Retirements	Transfers	Balance @ 12/31/03
396 2	Power Operated Equipment	4,120,765	1,718,894	(1,487,415)	136,299	4,488,543
397 1	Radio Communication Equip - Fixed	482,215	0	27,488	0	509,703
397 2	Radio Communication Equip - Mobile	413,977	1,226	1,427	0	416,630
397 3	General Tele Comm Equip	101,422	0	(58,268)	0	43,154
397 5	Supervisory & Tele Equip	124,167	0	(123,043)	0	1,124
397 6	Scada System	30,894	0	(30,894)	0	0
397 8	Network Equipment	31,698	7,899	0	(308)	39,289
398	Miscellaneous Equipment	147,510	542	(101,445)	0	46,607
	Total General Plant	\$24,326,941	\$3,091,055	(\$4,624,666)	\$243,450	\$23,036,780
303	General Intangible	477,530	0	0	0	477,530
	Common Plant - Gas 1/	19,155,659				19,728,338
	<u>Gas Plant Leased to Others</u>					
386 3	CNG Demo/Lease	25,773	0	0	0	25,773
114 3	Acquisition Adjustments	97,266	0	0	0	97,266
	Total Gas Plant in Service	<u>\$200,721,451</u>	<u>\$10,802,761</u>	<u>(\$5,076,569)</u>	<u>\$243,138</u>	<u>\$207,263,460</u>

1/ Common plant is either directly assigned or allocated to gas and electric plant. Total common plant additions, retirements, transfers and adjustments for the twelve months ended December 31, 2003 are \$6,361,627, \$5,558,638, and (\$790,319) respectively.

**MONTANA-DAKOTA UTILITIES CO.
GAS CWIP IN SERVICE
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

Work Order Number	Description	State	Total	Distribution	General	Common
J138318	Upgrade Bismarck I P system	ND	(\$11,717)	(\$11,717)		
J142889	Extend 10,500 feet of 4" plastic I P - Minot	ND	(2,521)	(2,521)		
J133977	Replace meter reading system	ND	(457)		(457)	
J136907	Replace Conquest aircraft	ND	(1,546)		(1,546)	
J141071	Reconstruct Transportation building	ND	(554)		(554)	
J141541	Purchase welding truck	ND	373		373	
J143593	Remodel Annex	ND	(38)		(38)	
Small items grouped 1/						
(115)	Distribution	ND	386,063	386,063		
(33)	General	ND	56,026		56,026	
(22)	Common	ND	23,544			23,544
	Total		<u>\$449,173</u>	<u>371,825</u>	<u>53,804</u>	<u>23,544</u>

1/ Numbers in brackets indicate the number of work orders involved in each item of construction

**MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED RESERVE FOR DEPRECIATION
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Function</u>	<u>Balance @ 12/31/02</u>	<u>Balance @ 12/31/03</u>	<u>Average 2003</u>
Distribution	\$41,390,274	\$43,570,560	\$42,480,417
General	3,764,369	2,879,364	3,321,866
Intangible Plant - General	175,819	176,497	176,158
Common	2,796,890	2,468,018	2,632,454
Intangible Plant - Common	904,330	1,120,967	1,012,649
Gas Plant Leased to Others	4,697	5,760	5,228
Acquisition Adjustment	<u> </u>	<u>29,837</u>	<u>14,919</u>
Total Accumulated Reserve	<u>\$49,036,379</u>	<u>\$50,251,003</u>	<u>\$49,643,691</u>

**MONTANA-DAKOTA UTILITIES CO.
BOOK CHANGES IN ACCUMULATED PROVISION FOR
DEPRECIATION AND AMORTIZATION - GAS UTILITY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Gas Utility</u>	Beginning Balance 12/31/02	Annual Provision	Retirements (Original Cost)	Salvage	Removal Costs	Adjustments	Ending Balance 12/31/03
Account 111 2 - Intangible	\$447,917	\$10,455					\$458,372
Account 108							
Distribution	105,038,561	6,785,125	\$799,928	\$129,163	\$437,618	\$256,182	110,971,485
General	9,493,634	1,193,769	4,050,001	1,053,238	1,008	(949,952)	6,739,680
Total Account 108	114,532,195	7,978,894	4,849,929	1,182,401	438,626	(693,770)	117,711,165
Account 115 - Acquisition Adjustment	0	29,837					29,837
Total	<u>\$114,980,112</u>	<u>\$8,019,186</u>	<u>\$4,849,929</u>	<u>\$1,182,401</u>	<u>\$438,626</u>	<u>(\$693,770)</u>	<u>\$118,199,374</u>
Common 1/	\$6,858,790						\$7,704,993

1/ Common Plant is assigned by state on an actual site and use basis when applicable, and the remainder is allocated by state to gas and electric on a plant in service basis Total common changes for the twelve months ended December 31, 2003 are

<u>Common Utility</u>	Beginning Balance 12/31/02	Annual Provision	Retirements (Original Cost)	Salvage	Removal Costs	Adjustments	Ending Balance 12/31/03
Account 111 4	\$6,426,442	\$1,358,967	\$0	\$0	\$0	\$0	\$7,785,409
Account 108	19,876,689	2,215,960	4,772,909	831,296	11,992	(1,142,452)	16,996,592
Total Accounts 111 4 and 108	<u>\$26,303,131</u>	<u>\$3,574,927</u>	<u>\$4,772,909</u>	<u>\$831,296</u>	<u>\$11,992</u>	<u>(\$1,142,452)</u>	<u>\$24,782,001</u>

**MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF WORKING CAPITAL AND
CUSTOMER ADVANCES FOR CONSTRUCTION
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Working Capital</u>	Balance @ 12/31/02	Balance @ 12/31/03
Materials and Supplies	\$376,334	\$409,023
Fuel Stocks	23,626	25,616
Prepayments	33,397	65,958
Gas IRP	<u>70,984</u>	<u>17,984</u>
Total Working Capital	<u>\$504,341</u>	<u>\$518,581</u>
Customer Advances for Construction	<u>\$286,881</u>	<u>\$307,320</u>

**MONTANA-DAKOTA UTILITIES CO.
MATERIALS AND SUPPLIES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Amount</u>
December 2002	\$376,334
January 2003	370,904
February	407,668
March	503,799
April	545,338
May	499,717
June	534,146
July	539,959
August	506,734
September	487,922
October	508,818
November	482,851
December	409,023

**MONTANA-DAKOTA UTILITIES CO.
FUEL STOCKS
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Amount</u>
December 2002	\$23,626
January 2003	23,626
February	23,962
March	12,712
April	22,233
May	22,562
June	16,648
July	19,003
August	19,085
September	21,249
October	21,276
November	33,614
December	25,616

**MONTANA-DAKOTA UTILITIES CO.
PREPAID INSURANCE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Amount</u>
December 2002	\$33,397
January 2003	9,962
February	163,774
March	143,887
April	231,145
May	202,805
June	189,541
July	166,072
August	133,274
September	109,823
October	99,155
November	110,003
December	65,958

**MONTANA-DAKOTA UTILITIES CO.
GAS INTEGRATED RESOURCE PLAN
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Amount</u>
December 2002	\$70,984
January 2003	66,567
February	62,150
March	57,734
April	53,317
May	48,900
June	44,484
July	40,067
August	35,651
September	31,234
October	26,817
November	22,401
December	17,984

**MONTANA-DAKOTA UTILITIES CO.
CUSTOMER ADVANCES FOR CONSTRUCTION
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Amount</u>
December 2002	\$286,881
January 2003	239,365
February	191,455
March	191,701
April	224,387
May	223,824
June	239,570
July	240,610
August	241,173
September	288,906
October	311,456
November	311,960
December	307,320

MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY CAPITAL STRUCTURE
2003

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$147,600,000	45.783%	8.878%	4.065%
Preferred Stock	16,250,000	5.040%	4.622%	0.233%
Common Equity	158,539,438	49.177%	11.500%	5.655%
Total	<u>\$322,389,438</u>	<u>100.000%</u>		<u>9.953%</u>

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY CAPITAL STRUCTURE
PROJECTED 2004**

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$154,100,000	45.589%	8.624%	3.932%
Preferred Stock	16,150,000	4.778%	4.618%	0.221%
Common Equity	167,772,745	49.633%	11.500%	5.708%
Total	<u>\$338,022,745</u>	<u>100.000%</u>		<u>9.861%</u>

**MONTANA-DAKOTA UTILITIES CO
AVERAGE UTILITY CAPITAL STRUCTURE
PROJECTED 2005**

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$153,350,000	43 535%	8 518%	3 708%
Preferred Stock	16,050,000	4 557%	4 614%	0 210%
Common Equity	182,843,012	51 908%	11 500%	5 969%
Total	<u>\$352,243,012</u>	<u>100 000%</u>		<u>9 887%</u>

MONTANA-DAKOTA UTILITIES CO.
AVERAGE LONG-TERM DEBT
2003

	Balance Outstanding	Annual Cost	Adjusted Embedded Cost
<u>First Mortgage Bonds</u>			
Balance at 12/31/02	\$130,850,000	\$11,743,442	8.975%
Amortization of Gain/Loss		361,666	
	<u>130,850,000</u>	<u>12,105,108</u>	
Balance at 12/31/03	160,850,000	13,604,942	8.458%
Amortization of Gain/Loss		268,627	
	<u>160,850,000</u>	<u>13,873,569</u>	
Average Balance	\$145,850,000	\$12,674,192	8.690%
Average Amort of Gain/Loss		315,147	
	<u>\$145,850,000</u>	<u>\$12,989,339</u>	<u>8.906%</u>
<u>Pollution Control Bonds</u>			
Balance at 12/31/02	\$2,000,000	\$131,120	6.556%
Balance at 12/31/03	1,500,000	98,340	6.556%
Average Balance	<u>\$1,750,000</u>	<u>\$114,730</u>	<u>6.556%</u>
Total Average Long Term Debt	<u>\$147,600,000</u>	<u>\$13,104,069</u>	<u>8.878%</u>

MONTANA-DAKOTA UTILITIES CO.
AVERAGE LONG-TERM DEBT
PROJECTED 2004

	Balance Outstanding	Annual Cost	Adjusted Embedded Cost
<u>First Mortgage Bonds</u>			
Balance at 12/31/03	\$160,850,000	\$13,604,942	8 458%
Amortization of Gain/Loss		268,627	
	<u>160,850,000</u>	<u>13,873,569</u>	
Balance at 12/31/04	145,850,000	12,433,292	8 525%
Amortization of Gain/Loss		174,668	
	<u>145,850,000</u>	<u>12,607,960</u>	
Average Balance	\$153,350,000	\$13,019,117	8 490%
Average Amort of Gain/Loss		221,648	
	<u>\$153,350,000</u>	<u>\$13,240,765</u>	<u>8 634%</u>
<u>Pollution Control Bonds</u>			
Balance at 12/31/03	\$1,500,000	\$98,340	6 556%
Balance at 12/31/04	0	0	
Average Balance	<u>\$750,000</u>	<u>\$49,170</u>	<u>6 556%</u>
Total Average Long Term Debt	<u>\$154,100,000</u>	<u>\$13,289,935</u>	<u>8 624%</u>

MONTANA-DAKOTA UTILITIES CO.
AVERAGE LONG-TERM DEBT
PROJECTED 2005

	Balance Outstanding	Annual Cost	Adjusted Embedded Cost
<u>First Mortgage Bonds</u>			
Balance at 12/31/04	\$145,850,000	\$12,433,292	8.525%
Amortization of Gain/Loss		174,668	
	<u>145,850,000</u>	<u>12,607,960</u>	
Balance at 12/31/05	160,850,000	13,483,292	8.383%
Amortization of Gain/Loss		34,738	
	<u>160,850,000</u>	<u>13,518,030</u>	
Average Balance	\$153,350,000	\$12,958,292	8.450%
Average Amort of Gain/Loss		104,703	
	<u>\$153,350,000</u>	<u>\$13,062,995</u>	<u>8.518%</u>
<u>Pollution Control Bonds</u>			
Balance at 12/31/04	\$0	\$0	
Balance at 12/31/05	0	0	
Average Balance	<u>\$0</u>	<u>\$0</u>	
Total Average Long Term Debt	<u>\$153,350,000</u>	<u>\$13,062,995</u>	<u>8.518%</u>

**MONTANA-DAKOTA UTILITIES CO
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2003**

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition Redemption and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
<u>First Mortgage Bonds</u>									
Secured Medium-term Notes, Series A									
8 25%	04/01/92	04/01/07	8 250%	\$30,000,000	\$30,000,000	\$225,000	0 750%	\$3,663,204	12 211%
8 6%	04/01/92	04/01/12	8 600%	35,000,000	34,911,100	306,250	0 877%	5,698,318	16 322%
6 52%	09/30/97	10/01/04	6 520%	15,000,000	15,000,000	90,000	0 600%	827,077	5 514%
6 71%	09/30/97	10/01/09	6 710%	15,000,000	15,000,000	93,750	0 625%	1,417,846	9 452%
5 83%	09/18/98	10/01/08	5 830%	15,000,000	15,000,000	93,750	0 625%	92,336	0 616%
5 98% - Senior Note	12/15/03	12/15/33	5 980%	30,000,000	30,000,000	262,500	0 875%	280,668	0 936%
Pollution Control Refunding Revenue Bonds									
Mercer County 6 65%	06/01/92	06/01/22	6 650%	15,000,000	15,000,000	0	0 000%	938,724	6 258%
Richland County 6 65%	06/01/92	06/01/22	6 650%	3,250,000	3,250,000	0	0 000%	186,323	5 733%
Morton County 6 65%	06/01/92	06/01/22	6 650%	2,600,000	2,600,000	0	0 000%	179,014	6 885%
<u>Pollution Control Notes</u>									
Grant County 6 2%	03/01/74	03/01/04	6 200%	5,600,000	5,600,000	84,000	1 500%	88,958	1 589%
				<u>\$166,450,000</u>	<u>\$166,361,100</u>	<u>\$1,155,250</u>		<u>\$13,372,468</u>	

Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost
	Amount	Per Unit				
<u>First Mortgage Bonds</u>						
Secured Medium-term Notes, Series A						
8 25%	\$26,111,796	87 039%	10 177%	\$30,000,000	\$3,053,100	
8 6%	28,906,532	82 590%	11 020%	35,000,000	3,857,000	
6 52%	14,082,923	93 886%	7 811%	15,000,000	1,171,650	
6 71%	13,488,404	89 923%	8 195%	15,000,000	1,229,250	
5 83%	14,813,914	98 759%	6 086%	15,000,000	912,900	
5 98% - Senior Note	29,456,832	98 189%	6 205%	30,000,000	1,861,500	
Pollution Control Refunding Revenue Bonds						
Mercer County 6 65%	14,061,276	93 742%	7 288%	15,000,000	1,093,200	
Richland County 6 65%	3,063,677	94 267%	7 243%	3,250,000	235,398	
Morton County 6 65%	2,420,986	93 115%	7 344%	2,600,000	190,944	
Total First Mortgage Bonds	<u>146,406,340</u>			<u>160,850,000</u>	<u>13,604,942</u>	<u>8 458%</u>
<u>Pollution Control Notes</u>						
Grant County 6 2%	5,427,042	96 911%	6 556%	1,500,000	98,340	6 556%
Total Long-Term Debt Capital	<u>\$151,833,382</u>			<u>\$162,350,000</u>	<u>\$13,703,282</u>	<u>8 441%</u>

1/ Yield to maturity based upon the life, net proceeds, semiannual compounding of stated interest rate, and amortization of indenture revision costs

MONTANA-DAKOTA UTILITIES CO.
AMORTIZATION OF LOSS ON REACQUIRED DEBT
2003

		<u>Projected Average Amortization</u>
<u>Acct 1890 - Unamortized Loss</u>		
9 1/8% due 05-15-06	1/03 - 12/03	\$361,666
9 1/8% due 05-15-06	1/04 - 12/04	268,627
Average at 12/31/03		<u><u>\$315,147</u></u>

**MONTANA-DAKOTA UTILITIES CO.
AMORTIZATION OF LOSS ON REACQUIRED DEBT
PROJECTED 2004**

		<u>Projected Average Amortization</u>
<u>Acct 1890 - Unamortized Loss</u>		
9 1/8% due 05-15-06	1/04 - 12/04	\$268,627
9 1/8% due 05-15-06	1/05 - 12/05	174,668
Average at 12/31/04		<u><u>\$221,648</u></u>

MONTANA-DAKOTA UTILITIES CO.
AMORTIZATION OF LOSS ON REACQUIRED DEBT
PROJECTED 2005

		<u>Projected Average Amortization</u>
<u>Acct 1890 - Unamortized Loss</u>		
9 1/8% due 05-15-06	1/05 - 12/05	\$174,668
9 1/8% due 05-15-06	1/06 - 12/06	34,738
Average at 12/31/05		<u>\$104,703</u>

MONTANA-DAKOTA UTILITIES CO.
AVERAGE PREFERRED STOCK
2003

<u>Description</u>	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Adjusted Embedded Cost</u>
Balance at 12/31/02	\$16,300,000	\$753,705	4 624%
Redemptions 5 1% Series	(100,000)	(5,285)	
Balance at 12/31/03	<u>\$16,200,000</u>	<u>\$748,420</u>	<u>4 620%</u>
Average Preferred Stock	<u>\$16,250,000</u>	<u>\$751,063</u>	<u>4 622%</u>

**MONTANA-DAKOTA UTILITIES CO
AVERAGE PREFERRED STOCK
PROJECTED 2004**

<u>Description</u>	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Adjusted Embedded Cost</u>
Balance at 12/31/03	\$16,200,000	\$748,420	4.620%
Redemptions 5.1% Series	(100,000)	(5,285)	
Balance at 12/31/04	<u>\$16,100,000</u>	<u>\$743,135</u>	<u>4.616%</u>
Average Preferred Stock	<u>\$16,150,000</u>	<u>\$745,778</u>	<u>4.618%</u>

**MONTANA-DAKOTA UTILITIES CO
AVERAGE PREFERRED STOCK
PROJECTED 2005**

<u>Description</u>	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Adjusted Embedded Cost</u>
Balance at 12/31/04	\$16,100,000	\$743,135	4.616%
Redemptions 5.1% Series	(100,000)	(5,285)	
Balance at 12/31/05	<u>\$16,000,000</u>	<u>\$737,850</u>	<u>4.612%</u>
Average Preferred Stock	<u>\$16,050,000</u>	<u>\$740,493</u>	<u>4.614%</u>

**MONTANA-DAKOTA UTILITIES CO.
PREFERRED STOCK CAPITAL
DECEMBER 31, 2003**

Description	Date of Issuance	Call (Redemption) Price	Dividend Rate	Par Value of Issue	Gross Proceeds (000's)	Underwriters' Commission		Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
4 5% Series	01/01/51	\$105	4 5%	\$100	\$10,000				
4 7% Series	12/07/55	102	4 7%	100	5,000				
5 1% Series	05/23/61	100/102	5 1%	100	5,000	\$25,000	0 50%	\$27,452	0 54

Description	Net Proceeds		Cost of Money 1/ 2/	Principal Outstanding	December 31, 2003		Method of Offering
	Amount (000's)	Per Unit			Annual Cost	Embedded Cost	
4 5% Series	\$10,000	100 000%	4 500%	\$10,000,000	\$450,000		Public
4 7% Series	5,000	100 000%	4 700%	5,000,000	235,000		Public
5 1% Series	4,948	98 951%	5 285%	1,200,000	63,420		Private
Total				<u>\$16,200,000</u>	<u>\$748,420</u>	<u>4 620%</u>	

1/ Yield to maturity based upon the life, net proceeds, and quarterly compounding of the stated dividend rate of each issue

2/ 4 5% Series and 4 7% Series issue expense fully recovered

MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY COMMON EQUITY
2003

<u>Description</u>	<u>Amount</u>
Common Equity - 12/31/02	\$1,287,371,219
Unappropriated Retained Earnings of Subsidiaries	430,566,718
Additional Equity of Subsidiaries (Centennial)	700,137,104
Utility Common Equity - 12/31/02	<u>\$156,667,397</u>
Common Equity - 12/31/03	\$1,439,261,641
Unappropriated Retained Earnings of Subsidiaries	528,082,638
Additional Equity of Subsidiaries (Centennial)	750,767,525
Utility Common Equity - 12/31/03	<u>\$160,411,478</u>
Average Common Utility Equity - 12/31/03	<u>\$158,539,438</u>

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY COMMON EQUITY
PROJECTED 2004**

<u>Description</u>	<u>Amount</u>
Common Equity - 12/31/03	\$1,439,261,641
Unappropriated Retained Earnings of Subsidiaries	528,082,638
Additional Equity of Subsidiaries	<u>750,767,525</u>
Utility Common Equity - 12/31/03	<u>\$160,411,478</u>
Common Equity Infusion	18,000,000
Projected Equity Earnings	14,662,000
Less Utility Dividends	<u>(17,939,466)</u>
Utility Common Equity - 12/31/04	<u>\$175,134,012</u>
Average Common Utility Equity - 12/31/04	<u>\$167,772,745</u>

**MONTANA-DAKOTA UTILITIES CO
AVERAGE UTILITY COMMON EQUITY
PROJECTED 2005**

<u>Description</u>	<u>Amount</u>
Utility Common Equity - 12/31/03	\$160,411,478
Common Equity Infusion	18,000,000
Projected Equity Earnings	14,662,000
Less Utility Dividends	<u>(17,939,466)</u>
Utility Common Equity - 12/31/04	<u>\$175,134,012</u>
Common Equity Infusion	\$10,000,000
Projected Equity Earnings	17,955,000
Less Utility Dividends	<u>(12,537,000)</u>
Utility Common Equity - 12/31/05	<u>\$190,552,012</u>
Average Common Utility Equity - 12/31/05	<u>\$182,843,012</u>

**MDU RESOURCES GROUP, INC.
STOCK DIVIDENDS, STOCK SPLITS OR
CHANGES IN PAR OR STATED VALUE
FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2003**

On April 30, 1999, the MDU Resources Group, Inc. Certificate of Incorporation was amended pursuant to stockholder approval. The amendment to the Certificate of Incorporation increased the number of shares of common stock which the company is authorized to issue from 75,000,000 shares of common stock with a par value of \$3.33 to 150,000,000 shares with a par value of \$1.00.

On October 29, 2003, MDU Resources Group, Inc. issued 37,862,129 additional shares of Common Stock, Par value \$1.00, in connection with a three-for-two Common Stock split to be effected in the form of a fifty percent stock dividend.

MDU RESOURCES GROUP, INC.
COMMON STOCK DATA
FOR THE FIVE YEARS ENDED DECEMBER 31, 2003

Year Ended December 31	Avg Number of Shares Outstanding (000's) 2/	Annual Diluted Earnings (per share) 2/	Annual Dividends (per share) 2/	Dividend/ Earnings Ratio	Average Market Price 1/	Price/ Earnings Ratio	Dividend/ Price Ratio
1999	82,306	1 01	0 5467	54%	15 27	15 1	3 6%
2000	92,085	1 20	0 5733	48%	16 02	13 4	3 6%
2001	101,803	1 52	0 6000	39%	20 17	13 3	3 0%
2002	106,863	1 38	0 6266	45%	17 59	12 7	3 6%
2003	112,460	1 55	0 6600	43%	20 91	13 5	3 2%
Twelve Months							
January 2003	107,427	1 28	0 6266	49%	17 54	13 7	3 6%
February	107,845	1 25 3/	0 6333	51%	17 46	14 0	3 6%
March	108,362	1 33	0 6333	48%	18 09	13 6	3 5%
April	108,831	1 36	0 6333	47%	19 09	14 0	3 3%
May	109,232	1 40	0 6400	46%	20 30	14 5	3 2%
June	109,610	1 48	0 6400	43%	22 18	15 0	2 9%
July	110,083	1 53	0 6400	42%	21 84	14 3	2 9%
August	110,601	1 56	0 6500	42%	21 67	13 9	3 0%
September	111,117	1 57	0 6500	41%	22 68	14 4	2 9%
October	111,648	1 58	0 6500	41%	23 22	14 7	2 8%
November	112,155	1 55	0 6600	43%	22 97	14 8	2 9%
December	112,460	1 55	0 6600	43%	23 84	15 4	2 8%

1/ The average market price is based on monthly high and low for the year

2/ Common stock amounts reflect the Company's three-for-two common stock split effective October 29, 2003

3/ Includes the cumulative effect of the change in accounting for asset retirement obligations as required by the adoption of Statement of Financial Accounts Standards No 143 (February - December 2003)

**MONTANA-DAKOTA UTILITIES CO.
REACQUISITION OF BONDS OR PREFERRED STOCK
FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2003**

First Mortgage Bonds

There was no reacquisition of bonds during the five years ending December 31, 2003.

Preferred Stock

<u>Title</u>	<u>Principal Amount</u>	<u>Reacquisition Cost</u>	<u>Gain or (Loss)</u>
Preferred Stock: 5.1% Preferred Stock	\$500,000	\$500,000	\$0

**MONTANA-DAKOTA UTILITIES CO.
SALES AND TRANSPORTATION REVENUE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

	<u>Dk</u>	<u>Revenue</u>
<u>Sales</u>		
Residential	8,083,189	\$55,219,376
Firm General	5,742,272	36,194,291
Air Force		
Firm	37,297	205,237
Interruptible	840,351	3,649,414
Total Air Force	<u>877,648</u>	<u>3,854,651</u>
Small Interruptible	712,806	3,580,856
Large Interruptible	63,410	326,534
Total Sales	<u>15,479,325</u>	<u>\$99,175,708</u>
<u>Transportation</u>		
Small Interruptible	768,415	\$408,789
Large Interruptible	2,387,332	365,559
Total Transportation	<u>3,155,747</u>	<u>\$774,348</u>
Unbilled Revenue		<u>2,733,102</u>
Total Throughput	<u><u>18,635,072</u></u>	<u><u>\$102,683,158</u></u>
<u>Other Revenue</u>		
Miscellaneous Service Revenue		\$38,475
Rent from Property		301,707
Other Revenue		65,566
Total Other Revenue		<u><u>\$405,748</u></u>

**MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF REVENUES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

Rate Reporting Class	Per Books			Per Books @ Current Rates 1/			Normalized		
	Billing Units	Dk	Revenue	Billing Units	Dk	Revenue	Billing Units	Dk	Revenues
Sales									
Residential									
Residential	73,259	8,063,775	\$55,037,296	73,259	8,063,775	\$65,991,048	73,259	8,090,297	\$66,182,56
Propane	240	19,414	182,080	240	19,414	165,612	240	19,482	166,103
Total Residential	<u>73,499</u>	<u>8,083,189</u>	<u>55,219,376</u>	<u>73,499</u>	<u>8,083,189</u>	<u>66,156,660</u>	<u>73,499</u>	<u>8,109,779</u>	<u>66,348,693</u>
Air Force	3	877,648	3,854,651	3	877,648	4,973,911	3	879,865	4,986,326
Firm General									
Firm General	11,325	5,695,814	35,838,635	11,325	5,695,814	43,609,455	11,325	5,714,153	43,738,818
Seasonal	11	15,098	93,462	11	15,098	111,137	11	15,098	111,137
Propane	73	31,360	262,194	73	31,360	237,602	73	31,473	238,400
Total Firm General	<u>11,409</u>	<u>5,742,272</u>	<u>36,194,291</u>	<u>11,409</u>	<u>5,742,272</u>	<u>43,958,194</u>	<u>11,409</u>	<u>5,760,724</u>	<u>44,088,355</u>
Interruptible									
Small Interruptible	98	712,806	3,580,856	98	712,806	4,345,365	84	572,810	3,498,909
Large Interruptible	2	63,410	326,534	2	63,410	382,818	0	0	0
Total Interruptible	<u>100</u>	<u>776,216</u>	<u>3,907,390</u>	<u>100</u>	<u>776,216</u>	<u>4,728,183</u>	<u>84</u>	<u>572,810</u>	<u>3,498,909</u>
Total Sales	<u>85,011</u>	<u>15,479,325</u>	<u>99,175,708</u>	<u>85,011</u>	<u>15,479,325</u>	<u>119,816,948</u>	<u>84,995</u>	<u>15,323,178</u>	<u>118,922,26</u>
Transportation									
Small Interruptible	44	768,415	408,789	44	768,415	406,845	58	815,573	451,881
Large Interruptible	8	2,387,332	365,559	8	2,387,332	332,989	10	2,563,692	411,152
Total Transportation	<u>52</u>	<u>3,155,747</u>	<u>774,348</u>	<u>52</u>	<u>3,155,747</u>	<u>739,834</u>	<u>68</u>	<u>3,379,265</u>	<u>863,033</u>
Total Sales & Transportation	<u>85,063</u>	<u>18,635,072</u>	<u>\$99,950,056</u>	<u>85,063</u>	<u>18,635,072</u>	<u>\$120,556,782</u>	<u>85,063</u>	<u>18,702,443</u>	<u>\$119,785,316</u>

1/ Gas rates effective with service rendered on and after September 1, 2003, PGA effective with bills rendered on and after February 1, 2004, exclusive of surcharge

**MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF REVENUES
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004 AND PROJECTED 2005**

Rate Reporting Class	Projected 2004			Projected 2005		
	Billing Units	Dk	Revenues	Billing Units	Dk	Revenues
Sales						
Residential						
Residential	73,908	8,130,836	\$66,544,060	74,677	8,133,381	\$66,643,837
Propane	241	19,462	166,064	242	19,347	165,340
Total Residential	<u>74,149</u>	<u>8,150,298</u>	<u>66,710,124</u>	<u>74,919</u>	<u>8,152,728</u>	<u>66,809,177</u>
Air Force	3	879,865	4,986,326	3	879,865	4,986,326
Firm General						
Firm General	11,386	5,727,177	43,849,268	11,448	5,701,080	43,683,941
Seasonal	11	15,098	111,137	11	15,098	111,137
Propane	73	31,351	237,539	73	31,038	235,331
Total Firm General	<u>11,470</u>	<u>5,773,626</u>	<u>44,197,944</u>	<u>11,532</u>	<u>5,747,216</u>	<u>44,030,409</u>
Interruptible						
Small Interruptible	82	570,263	3,481,200	82	570,263	3,481,200
Large Interruptible	0	0	0	0	0	0
Total Interruptible	<u>82</u>	<u>570,263</u>	<u>3,481,200</u>	<u>82</u>	<u>570,263</u>	<u>3,481,200</u>
Total Sales	<u>85,704</u>	<u>15,374,052</u>	<u>119,375,594</u>	<u>86,536</u>	<u>15,350,072</u>	<u>119,307,112</u>
Transportation						
Small Interruptible	57	703,084	401,449	57	703,084	401,449
Large Interruptible	10	2,229,392	381,588	10	2,229,392	381,588
Total Transportation	<u>67</u>	<u>2,932,476</u>	<u>783,037</u>	<u>67</u>	<u>2,932,476</u>	<u>783,037</u>
Total Sales & Transportation	<u>85,771</u>	<u>18,306,528</u>	<u>\$120,158,631</u>	<u>86,603</u>	<u>18,282,548</u>	<u>\$120,090,149</u>

1/ Gas rates effective with service rendered on and after September 1, 2003, PGA effective with bills rendered on and after February 1, 2004, exclusive of surcharge

MONTANA-DAKOTA UTILITIES CO
SUMMARY OF OPERATION AND MAINTENANCE EXPENSES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	Total Company	North Dakota
Cost of Gas	<u>\$181,536,759</u>	<u>\$81,904,699</u>
Other Gas Supply	441,640	209,668
Distribution	13,577,649	5,557,824
Customer Accounts	7,190,582	2,763,194
Customer Service & Infor	291,830	166,788
Sales	1,244,148	496,319
Administrative and General	<u>13,537,918</u>	<u>5,498,904</u>
Total Operation and Maintenance Expenses	<u><u>\$217,820,526</u></u>	<u><u>\$96,597,396</u></u>

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF OPERATION AND MAINTENANCE EXPENSES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

<u>Account No</u>		<u>Total Company</u>	<u>North Dakota</u>
	<u>Other Gas Supply Expenses</u>		
804	Natural Gas City Gate Purchases	\$197,660,433	\$86,313,563
805	Purchased Gas Cost Adjustments	(13,034,226)	(4,387,234)
808 1	Gas Withdrawn from Storage	39,049,256	17,813,204
808 2	Gas Delivered to Storage	(42,138,704)	(17,834,834)
812	Gas Used for Other Utility Operations - Cr		
813	Other Gas Supply Expenses	441,640	209,668
	Total Other Gas Supply Expenses	<u>\$181,978,399</u>	<u>82,114,367</u>
	 <u>Distribution Expenses</u>		
	<u>Operation</u>		
870	Supervision and Engineering	\$1,560,936	\$561,859
871	Distribution Load Dispatching	175,037	72,026
874	Mains and Services	2,607,450	988,155
875	Measuring & Reg Station Exp - General	77,124	37,387
876	Measuring & Reg Station Exp - Industrial	49,653	28,955
877	Measuring & Reg Station Exp - City Gate	31,758	5,227
878	Meters and House Regulators	1,555,081	660,887
879	Customer Installations	2,235,403	895,890
880	Other Expenses	3,384,375	1,475,119
881	Rents	71,259	22,228
	Total Operation Expenses	<u>11,748,076</u>	<u>4,747,733</u>
	 <u>Maintenance</u>		
885	Supervision & Engineering	631,581	289,936
886	Structures & Improvements	4,029	2,484
887	Mains	237,645	107,431
889	Measuring & Reg Station Exp - General	46,416	21,043
890	Measuring & Reg Station Exp - Industrial	24,257	2,943
891	Measuring & Reg Station Exp - City Gate	2,091	224
892	Services	167,028	100,102
893	Meters and House Regulators	227,091	99,852
894	Other Equipment	489,435	186,076
	Total Maintenance Expenses	<u>1,829,573</u>	<u>810,091</u>
	 Total Distribution Expenses	<u>\$13,577,649</u>	<u>\$5,557,824</u>
	 <u>Customer Accounts Expenses</u>		
	<u>Operation</u>		
901	Supervision	\$617,329	\$262,999
902	Meter Reading Expenses	1,554,294	572,434
903	Customer Records and Collection Exp	3,957,171	1,591,194
904	Uncollectible Accounts	604,262	178,014
905	Misc Customer Accounts Expenses	457,526	158,553
	Total Customer Accounts Expenses	<u>\$7,190,582</u>	<u>\$2,763,194</u>

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF OPERATION AND MAINTENANCE EXPENSES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

<u>Account No</u>		<u>Total Company</u>	<u>North Dakota</u>
	<u>Customer Service & Information Expenses</u>		
	<u>Operation</u>		
907	Supervision	\$42,938	\$28,682
908	Customer Assistance Expenses	185,303	106,187
909	Informational and Instructional Expenses	57,417	25,981
910	Misc Customer Service & Info Exp	6,172	5,938
	Total Customer Service & Info Exp	\$291,830	\$166,788
	 <u>Sales Expenses</u>		
	<u>Operation</u>		
911	Supervision	\$297,490	\$133,722
912	Demonstrating and Selling Expenses	777,615	298,413
913	Advertising Expenses	89,324	34,221
916	Misc Sales Expenses	79,719	29,963
	Total Sales Expenses	\$1,244,148	\$496,319
	 <u>Administrative & General Expenses</u>		
	<u>Operation</u>		
920	Administrative and General Salaries	\$3,872,624	1,534,164
921	Office Supplies and Expenses	2,164,380	853,116
923	Outside Services Employed	567,873	219,243
924	Property Insurance	409,344	162,164
925	Injuries and Damages	1,175,336	427,908
926	Employee Pensions and Benefits	3,919,744	1,609,730
927	Franchise Requirements		
928	Regulatory Commission Expenses	162,519	43,222
930 1	General Advertising Expenses	157,980	112,485
930 2	Miscellaneous General Expenses	277,962	102,566
931	Rents	313,923	208,057
	Total Operation Expenses	13,021,685	5,272,655
	 <u>Maintenance</u>		
935	Maintenance of General Plant	516,233	226,249
	Total Administrative & General Expenses	\$13,537,918	\$5,498,904
	Total Operation & Maintenance Expenses	\$217,820,526	\$96,597,396

**MONTANA-DAKOTA UTILITIES CO.
DEPRECIATION EXPENSE AND AMORTIZATION
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	<u>Total Company</u>	<u>North Dakota</u>
Distribution	\$6,782,714	\$2,358,371
General	506,088	165,893
Common	581,985	235,781
Amortization of Intangible Plant - General	10,013	2,035
Amortization of Intangible Plant - Common	564,093	201,313
Gas Plant Leased to Others	2,409	1,063
Amortization of Acquisition Adjustment	<u>29,837</u>	<u>29,837</u>
Total Depreciation and Amort Expense	<u><u>\$8,477,139</u></u>	<u><u>\$2,994,293</u></u>

**MONTANA-DAKOTA UTILITIES CO.
DEPRECIATION AND AMORTIZATION EXPENSES
GAS UTILITY – NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003**

See Pages 3 through 5 for Montana-Dakota's depreciation rates as authorized in Case No. PU-399-02-183 and derived from a study by AUS Consultants as of December 31, 2001 for gas and common plant.

Montana-Dakota Utilities Company
Gas Division

SETTLEMENT POSITION
Summary or Original Cost of Utility Plant in Service as of December 31, 2001
and Related Annual Depreciation Expense Under Present and Proposed Rates

Account No (a)	Description (b)	Original	Present Rates		Proposed Rates		Net Change Depr Exp (h)
		Cost 12/31/01 (c)	Rate % (d)	Annual Accrual (e)	Rate % (f)	Annual Accrual (g)	
DEPRECIABLE PLANT							
Distribution Plant							
374 20	Rights of Way	89,641	2 58%	2,313	0 75%	672	-1,640
375 00	Distr Meas & Reg Station Structures	521,210	2 40%	12,509	2 57%	13,395	886
376 00	Mains	78,334,154	4 05%	3 172,533	1 92%	1,504,016	-1,668,517
378 00	Meas & Reg Station Equip-General	1,367,334	2 30%	31,449	2 96%	40,473	9,024
379 00	Meas & Reg Station Equip-City Gate	1,009,137	2 74%	27,650	3 54%	35,723	8,073
380 00	Services	32 476,717	7 60%	2,468,231	5 66%	1,838,182	-630 048
381 00	Meters	30,462,008	2 58%	785,920	3 19%	971,738	185,818
383 00	Service Regulators	4,296,862	2 37%	101 836	2 59%	111,289	9,453
385 00	Industrial Meas & Reg Station Equipment	578,200	1 91%	11,044	3 04%	17,577	6,534
						4,533,066	
MISCELLANEOUS EQUIPMENT							
386 10	Miscellaneous Property on Customers Premise	1,680	9 35%	157	5 19%	87	-70
386 20	CNG Refueling station	432,811	9 35%	40,468	3 70%	16,014	-24,454
	TOTAL Account 386	434,491	9 35%	40,625	3 71%	16,101	-24,524
OTHER EQUIPMENT							
387 10	Cathodic Protection Equipment	1,450,657	5 21%	75,579	5 75%	83,413	7,834
387 20	Other Distribution Equipment	557,184	5 21%	29,029	1 42%	7,912	-21,117
	TOTAL Account 387	2,007,841	5 21%	104,609	4 55%	91,325	-13,284
	TOTAL Distribution Plant	151,577,594	4 46%	6,758,717	3 06%	4,640,492	-2,118,225
General Plant							
390 00	General Structures	1,922,983	2 34%	44,998	3 73%	71,727	26,729
OFFICE FURNITURE & EQUIPMENT							
391 10	Office Furniture & Equipment	544,275	4 05%	22,043	4 97%	27,034	4,991
391 30	Computer Equipment - PC	780,995	12 50%	97,624	26 13%	204,035	106,411
	TOTAL Account 391	1,325,269	9 03%	119,667	17 44%	231,069	111,401
TRANSPORTATION EQUIPMENT							
392 10	Transportation Equipment (Trailers)	147,187	5 74%	8,449	4 36%	6,417	-2,031
392 20	Transportation Equipment (Cars & Trucks)	6,080,561	5 74%	349,024	21 13%	1,284,823	935,798
	TOTAL Account 392	6,227,748	5 74%	357,473	20 73%	1,291,240	933,767
393 00	Stores Equipment	186,729	0 90%	1,681	2 49%	4,658	2,978
TOOLS, SHOP & GARAGE EQ							
394 10	Tools, Shop & Garage Equip (Non-Unitized)	2,495,422	3 57%	89,087	6 62%	165,153	76,067
394 20	Tools, Shop & Garage Equip (Unitized)	299,810	4 83%	14,481	2 40%	7,201	-7,280
394 30	Vehicle Maintenance Equipment	31,177	4 21%	1,313	5 78%	1,803	491
394 40	Vehicle Refueling Equipment	361,344	9 35%	33,786	4 72%	17,065	-16,721
	TOTAL Account 394	3,187,752	4 35%	138,666	6 00%	191,222	52,557
395 00	Laboratory Equipment	271,033	2 32%	6,288	7 67%	20,801	14,513
POWER OPERATED EQUIPMENT							
396 10	Work Equipment (Trailers)	293,543	4 83%	14,178	5 76%	16,908	2,730
396 20	Power Operated Equipment	4,081,768	4 83%	197,149	0 00%	0	-197,149
	TOTAL Account 396	4,375,312	4 83%	211,328	0 39%	16,908	-194,419

Montana-Dakota Utilities Company
Gas Division

SETTLEMENT POSITION
Summary or Original Cost of Utility Plant in Service as of December 31, 2001
and Related Annual Depreciation Expense Under Present and Proposed Rates

Account No (a)	Description (b)	Original	Present Rates		Proposed Rates		Net Change Depr Exp (h)
		Cost 12/31/01 (c)	Rate % (d)	Annual Accrual (e)	Rate % (f)	Annual Accrual (g)	
COMMUNICATION EQUIPMENT							
397 10	Radio Communication Equip (Fixed)	481,655	3.67%	17,677	7.37%	35,511	17,834
397 20	Radio Communication Equip (Mobile)	401,528	3.67%	14,736	7.34%	29,469	14,733
397 30	General Telephone Communication Equip	90,518	6.56%	5,938	9.88%	8,941	3,003
397 50	Supervisory & Telemetering Equip	124,167	6.67%	8,282	0.25%	311	-7,971
397 60	SCADA System	30,894	15.07%	4,656	0.00%	0	-4,656
397 80	Network Equipment	30,338	12.50%	3,792	26.26%	7,968	4,176
	TOTAL Account 397	1,159,100	4.75%	55,081	7.09%	82,199	27,119
398 00	Miscellaneous Equipment	145,270	0.59%	82,199	1.27%	1,851	-80,348
	TOTAL General Plant	18,801,196	5.41%	1,017,380	10.17%	1,911,676	894,296
	TOTAL Depreciable Plant	170,378,791	4.56%	7,776,097	3.85%	6,552,168	-1,223,929
<u>NON-DEPRECIABLE PLANT</u>							
374 10	Land (Distribution)	108,920					
389 00	Land & Land Rights (General)	301,149					
	Total Land	410,069					
INTANGIBLE PLANT							
303 00	Miscellaneous Intangible Plant	477,530					
	Total Intangible Plant	477,530					
	TOTAL Non-Depreciable Plant	887,598					
	TOTAL Plant in Service	171,266,389					

Montana-Dakota Utilities Company
Common Plant

MDU Settlement

Summary of Original Cost of Utility Plant in Service as of December 31, 2001
and Related Annual Depreciation Expense Under Present and Proposed Rates

Account No (a)	Description (b)	Original Cost 12/31/01 (c)	Present Rates		Proposed Rates		Net Change Depr Exp (h)
			Rate % (d)	Annual Accrual (e)	Rate % (f)	Annual Accrual (g)	
DEPRECIABLE PLANT							
General Plant							
390 0	General Structures	18,048,459 30	3 76%	678,622 07	2 93%	528,819 86	-149,802 21
OFFICE FURNITURE & EQUIPMENT							
391 1	Office Furniture & Equipment	3,716,416 91	1 48%	55,002 97	4 95%	184,032 14	129,029 17
391 2	Computer Equipment - Honeywell	93,392 30	14 17%	13,233 69	1 52%	1,416 58	-11,817 11
391 3	Computer Equipment - PC	4,212,743 17	12 50%	526,592 90	23 29%	981,147 88	454,554 98
391 5	Computer Equipment - Other	820,399 57	26 51%	217,487 93	0 46%	3,797 58	-213,690 35
	TOTAL Account 391	8,842,951 95	9 19%	812,317 49	13 24%	1,170,394 18	358,076 69
TRANSPORTATION EQUIPMENT							
392 1	Transportation Equipment (Trailers)	251,165 84	5 74%	14,416 92	0 00%	0 00	-14,416 92
392 2	Transportation Equipment (Cars & Trucks)	4,429,701 58	5 74%	254,264 87	13 33%	590,479 22	336,214 35
	TOTAL Account 392	4,680,867 42	5 74%	268,681 79	12 61%	590,479 22	321,797 43
393 0	Stores Equipment	47,385 55	3 36%	1,592 15	2 80%	1,327 61	-264 54
TOOLS, SHOP & GARAGE EQ							
394 1	Tools, Shop & Garage Equip (Non-Unitized)	235,026 00	3 44%	8,084 89	6 11%	14,362 50	6,277 61
394 3	Vehicle Maintenance Equipment	102,746 14	4 46%	4,582 48	4 75%	4,877 05	294 57
394 4	Vehicle Refueling Equipment	838,830 77	8 42%	70,629 55	4 38%	36,709 31	-33,920 24
	TOTAL Account 394	1,176,602 91	7 08%	83,296 92	4 76%	55,948 86	-27,348 06
396 2	Power Operated Equipment	157,572 62	4 83%	7,610 76	2 69%	4,238 70	-3,372 06
COMMUNICATION EQUIPMENT							
397 1	Radio Communication Equip (Fixed)	646,187 02	4 33%	27,979 90	4 99%	32,241 83	4,261 93
397 2	Radio Communication Equip (Mobile)	1,285,023 00	6 68%	85,839 54	4 08%	52,474 26	-33,365 28
397 3	General Telephone Communication Equip	779,821 23	10 62%	82,817 01	8 72%	68,036 36	-14,780 65
397 5	Supervisory & Telemetering Equip	48,295 94	0 59%	284 95	0 35%	170 00	-114 95
397 8	Network Equipment	824,948 21	12 50%	103,118 53	17 95%	148,037 04	44,918 51
	TOTAL Account 397	3,584,275 40	8 37%	300,039 93	8 40%	300,959 49	919 56
398 0	Miscellaneous Equipment	592,894 94	2 51%	14,881 66	2 41%	14,291 82	-589 84
	Sub-Total (General Plant) Amortization	10,031,367 58	6 83%	685,535 25	5 60%	561,774 08	-123,761 17
	TOTAL General Plant	37,131,010 09	5 84%	2,167,042 77	7 18%	2,666,459 74	499,416 97
	TOTAL Depreciable Plant	37,131,010 09	5 84%	2,167,042 77	7 18%	2,666,459 74	499,416 97
Amortizable Plant							
392 3	Aircraft Equipment	1,024,349 51					
	TOTAL Amortizable Plant	1,024,349 51					
NON-DEPRECIABLE PLANT							
389 0	Land & Land Rights (General)	1,547,408 83					
	Total Land	1,547,408 83					
INTANGIBLE PLANT							
303 0	Miscellaneous Intangible Plant	13,553,859 20					
	Total Intangible Plant	13,553,859 20					
	TOTAL Non-Depreciable Plant	15,101,268 03					
	TOTAL Plant in Service	53,256,627 63					

**MONTANA-DAKOTA UTILITIES CO.
RECONCILIATION OF DEPRECIABLE GAS PLANT
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	Balance @ 12/31/02	Balance @ 12/31/03	Average Balance
<u>Depreciable Plant</u>			
Distribution	\$56,725,545	\$58,991,666	\$57,858,606
General	3,189,547	2,384,065	2,786,805
General - Amortized	181,686	180,280	180,983
Gas Plant Leased to Others	11,374	11,374	11,374
	<u>\$60,108,152</u>	<u>\$61,567,385</u>	<u>\$60,837,768</u>
<u>Depreciable Plant Charged to a Clearing Account</u>			
Transportation Equipment	\$2,214,973	\$2,306,747	\$2,260,860
Tools, Shop & Garage Equipment - Unitized	123,956	39,059	81,508
Power Operated Equipment	114,117	111,701	112,909
Work Equipment	1,370,028	1,343,917	1,356,973
	<u>\$3,823,074</u>	<u>\$3,801,424</u>	<u>\$3,812,250</u>
<u>Non-Depreciable Plant</u>			
Distribution	\$41,999	\$41,687	\$41,843
General	154,460	154,772	154,616
	<u>\$196,459</u>	<u>\$196,459</u>	<u>\$196,459</u>
<u>Common Plant in Service - Gas</u>			
Depreciable	\$4,436,641	\$4,037,362	\$4,237,002
Charged to Clearing Account	889,223	1,353,683	1,121,453
Depreciable - Amortized	2,010,760	2,066,890	2,038,824
Non-Depreciable	213,977	215,955	214,965
	<u>\$7,550,601</u>	<u>\$7,673,890</u>	<u>\$7,612,244</u>
Acquisition Adjustment - Amortized	<u>\$97,266</u>	<u>\$97,266</u>	<u>\$97,266</u>
Total Gas Plant in Service	<u><u>\$71,775,552</u></u>	<u><u>\$73,336,424</u></u>	<u><u>\$72,555,987</u></u>

**MONTANA-DAKOTA UTILITIES CO
TAXES OTHER THAN INCOME
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Type of Tax</u>	<u>Total Company</u>	<u>North Dakota</u>
Ad Valorem 1/	\$2,665,287	\$627,260
O&M Related Taxes		
Payroll		
FICA	\$1,433,129	\$614,541
Federal & State Unemployment	76,009	19,898
Total Payroll	<u>\$1,509,138</u>	<u>\$634,439</u>
Delaware Franchise	62,155	24,850
Total O&M Related Taxes	<u>\$1,571,293</u>	<u>\$659,289</u>
Other		
Hettinger Franchise	\$12,075	\$12,075
Wyoming Franchise	84,234	
Montana Consumer Counsel	66,214	
Montana PSC	163,885	
South Dakota Special Hearing Fund	52,574	
Wyoming Revolving Fund	30,731	
Secretary of State	674	270
Highway Use Tax	560	203
Total Other	<u>\$410,947</u>	<u>\$12,548</u>
Total Taxes Other Than Income	<u>\$4,647,527</u>	<u>\$1,299,097</u>

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**MONTANA-DAKOTA UTILITIES CO.
TAXES OTHER THAN INCOME
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Type of Tax</u>	<u>Total Company</u>
<u>Ad Valorem</u>	
Montana	
Distribution	\$1,308,097
General	75,596
Common	96,466
Total Montana	<u>\$1,480,159</u>
North Dakota	
Distribution	\$512,281
General	54,208
Common	57,915
Intangible - General	2,856
Total North Dakota	<u>\$627,260</u>
South Dakota	
Distribution	\$403,141
General	79,594
Common	31,264
Intangible - General	872
Total South Dakota	<u>\$514,871</u>
Wyoming	
Distribution	\$28,992
General	1,243
Common	12,610
Intangible - General	152
Total Wyoming	<u>\$42,997</u>
Total Ad Valorem Taxes	<u><u>\$2,665,287</u></u>

**MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	Total Company	North Dakota
Operating Revenue	<u>\$237,207,834</u>	<u>\$103,088,906</u>
Operating Expense		
O&M Expense	217,820,526	96,597,396
Depreciation Expense	8,477,139	2,994,293
Taxes Other than Income	4,647,527	1,299,097
Total Operating Expense	<u>230,945,192</u>	<u>100,890,786</u>
Operating Income	6,262,642	2,198,120
Interest Expense	<u>3,265,633</u>	<u>975,871</u>
Book Taxable Income before Adjustments	2,997,009	1,222,249
Deductions and Adjustments to Book Income		
Tax Deductions 1/	12,715,396	4,311,402
Preferred Dividend Paid Deduction	52,184	15,397
Total Deductions and Adjustments	<u>12,767,580</u>	<u>4,326,799</u>
Taxable Income - Before State Income Tax	(9,770,571)	(3,104,550)
Less State Income Taxes	(582,346)	(367,346)
Federal Taxable Income	<u>(9,188,225)</u>	<u>(2,737,204)</u>
Federal Income Taxes @ 35%	(3,215,879)	(958,021)
Credits and Adjustments	(7,532)	(3,011)
State Income Taxes	<u>(582,346)</u>	<u>(367,346)</u>
Federal and State Income Taxes	(3,805,757)	(1,328,378)
Closing, Filing, and Out of Period Adjustment	<u>(318,854)</u>	<u>(133,496)</u>
Total Federal and State Income Taxes	<u><u>(\$4,124,611)</u></u>	<u><u>(\$1,461,874)</u></u>

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MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
TAX DEDUCTIONS
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	Total Company	North Dakota
<u>1900 Account M-1's</u>		
Management Incentive Compensation	(\$191,611)	(\$76,609)
Pension Expense	657,311	262,803
Sundry Reserves	914	270
Property Insurance Adjustment	214,996	76,732
Bad Debt Expense	(82,083)	(19,647)
Accrued Vacation	(201,310)	(80,487)
Capitalized Overheads	(104,056)	(41,603)
Customer Advances	148,585	(20,439)
FAS 106 - OPRB	4,836	1,934
Deferred Compensation	(226,864)	(90,704)
BOD Retirement	14,173	5,667
Demand Charges	345,925	118,336
PCB related income	11,720	4,468
Restricted Stock Bonus Plan	(241,823)	(96,684)
<u>2820 Account M-1's</u>		
Liberalized Depreciation and Other		
Property Timing Differences	(364,589)	(172,087)
Contributions in Aid of Construction	(147,896)	(134,406)
Acquisition Adjustments	(29,837)	(29,837)
<u>2830 Account M-1's</u>		
Purchased Gas Cost Adjustment	13,427,981	4,780,020
Rate Case Expense	47,577	12,039
Amortization of Loss on Bond Retirements	(321,439)	(94,840)
FAS 106 - Deferred Expense	(54,531)	
Gas IRP	(88,708)	(53,000)
<u>Permanent M-1's</u>		
Meals & Entertainment	(86,095)	(34,422)
Federal Nonhwy Use Tax Credit	(8,169)	(3,266)
Preferred Stock Compensation	(9,611)	(2,836)
Total M-1 Deductions	\$12,715,396	\$4,311,402

**MONTANA-DAKOTA UTILITIES CO.
DEFERRED INCOME TAXES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	<u>Total Utility</u>	<u>North Dakota</u>
<u>Gas Utility - Rate Base Deductions:</u>		
Depreciation, Retirements and Other Timing		
Differences Required to be Normalized	(\$358,397)	(\$161,023)
Contributions In Aid of Construction	(56,870)	(52,149)
Customer Advances	57,569	(8,096)
Acquisition Adjustment	(11,577)	(11,577)
Total Rate Base Deductions	<u>(369,275)</u>	<u>(232,845)</u>
<u>Gas Utility - Current Timing Differences:</u>		
Management Incentive Compensation	(73,055)	(30,345)
Pension Expense	250,609	104,096
Sundry Reserves	344	106
Property Insurance Adjustment	81,544	30,393
Bad Debt Expense	(31,301)	(7,782)
Accrued Vacation	(76,752)	(31,880)
Capitalized Overheads	(39,673)	(16,479)
FAS 106	(18,943)	766
Deferred Compensation	(86,494)	(35,927)
BOD Retirement	5,404	2,244
Demand Charges	131,774	46,873
PCB Related Income	4,469	1,770
Restricted Stock Bonus Plan	(92,199)	(38,297)
Unrecovered Purchased Gas Cost	5,097,135	1,893,366
Rate Case Expense	14,749	4,769
Amort of Loss on Bond Retirements	(121,000)	(37,566)
Gas IRP	(35,062)	(20,993)
Closing and Filing	328,924	141,108
Total Current Timing Differences	<u>5,340,473</u>	<u>2,006,222</u>
 Total Deferred Income Taxes	 <u><u>\$4,971,198</u></u>	 <u><u>\$1,773,377</u></u>

**MONTANA-DAKOTA UTILITIES CO.
ANALYSIS OF ACCUMULATED DEFERRED INCOME TAXES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	Total Company		North Dakota		
	Balance 12/31/02	Balance 12/31/03	Balance 12/31/02	Balance 12/31/03	Average Balance
<u>Gas Utility - Rate Base Deductions</u>					
Depreciation, Retirements and Other Timing					
Differences Required to be Normalized	\$10,128,333	\$10,308,699	\$3,746,094	\$3,715,814	3,730,954
Contributions In Aid of Construction	(241,476)	(300,282)	(103,405)	(157,479)	(130,442)
Full Normalization	339,490	122,555	465,365	374,305	419,835
Customer Advances for Construction	(275,701)	(218,132)	(101,031)	(109,127)	(105,079)
Montana Net Salvage	369,676	410,444			0
Acquisition Adjustment		(11,577)		(11,577)	(5,789)
Total	<u>\$10,320,322</u>	<u>\$10,311,707</u>	<u>\$4,007,023</u>	<u>\$3,811,936</u>	<u>\$3,909,479</u>

**MONTANA-DAKOTA UTILITIES CO.
ANALYSIS OF UNAMORTIZED INVESTMENT TAX CREDITS
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

	<u>Total Company</u>	<u>North Dakota</u>
<u>Balance @</u> December 31, 2002	\$518,742	\$235,403
December 31, 2003	<u>\$413,147</u>	<u>\$178,210</u>
Average Balance	<u>\$465,945</u>	<u>\$206,807</u>

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003

Case No _____
Statement L
Page 1 of 4

	<u>Total Company</u>	<u>North Dakota</u>	<u>Other</u>	<u>Reference</u>
Operating Revenues				
Sales	\$233,447,443	\$101,923,886	\$131,523,557	Statement G
Transportation	2,756,722	759,272	1,997,450	Statement G
Other	1,003,669	405,748	597,921	Statement G
Total Revenues	<u>237,207,834</u>	<u>103,088,906</u>	<u>134,118,928</u>	
Operating Expenses				
Operation and Maintenance				
Cost of Gas	181,536,759	81,904,699	99,632,060	Statement H
Other O&M	36,283,767	14,692,697	21,591,070	Statement H
Total O&M	<u>217,820,526</u>	<u>96,597,396</u>	<u>121,223,130</u>	
Depreciation	8,477,139	2,994,293	5,482,846	Statement I
Taxes Other Than Income	4,647,527	1,299,097	3,348,430	Statement J
Current Income Taxes	(4,124,611)	(1,461,874)	(2,662,737)	Statement K
Deferred Income Taxes	4,971,198	1,773,377	3,197,821	Statement K
Total Expenses	<u>231,791,779</u>	<u>101,202,289</u>	<u>130,589,490</u>	
Operating Income	<u><u>\$5,416,055</u></u>	<u><u>\$1,886,617</u></u>	<u><u>\$3,529,438</u></u>	

MONTANA-DAKOTA UTILITIES CO.
RATE BASE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003

	Total Company	North Dakota	Other	Reference
Gas Plant in Service	\$207,228,077	\$73,336,424	\$133,891,653	Statement C
Accumulated Reserve for Depreciation	126,784,629	50,251,003	76,533,626	Statement D
Net Gas Plant in Service	<u>80,443,448</u>	<u>23,085,421</u>	<u>57,358,027</u>	
 CWIP in Service Pending Reclassification	 1,194,868	 449,173	 745,695	 Statement C
Total Gas Plant in Service	<u>81,638,316</u>	<u>23,534,594</u>	<u>58,103,722</u>	
 Additions				
Materials and Supplies	1,151,403	409,023	742,380	Statement E
Fuel Stocks	25,616	25,616	0	Statement E
Gas in Underground Storage	6,112,241	0	6,112,241	
Prepayments	1,378,658	65,958	1,312,700	Statement E
Other	214,751	17,984	196,767	Statement E
Total Additions	<u>8,882,669</u>	<u>518,581</u>	<u>8,364,088</u>	
 Total Before Deductions	 \$90,520,985	 \$24,053,175	 \$66,467,810	
 Deductions				
Accumulated Deferred Income Taxes	10,311,707	3,811,936	6,499,771	Statement K
Accumulated Investment Tax Credits	413,147	178,210	234,937	Statement K
Customer Advances	587,187	307,320	279,867	Statement E
Total Deductions	<u>11,312,041</u>	<u>4,297,466</u>	<u>7,014,575</u>	
 Total Rate Base	 <u>\$79,208,944</u>	 <u>\$19,755,709</u>	 <u>\$59,453,235</u>	

MONTANA-DAKOTA UTILITIES CO.
AVERAGE RATE BASE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003

	<u>2002</u>	<u>2003</u>	<u>Average</u>
Gas Plant in Service	\$71,775,552	\$73,336,424	\$72,555,988
Accumulated Reserve for Depreciation	49,036,379	50,251,003	49,643,691
Net Gas Plant in Service	<u>22,739,173</u>	<u>\$23,085,421</u>	<u>22,912,297</u>
CWIP in Service Pending Reclassification	405,134	449,173	427,154
Total Gas Plant in Service	<u>23,144,307</u>	<u>23,534,594</u>	<u>23,339,451</u>
Additions			
Materials and Supplies	376,334	409,023	392,679
Fuel Stock	23,626	25,616	24,621
Prepayments	33,397	65,958	49,677
Other	70,984	17,984	44,484
Total Additions	<u>504,341</u>	<u>518,581</u>	<u>511,461</u>
Total Before Deductions	\$23,648,648	\$24,053,175	\$23,850,912
Deductions			
Accumulated Deferred Income Taxes	4,007,023	3,811,936	3,909,479
Accumulated Investment Tax Credits	235,403	178,210	206,807
Customer Advances	286,881	307,320	297,101
Total Deductions	<u>4,529,307</u>	<u>4,297,466</u>	<u>4,413,387</u>
Total Rate Base	<u>\$19,119,341</u>	<u>\$19,755,709</u>	<u>\$19,437,525</u>

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
GAS UTILITY - NORTH DAKOTA
PROJECTED 2005
(000s)

	Before Additional Revenue Re- quirements	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$119,307	\$3,337	\$122,644
Transportation	783		783
Other	406		406
Total Revenues	<u>120,496</u>	<u>3,337</u>	<u>123,833</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	99,473		99,473
Other O&M	17,546		17,546
Total O&M	<u>117,019</u>		<u>117,019</u>
Depreciation	2,615		2,615
Taxes Other Than Income	1,421		1,421
Current Income Taxes	263	1,320	1,583
Deferred Income Taxes	(873)		(873)
Total Expenses	<u>120,445</u>	<u>1,320</u>	<u>121,765</u>
Operating Income	<u>\$51</u>	<u>\$2,017</u>	<u>\$2,068</u>
Rate Base	<u>\$20,914</u>		<u>\$20,914</u>
Rate of Return			
	<u>0.244%</u>		<u>9.887%</u>

**MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Proposed Final Rates**

Customer Class/Rate	Projected 2005			Total Proposed Revenue	Proposed Revenue Increase	Percent Increase
	Customers	Dk	Revenue			
Residential - Rate 60	74,919	8,152,728	\$66,809,177	\$69,145,273	\$2,336,096	3.5%
Firm General Service - Rate 70	11,532	5,747,216	44,030,409	45,028,539	998,130	2.3%
Air Force - Rate 64						
Firm	1	37,297	252,218	252,218	0	0.0%
Interruptible	2	842,568	4,734,108	4,734,108	0	0.0%
Total Air Force	<u>3</u>	<u>879,865</u>	<u>4,986,326</u>	<u>4,986,326</u>	<u>0</u>	<u>0.0%</u>
Small Interruptible						
Sales - Rate 71	82	570,263	3,481,200			0.0%
Transport - Rate 81	57	703,084	401,449			0.0%
Total Small Interruptible	<u>139</u>	<u>1,273,347</u>	<u>3,882,649</u>	<u>3,882,649</u>	<u>0</u>	<u>0.0%</u>
Large Interruptible						
Sales - Rate 85	0	0	0			
Transport - Rate 82	10	2,229,392	381,588			
Total Large Interruptible	<u>10</u>	<u>2,229,392</u>	<u>381,588</u>	<u>381,588</u>	<u>0</u>	<u>0.0%</u>
Total North Dakota	<u>86,603</u>	<u>18,282,548</u>	<u>\$120,090,149</u>	<u>\$123,424,375</u>	<u>\$3,334,226</u>	<u>2.8%</u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
COST OF SERVICE BY COMPONENT
PROJECTED 2005**

Cost of Service By Component	Total	Residential			Firm General		
	North Dakota	Demand	Energy	Customer	Demand	Energy	Customer
Projected Rate Base	20,914,274	3,896,450	8,412	8,944,297	2,700,477	13,588	4,258,247
Operating Income for Proposed Return	2,067,794	385,242	832	884,323	266,996	1,343	421,013
Projected Operating Income	50,905	(1,006,616)	2,993,218	(2,404,887)	(697,639)	1,528,433	(643,206)
Increase in Operating Income	2,016,889	1,391,858	(2,992,386)	3,289,210	964,635	(1,527,090)	1,064,219
Related Taxes for Increase Federal Income	1,319,571	910,637	(1,957,798)	2,151,998	631,122	(999,113)	696,276
Total Increase in Revenue	3,336,460	2,302,495	(4,950,184)	5,441,208	1,595,757	(2,526,203)	1,760,495
Projected Revenues before Increase	120,495,896	11,654,512	47,292,339	8,119,292	8,215,021	32,372,868	3,571,687
Total Cost of Service Required From Rates	123,832,356	13,957,007	42,342,155	13,560,500	9,810,778	29,846,665	5,332,182
Less Projected Cost of Gas	99,473,000	11,590,339	42,062,661	0	8,170,536	29,648,464	0
Net Distribution Costs	24,359,356	2,366,668	279,494	13,560,500	1,640,242	198,201	5,332,182
Billing Units at Customer							
Dk Throughput		8,152,728	8,152,728	0	5,747,216	5,747,216	0
Bills		0	0	899,028	0	0	138,384
Unit Cost of Service							
\$ Per Dk		0 290	0 034	0 000	0 285	0 034	0 000
\$ Per Customer Per Month		0 000	0 000	15 084	0 000	0 000	38 532

**MONTANA-DAKOTA UTILITIES CO
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
COST OF SERVICE BY COMPONENT
PROJECTED 2005**

Cost of Service By Component	Air Force			Small Interruptible		
	Demand	Energy	Customer	Demand	Energy	Customer
Projected Rate Base	36,066	0	70,472	214,615	0	446,319
Operating Income for Proposed Return	3,566	0	6,968	21,219	0	44,127
Projected Operating Income	(8,591)	48,535	(11,055)	(55,434)	311,874	(131,450)
Increase in Operating Income	12,157	(48,535)	18,023	76,653	(311,874)	175,577
Related Taxes for Increase Federal Income	7,954	(31,754)	11,792	50,151	(204,047)	114,873
Total Increase in Revenue	20,111	(80,289)	29,815	126,804	(515,921)	290,450
Projected Revenues before Increase	326,219	4,645,834	16,375	200,712	3,484,791	209,263
Total Cost of Service Required From Rates	346,330	4,565,545	46,190	327,516	2,968,870	499,713
Less Projected Cost of Gas	324,411	4,535,589	0	197,204	2,943,796	0
Net Distribution Costs	21,919	29,956	46,190	130,312	25,074	499,713
Billing Units at Customer						
Dk Throughput	879,865	879,865	0	1,273,347	1,273,347	0
Bills	0	0	36	0	0	1,662
Unit Cost of Service						
\$ Per Dk	0 025	0 034	0 000	0 102	0 020	0 000
\$ Per Customer Per Month	0 000	0 000	1,283 056	0 000	0 000	300 670

MONTANA-DAKOTA UTILITIES CO
 GAS UTILITY - NORTH DAKOTA
 EMBEDDED CLASS COST OF SERVICE STUDY
 COST OF SERVICE BY COMPONENT
 PROJECTED 2005

Cost of Service By Component	Large Interruptible		
	Demand	Energy	Customer
Projected Rate Base	147,578	0	177,753
Operating Income for Proposed Return	14,591	0	17,574
Projected Operating Income	(38,125)	167,526	(1,678)
Increase in Operating Income	52,716	(167,526)	19,252
Related Taxes for Increase Federal Income	34,490	(109,606)	12,596
Total Increase in Revenue	87,206	(277,132)	31,848
Projected Revenues before Increase	2,404	294,688	89,891
Total Cost of Service Required From Rates	89,610	17,556	121,739
Less Projected Cost of Gas	0	0	0
Net Distribution Costs	89,610	17,556	121,739
Billing Units at Customer			
Dk Throughput	2,229,392	2,229,392	0
Bills	0	0	120
Unit Cost of Service			
\$ Per Dk	0 040	0 008	0 000
\$ Per Customer Per Month	0 000	0 000	1,014 492

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

Projected Operating Income and Rate of Return	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Operating Revenues	120,495,896	67,066,143	44,159,576	4,988,428	3,894,766	386,983
Operating Expenses						
O&M Cost of Purchased Gas	99,473,000	53,653,000	37,819,000	4,860,000	3,141,000	0
Other O&M Expense	17,546,697	11,967,948	4,924,935	70,841	443,213	139,760
Total Operation & Maint Exp	117,019,697	65,620,948	42,743,935	4,930,841	3,584,213	139,760
Depreciation	2,614,999	1,606,629	886,116	7,287	84,559	30,408
Taxes Other Than Income Taxes	1,420,998	925,163	435,245	5,623	39,871	15,096
Fed & State Inc Taxes - Current	262,296	(157,342)	214,921	35,310	88,424	80,983
Deferred Income Taxes	(872,999)	(510,970)	(308,229)	(19,522)	(27,291)	(6,987)
Total Operating Expenses	120,444,991	67,484,428	43,971,988	4,959,539	3,769,776	259,260
Operating Income	50,905	(418,285)	187,588	28,889	124,990	127,723
Rate Base	20,914,274	12,849,159	6,972,312	106,538	660,934	325,331
Rate of Return	0.243%	-3.255%	2.690%	27.116%	18.911%	39.259%

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
RATE BASE REPORT
PROJECTED 2005**

Projected Rate Base	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Gas Plant in Service	77,873,268	48,079,957	26,018,803	297,628	2,418,280	1,058,600
Less Accumulated Depreciation	53,571,997	33,204,051	17,863,948	179,033	1,634,586	690,379
Net Gas Plant in Service	24,301,271	14,875,906	8,154,855	118,595	783,694	368,221
CWIP in Service	0	0	0	0	0	0
Total Plant	24,301,271	14,875,906	8,154,855	118,595	783,694	368,221
Additions						
Materials & Supplies	475,000	293,271	158,706	1,815	14,750	6,458
Fuel Stocks	22,000	8,412	13,588	0	0	0
Prepaid Insurance	190,000	117,307	63,483	727	5,900	2,583
Gas IRP Costs - Other	0	0	0	0	0	0
Rate Case Expense	0	0	0	0	0	0
Total Additions	687,000	418,990	235,777	2,542	20,650	9,041
Total Before Deductions	24,988,271	15,294,896	8,390,632	121,137	804,344	377,262
Deductions						
Accumulated Deferred Income Tax	(3,673,998)	(2,268,374)	(1,227,546)	(14,042)	(114,092)	(49,944)
Investment Tax Credit Balance	(145,999)	(90,142)	(48,781)	(557)	(4,533)	(1,986)
Customer Advances For Constr	(254,000)	(87,221)	(141,993)	0	(24,786)	0
Total Deductions	(4,073,997)	(2,445,737)	(1,418,320)	(14,599)	(143,411)	(51,930)
Total Rate Base	20,914,274	12,849,159	6,972,312	106,538	660,933	325,332

**MONTANA-DAKOTA UTILITIES
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
PROJECTED CHANGES IN OPERATING INCOME**

Projected Changes in Operating Income	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Revenue @ Current Rates						
Sales Revenue	20,140,093	11,589,801	7,836,118	1,131,675	(106,996)	(310,505)
Unbilled Revenue	(2,733,100)	(1,509,956)	(989,720)	(105,404)	(109,095)	(18,925)
Total Revenue	<u>17,406,993</u>	<u>10,079,845</u>	<u>6,846,398</u>	<u>1,026,271</u>	<u>(216,091)</u>	<u>(329,430)</u>
Cost of Gas	17,568,301	9,478,869	6,678,717	854,435	556,280	0
Labor Expense						
Other Gas Supply	16,999	11,578	4,785	70	431	135
Distribution	548,999	330,253	189,780	2,507	19,565	6,894
Customer Accounts	237,000	205,026	31,559	8	380	27
Customer Service & Information	16,001	13,841	2,131	1	26	2
Sales	46,000	39,794	6,125	2	74	5
Administrative & General	206,000	140,304	57,983	840	5,230	1,643
Total Labor Expense	<u>1,070,999</u>	<u>740,796</u>	<u>292,363</u>	<u>3,428</u>	<u>25,706</u>	<u>8,706</u>
Benefits Expense	1,325,002	902,441	372,953	5,405	33,638	10,565
Insurance Expense	(45,000)	(30,649)	(12,666)	(184)	(1,143)	(358)
Advertising Expense	(35,000)	(30,278)	(4,661)	(1)	(56)	(4)
Postage Expense	(1,000)	(865)	(133)	0	(2)	0
Industry Dues	(4,001)	(2,724)	(1,126)	(17)	(102)	(32)
Rate Case Expense	82,000	55,849	23,081	334	2,082	654
Uncollectible Accounts	75,000	64,881	9,987	3	120	9
Vehicles & Work Equipment	315,999	215,224	88,945	1,288	8,022	2,520
Energy Share	10,999	6,081	3,981	423	438	76

**MONTANA-DAKOTA UTILITIES
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
PROJECTED CHANGES IN OPERATING INCOME**

Projected Changes in Operating Income	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Telephone	6,001	4,087	1,689	25	152	48
All Other O&M	53,001	36,098	14,918	216	1,346	423
Total Other O&M	2,854,000	1,960,941	789,331	10,920	70,201	22,607
Depreciation Expense	(379,294)	(234,180)	(126,729)	(1,450)	(11,779)	(5,156)
Taxes Other than Income						
Ad Valorem Tax	42,741	26,389	14,280	164	1,327	581
Other Taxes - Payroll, Franchise, Other	79,160	53,916	22,282	322	2,009	631
Total Taxes Other than Income	121,901	80,305	36,562	486	3,336	1,212
Deferred Income Taxes						
Unrecovered Purchased Gas Cost	(2,252,365)	(1,214,781)	(856,352)	(110,153)	(71,079)	0
Other	131,096	80,941	43,801	501	4,071	1,782
Closing Filing and Out of Period & Fed/State	(525,108)	(324,208)	(175,448)	(2,007)	(16,307)	(7,138)
Total Deferred Income Tax	(2,646,377)	(1,458,048)	(987,999)	(111,659)	(83,315)	(5,356)

**MONTANA-DAKOTA UTILITIES CO
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
PROJECTED FEDERAL STATE INCOME TAXES**

Projected Federal & State Income Taxes	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Projected Operating Revenues	120,495,896	67,066,143	44,159,576	4,988,428	3,894,766	386,983
Projected Operating Expenses						
Cost of Gas	99,473,000	53,653,000	37,819,000	4,860,000	3,141,000	0
Other O&M Expense	17,546,697	11,967,948	4,924,935	70,841	443,213	139,760
Total Operation & Maint Exp	117,019,697	65,620,948	42,743,935	4,930,841	3,584,213	139,760
Projected Depreciation	2,614,999	1,606,629	886,116	7,287	84,559	30,408
Projected Taxes Other	1,420,998	925,163	435,245	5,623	39,871	15,096
Total Projected Operating Expense	121,055,694	68,152,740	44,065,296	4,943,751	3,708,643	185,264
Projected Operating Income Before Taxes	(559,798)	(1,086,597)	94,280	44,677	186,123	201,719
Adjustment to Interest Expense	(200,869)	(122,898)	(67,424)	(993)	(6,492)	(3,062)
Per Books Interest Expense	975,870	597,063	327,562	4,825	31,541	14,879
Projected Interest Expense	775,001	474,165	260,138	3,832	25,049	11,817
Adjustment to Dividend Deduction	(397)	(245)	(133)	(2)	(12)	(5)
Per Books Dividend Deduction	15,397	9,507	5,144	59	478	209
Projected Dividend Deduction	15,000	9,262	5,011	57	466	204
Other	(639,382)	(394,763)	(213,628)	(2,443)	(19,856)	(8,692)
Purchased Gas Cost Adjustment	(5,685,019)	(3,066,135)	(2,161,452)	(278,027)	(179,405)	0
Per Books Other Tax Deductions	4,311,400	2,288,704	1,660,796	231,977	136,293	(6,370)
Projected Other Tax Deductions	(2,013,001)	(1,172,194)	(714,284)	(48,493)	(62,968)	(15,062)
Projected Taxable Income	663,202	(397,830)	543,415	89,281	223,576	204,760
Projected Federal & State Income Taxes	262,296	(157,342)	214,921	35,310	88,424	80,983

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
PROJECTED CHANGES IN RATE BASE**

Projected Changes in Rate Base	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Plant in Service						
Distribution Plant	5,101,175	3,149,531	1,704,391	19,496	158,412	69,345
General Plant	(62,653)	(38,683)	(20,934)	(239)	(1,945)	(852)
Common Plant	278,754	172,106	93,137	1,065	8,657	3,789
Total Plant	<u>5,317,276</u>	<u>3,282,954</u>	<u>1,776,594</u>	<u>20,322</u>	<u>165,124</u>	<u>72,282</u>
Accumulated Reserve						
Distribution Plant	3,742,354	2,310,578	1,250,385	14,303	116,215	50,873
General Plant	(71,022)	(43,851)	(23,730)	(271)	(2,205)	(965)
Common Plant	236,898	146,264	79,152	905	7,357	3,220
Acquisition Adjustment	20,081	12,399	6,709	77	623	273
Total Accumulated Res	<u>3,928,311</u>	<u>2,425,390</u>	<u>1,312,516</u>	<u>15,014</u>	<u>121,990</u>	<u>53,401</u>
Elimination of CWIP in Service	(427,154)	(263,730)	(142,720)	(1,632)	(13,265)	(5,807)
Additions to Rate Base						
Materials & Supplies	82,320	50,826	27,505	314	2,556	1,119
Fuel Stocks	(2,621)	(1,002)	(1,619)	0	0	0
Prepayments	140,323	86,637	46,884	537	4,358	1,907
Gas IRP - Other	(44,484)	(23,626)	(16,655)	(2,550)	(1,653)	0
Rate Case Expense	0	0	0	0	0	0
Total Additions	<u>175,538</u>	<u>112,835</u>	<u>56,115</u>	<u>(1,699)</u>	<u>5,261</u>	<u>3,026</u>
Deductions to Rate Base						
Accumulated Deferred Income Taxes	(235,481)	(145,389)	(78,678)	(900)	(7,313)	(3,201)
Accumulated Investment Tax Credits	(60,809)	(37,544)	(20,317)	(233)	(1,889)	(826)
Customer Advances	(43,101)	(37,352)	(5,749)	0	0	0
Total Adjustments	<u>(339,391)</u>	<u>(220,285)</u>	<u>(104,744)</u>	<u>(1,133)</u>	<u>(9,202)</u>	<u>(4,027)</u>
Total Rate Base	<u>1,476,740</u>	<u>926,954</u>	<u>482,217</u>	<u>3,110</u>	<u>44,332</u>	<u>20,127</u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
OPERATING REVENUES
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Operating Revenues	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Residential	55,219,376	55,219,376	0	0	0	0
Firm General	36,194,291	0	36,194,291	0	0	0
Air Force	3,854,651	0	0	3,854,651	0	0
Small Interruptible	3,989,645	0	0	0	3,989,645	0
Large Interruptible	692,093	0	0	0	0	692,093
Unbilled Revenue	2,733,101	1,509,956	989,720	105,404	109,096	18,925
Total Gas Sales and Transport Revenue	102,683,157	56,729,332	37,184,011	3,960,055	4,098,741	711,018
Other Operating Revenue						
Miscellaneous						
Reconnect Fees	15,602	13,521	2,081	0	0	0
NSF Check Fees	4,483	3,885	598	0	0	0
Work for Contractors, Municipal & Others	18,389	11,251	6,173	91	594	280
Rent From Gas Property	301,708	184,593	101,271	1,492	9,752	4,600
Other Gas Revenues						
Miscellaneous	58,264	39,683	16,400	237	1,479	465
Transport and Penalty Revenue - Net	7,300	4,033	2,644	282	291	50
Total Other Operating Revenue	405,746	256,966	129,167	2,102	12,116	5,395
Total Gas Operating Revenues	103,088,903	56,986,298	37,313,178	3,962,157	4,110,857	716,413

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
OPERATION & MAINTENANCE EXPENSES
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Operation and Maintenance Expenses	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Cost of Purchased Gas	81,904,699	44,174,131	31,140,283	4,005,565	2,584,720	0
Production Expenses						
Other Gas Supply Expenses	209,668	111,359	78,502	12,018	7,789	0
Total Production Expense	209,668	111,359	78,502	12,018	7,789	0
Distribution Expenses						
Operation						
Load Dispatch	72,026	32,119	22,642	3,466	5,016	8,783
Mains and Services	988,154	623,881	322,767	2,468	27,243	11,795
Measuring Stations - General	37,387	24,103	11,509	411	815	549
Measuring Stations - Industrial	28,956	4,596	4,233	7,390	896	11,841
Measuring Stations - City Gate	5,228	3,072	1,674	17	395	70
Meters & House Regulators	660,887	389,146	240,484	0	27,430	3,827
Customer Installations	895,890	532,342	327,417	0	36,131	0
Other Gas Distribution	1,475,119	889,153	511,955	5,799	52,380	15,832
Rents	22,228	13,398	7,715	87	789	239
Supervision & Engineering	561,859	338,670	194,999	2,209	19,951	6,030
Total Operation Expense	4,747,734	2,850,480	1,645,395	21,847	171,046	58,966
Maintenance						
Structures & Improvements	2,484	1,149	607	191	39	498
Mains	107,432	69,776	33,319	389	2,358	1,590
Measuring Stations - General	21,043	13,566	6,478	231	459	309
Measuring Stations - Industrial	2,943	467	430	751	91	1,204
Measuring Stations - City Gate	225	132	72	1	17	3
Services	100,102	59,150	36,380	0	4,015	557
Meters & House Regulators	99,851	58,795	36,334	0	4,144	578
Other Equipment	186,077	113,289	63,418	770	6,220	2,380
Supervision & Engineering	289,934	176,522	98,814	1,199	9,691	3,708
Total Maintenance Expense	810,091	492,846	275,852	3,532	27,034	10,827
Total Distribution Expenses	5,557,825	3,343,326	1,921,247	25,379	198,080	69,793

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
OPERATION & MAINTENANCE EXPENSES
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Operation and Maintenance Expenses	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Customer Accounts	262,999	227,517	35,021	9	422	30
Meter Reading	572,434	338,250	208,041	0	22,958	3,185
Customer Records & Collection	1,591,194	1,376,519	211,882	55	2,554	184
Uncollectible Accounts	178,014	153,997	23,704	6	286	21
Miscellaneous Customer Accounts	158,552	137,162	21,113	5	254	18
Customer Service & Information	166,788	144,286	22,209	6	268	19
Sales Expenses	496,319	429,358	66,090	17	797	57
Administration & General Expenses	5,498,904	3,745,233	1,547,795	22,426	139,604	43,846
Total Gas O&M Expenses	96,597,396	54,181,138	35,275,887	4,065,486	2,957,732	117,153
O&M Excl Gas Cost and A&G	9,193,793	6,261,774	2,587,809	37,495	233,408	73,307
O&M Excl Cost of Gas	14,692,697	10,007,007	4,135,604	59,921	373,012	117,153

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
DEPRECIATION EXPENSE
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Depreciation Expense	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Distribution Plant						
Mains	956,848	621,464	296,764	3,460	21,005	14,155
Structures	4,426	2,048	1,081	340	69	888
Meas & Reg Sta General	14,607	9,418	4,497	160	318	214
Meas & Reg Sta - City Gate	5,233	3,075	1,675	17	396	70
Services	923,707	545,816	335,705	0	37,046	5,140
Meters	355,481	210,053	129,193	0	14,257	1,978
Service Regulators	42,596	24,432	15,640	0	2,206	318
Measuring & Reg Eqpt - Indust	8,466	1,345	1,237	2,160	262	3,462
Other Property on Cust Prem	8,586	5,577	2,663	31	188	127
Cathodic Protection & Other Equipment	37,456	24,328	11,617	135	822	554
Land Rights	966	628	300	3	21	14
Total Distribution Plant	<u>2,358,372</u>	<u>1,448,184</u>	<u>800,372</u>	<u>6,306</u>	<u>76,590</u>	<u>26,920</u>
General Plant	167,927	103,680	56,108	642	5,214	2,283
Common Plant	437,096	269,868	146,041	1,671	13,574	5,942
Acquisition Adjustment	29,835	18,420	9,969	114	927	405
Gas Plant Leased to Others	1,063	657	355	4	33	14
Total Depreciation Expense	<u><u>2,994,293</u></u>	<u><u>1,840,809</u></u>	<u><u>1,012,845</u></u>	<u><u>8,737</u></u>	<u><u>96,338</u></u>	<u><u>35,564</u></u>

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 EMBEDDED CLASS COST OF SERVICE STUDY
 TAXES OTHER THAN INCOME TAXES
 TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Taxes Other Than Income	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Ad Valorem Taxes	627,261	387,278	209,579	2,398	19,479	8,527
Other Taxes - Payroll, Franchise, Other	671,836	457,580	189,104	2,739	17,056	5,357
Total Taxes Other Than Income	1,299,097	844,858	398,683	5,137	36,535	13,884

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
INCOME TAXES
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Income Taxes	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Operating Revenue	103,088,903	56,986,298	37,313,178	3,962,157	4,110,857	716,413
Operation & Maintenance Expense	96,597,396	54,181,138	35,275,887	4,065,486	2,957,732	117,153
Depreciation Expense	2,994,293	1,840,809	1,012,845	8,737	96,338	35,564
Taxes Other Than Income	1,299,097	844,858	398,683	5,137	36,535	13,884
Total Operating Expense	100,890,786	56,866,805	36,687,415	4,079,360	3,090,605	166,601
Interest Expense	975,870	597,063	327,562	4,825	31,541	14,879
Total Expenses	101,866,656	57,463,868	37,014,977	4,084,185	3,122,146	181,480
Taxable Income Before Adjustments	1,222,247	(477,570)	298,201	(122,028)	988,711	534,933
Tax Deductions						
Purchased Gas Cost Adjustment	4,780,019	2,578,035	1,817,370	233,768	150,846	0
Other	(468,619)	(289,331)	(156,574)	(1,791)	(14,553)	(6,370)
Preferred Dividend Paid Deduction	15,397	9,507	5,144	59	478	209
Total Deductions & Adjustments	4,326,797	2,298,211	1,665,940	232,036	136,771	(6,161)
Taxable Income (Before State Income Tax)	(3,104,550)	(2,775,781)	(1,367,739)	(354,064)	851,940	541,094
Less State Income Tax	(367,349)	(328,444)	(161,839)	(41,895)	100,805	64,024
Federal Taxable Income	(2,737,201)	(2,447,337)	(1,205,900)	(312,169)	751,135	477,070
Federal Income Tax @ Current Rate	(958,021)	(856,568)	(422,065)	(109,260)	262,897	166,975
Plus State Income Tax	(367,349)	(328,444)	(161,839)	(41,895)	100,805	64,024
Plus Credits & Adjustments	(3,010)	(1,599)	(1,159)	(161)	(95)	4
Federal and State Income Taxes	(1,328,380)	(1,186,611)	(585,063)	(151,316)	363,607	231,003
Rounding & Prior Year Adjustments	(133,496)	(82,422)	(44,603)	(510)	(4,146)	(1,815)
Federal Income Tax Computed	(1,461,876)	(1,269,033)	(629,666)	(151,826)	359,461	229,188

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 EMBEDDED CLASS COST OF SERVICE STUDY
 DEFERRED INCOME TAXES
 TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Deferred Income Taxes	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Unrecovered Purchased Gas Costs	1,893,367	1,021,160	719,860	92,596	59,751	0
Other	(261,097)	(161,204)	(87,237)	(998)	(8,109)	(3,549)
Closing Filing and Out of Period & Fed/State I	141,108	87,122	47,147	539	4,382	1,918
 Total Gas Charges	 <u>1,773,378</u>	 <u>947,078</u>	 <u>679,770</u>	 <u>92,137</u>	 <u>56,024</u>	 <u>(1,631)</u>
 Accumulated Balance 12/31/03	 <u>(3,909,479)</u>	 <u>(2,413,763)</u>	 <u>(1,306,224)</u>	 <u>(14,942)</u>	 <u>(121,405)</u>	 <u>(53,145)</u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
PLANT IN SERVICE
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Plant in Service	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Distribution Plant						
Mains	28,329,510	18,399,790	8,786,321	102,443	621,891	419,065
Structures & Improvements	180,116	83,313	44,002	13,870	2,816	36,115
Meas & Reg Sta Eqpt - General	580,270	374,090	178,636	6,380	12,644	8,520
Meas & Reg Sta Eqpt - City Gate	174,002	102,244	55,711	569	13,149	2,329
Service Regulators	1,747,785	1,002,510	641,743	0	90,496	13,036
Indust Meas & Reg Sta Eqpt	370,108	58,747	54,109	94,453	11,456	151,343
Services	12,695,388	7,501,681	4,613,910	0	509,157	70,640
Meters	12,834,046	7,583,614	4,664,303	0	514,718	71,411
CNG Refueling Station	114,888	74,618	35,632	416	2,522	1,700
Cathodic Protection & Other Equipment	783,420	508,825	242,976	2,833	17,198	11,588
Land & Land Rights	90,918	59,050	28,198	329	1,996	1,345
Total Distribution Plant	57,900,451	35,748,482	19,345,541	221,293	1,798,043	787,092
General Plant	6,934,655	4,281,545	2,316,988	26,504	215,349	94,269
Common Plant	7,612,246	4,699,899	2,543,382	29,094	236,391	103,480
Gas Plant Leased to Others	11,375	7,023	3,800	43	354	155
Acquisition Adjustment	97,266	60,054	32,498	372	3,020	1,322
Total Gas Plant in Service	72,555,993	44,797,003	24,242,209	277,306	2,253,157	986,318

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
ACCUMULATED RESERVE FOR DEPRECIATION
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Accumulated Reserve for Depreciation	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Distribution Plant						
Mains	22,155,470	14,389,800	6,871,460	80,116	486,358	327,736
Structures & Improvements	107,685	49,810	26,307	8,293	1,683	21,592
Meas & Reg Sta Equip - General	276,760	178,421	85,201	3,043	6,031	4,064
Meas & Reg Sta Equip - City Gate	55,517	32,622	17,775	181	4,196	743
Services	13,516,593	7,986,930	4,912,362	0	542,092	75,209
Meters	4,831,017	2,854,639	1,755,746	0	193,751	26,881
Service Regulators	696,947	399,761	255,902	0	36,086	5,198
Indust Meas & Reg Sta Eqpt	166,819	26,480	24,388	42,573	5,163	68,215
Other Property on Customer Prem	98,083	63,705	30,421	354	2,153	1,450
Other Equipment	310,040	201,369	96,158	1,121	6,806	4,586
Cathodic Protection & Other Equipment	232,929	151,285	72,242	843	5,113	3,446
Land Rights	32,553	21,143	10,096	117	715	482
Total Distribution Reserve	42,480,413	26,355,965	14,158,058	136,641	1,290,147	539,602
General Plant	3,498,025	2,159,726	1,168,751	13,369	108,628	47,551
Common Plant	3,645,102	2,250,532	1,217,892	13,932	113,195	49,551
Acquistion Adjustment	14,919	9,211	4,984	57	464	203
Gas Plant Leased to Others	5,228	3,227	1,747	20	163	71
Total Accumulated Reserve for Depreciation	49,643,687	30,778,661	16,551,432	164,019	1,512,597	636,978

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 EMBEDDED CLASS COST OF SERVICE STUDY
 CONSTRUCTION WORK IN PROGRESS
 TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books CWIP in Service Pending Classification	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
CWIP in Service Pending Classification	427,154	263,730	142,720	1,632	13,265	5,807
Total Construction Work in Progress in Service Pending Classification	427,154	263,730	142,720	1,632	13,265	5,807

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - NORTH DAKOTA
 EMBEDDED CLASS COST OF SERVICE STUDY
 WORKING CAPITAL
 TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Working Capital	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Materials & Supplies	392,679	242,445	131,201	1,501	12,194	5,338
Prepaid Insurance	49,678	30,670	16,599	190	1,543	676
Unamortized Gas IRP Costs - Other	44,484	23,626	16,655	2,550	1,653	0
Fuel Stocks	24,621	9,414	15,207	0	0	0

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
RATE BASE REPORT
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Per Books Rate Base	Total North Dakota	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Gas Plant in Service	72,555,993	44,797,003	24,242,209	277,306	2,253,157	986,318
Less Accumulated Depreciation	49,643,687	30,778,661	16,551,432	164,019	1,512,597	636,978
Net Gas Plant in Service	22,912,306	14,018,342	7,690,777	113,287	740,560	349,340
CWIP in Service	427,154	263,730	142,720	1,632	13,265	5,807
Total Plant	23,339,460	14,282,072	7,833,497	114,919	753,825	355,147
Additions						
Materials & Supplies	392,679	242,445	131,201	1,501	12,194	5,338
Fuel Stock	24,621	9,414	15,207	0	0	0
Gas IRP Costs - Other	44,484	23,626	16,655	2,550	1,653	0
Prepayments	49,678	30,670	16,599	190	1,543	676
Total Additions	511,462	306,155	179,662	4,241	15,390	6,014
Total Before Deductions	23,850,922	14,588,227	8,013,159	119,160	769,215	361,161
Deductions						
Accumulated Deferred Income Tax	(3,909,479)	(2,413,763)	(1,306,224)	(14,942)	(121,405)	(53,145)
Investment Tax Credit Balance	(206,808)	(127,686)	(69,098)	(790)	(6,422)	(2,812)
Customer Advances For Constr	(297,101)	(124,573)	(147,742)	0	(24,786)	0
Total Deductions	(4,413,388)	(2,666,022)	(1,523,064)	(15,732)	(152,613)	(55,957)
Total Rate Base	19,437,534	11,922,205	6,490,095	103,428	616,602	305,204

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
ALLOCATION ASSIGNMENT REPORT
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Case No _____
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Page 1 of 6

<u>LINE ITEM</u>		<u>ALLOCATION FACTOR</u>	
<u>PLANT IN SERVICE:</u>			
114 2	Acquisition Adjustment - Propane	97,266	15 Distribution Plant
374	Land & Land Rights	90,918	13 Distribution Mains
375	Structures & Improvements	128,275	13 Distribution Mains
		13,406	Direct to Air Force Customer
		4,218	Direct to Firm General Customer
		34,218	Direct to Large Int Customer
376	Mains	8,498,853	9 Average Customers @ Distribution
		19,830,656	5 1-Day Peak @ Distribution
378	Meas & Reg Sta Equip - General	575,973	13 Distribution Mains
		4,297	Direct to Air Force Customer
379	Meas & Reg Sta Equip - City Gate	157,422	13 Distribution Mains
		6,887	Direct to Firm General Customer
		9,693	Direct to Small Int Customer
380	Services	12,695,388	12 Wtd Customers @ Distrib
381	Meters	12,834,046	12 Wtd Customers @ Distrib
383	Service Regulators	1,696,586	12 Wtd Customers @ Distrib
		25,149	Direct to Firm General Customer
		22,453	Direct to Small Int Customer
		3,596	Direct to Large Int Customer
385	Indust Meas & Reg Sta Equip	90,450	13 Distribution Mains
		94,126	Direct to Air Force Customer
		26,056	Direct to Firm General Customer
		9,471	Direct to Small Int Customer
		150,005	Direct to Large Int Customer
386	Other Property on Customer Premise	114,887	13 Distribution Mains
386 3	Gas Plant Leased to Others	11,374	15 Distribution Plant
387	Cathodic Protection & Other Equipment	783,421	13 Distribution Mains
389	Total General Plant	6,934,654	15 Distribution Plant
389	Total Common Plant	7,612,246	15 Distribution Plant
<u>ACCUMULATED RESERVE FOR DEPRECIATION REPORT:</u>			
374	Land Rights	32,553	13 Distribution Mains
	Total General Plant	3,498,025	15 Distribution Plant
	Total Common Plant	3,645,103	15 Distribution Plant
375	Structures & Improvements	107,686	17 Structures & Improvements
376	Mains	22,155,472	13 Distribution Mains
378	Meas & Reg Sta Equip - General	276,760	18 Meas & Reg Sta Eqpt - General
379	Meas & Reg Sta Equip - City Gate	55,518	19 Meas & Reg Eqpt - City Gate
380	Services	13,516,594	12 Wtd Customers @ Distrib
381	Meters	4,831,017	12 Wtd Customers @ Distrib
383	Service Regulators	696,947	20 Service Regulators
385	Indust Meas & Reg Sta Equip	166,819	21 Ind Meas & Reg Sta Eqpt
386 1	Misc Property on Customer's Premises	972	13 Distribution Mains
386 2	Other Property on Customer's Premises	97,113	13 Distribution Mains
386 3	Gas Plant Leased to Others	5,229	15 Distribution Plant
387	Cathodic Protection & Other Equipment	232,929	13 Distribution Mains
387	Other Distribution Equipment	310,041	13 Distribution Mains
	Acquisition Adjustment	14,919	15 Distribution Plant
<u>CONSTRUCTION WORK IN PROGRESS REPORT:</u>			
	CWIP in Service pending Classification	427,154	15 Distribution Plant

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
ALLOCATION ASSIGNMENT REPORT
TWELVE MONTHS ENDED DECEMBER 31, 2003**

Case No _____
Statement M
Schedule M-2
Page 2 of 6

<u>LINE ITEM</u>			<u>ALLOCATION FACTOR</u>
<u>OPERATING REVENUE REPORT</u>			
Residential	9,543,219		Direct to Residential Demand
	37,896,288		Direct to Residential Energy
	7,779,869		Direct to Residential Customer
Firm General	6,727,432		Direct to Firm General Demand
	26,014,652		Direct to Firm General Energy
	3,452,207		Direct to Firm General Customer
Air Force	268,100		Direct to Air Force Demand
	3,571,311		Direct to Air Force Energy
	15,240		Direct to Air Force Customer
Small Interruptible	162,374		Direct to Small Int Demand
	3,630,471		Direct to Small Int Energy
	196,800		Direct to Small Int Customer
Large Interruptible	0		Direct to Large Int Demand
	606,293		Direct to Large Int Energy
	85,800		Direct to Large Int Customer
Unbilled Revenue	2,733,102	26	Sales Revenue
Other Operating Revenue			
Reconnect Fees	15,602	11	Average Res & Firm General Cust
NSF Check Fees	4,483	11	Average Res & Firm General Cust
Miscellaneous	18,389	24	Net Gas Plant in Service
Rent From Gas Property	301,707	24	Net Gas Plant in Service
Other Gas Revenues			
Miscellaneous Revenues	58,265	31	O&M Excl Cost of Gas
Transport & Sales Penalty Revenue - Net	7,300	23	Sales & Transportation Rev
<u>OPERATION & MAINTENANCE EXPENSE REPORT</u>			
Cost of Purchased Gas	9,543,219		Direct to Residential Demand
	34,630,912		Direct to Residential Energy
	6,727,432		Direct to Firm General Demand
	24,412,851		Direct to Firm General Energy
	268,100		Direct to Air Force Demand
	3,737,465		Direct to Air Force Energy
	162,374		Direct to Small Int Demand
	2,422,346		Direct to Small Int Energy
	0		Direct to Large Int Demand
	0		Direct to Large Int Energy
813 Other Gas Supply Expenses	209,668	3	Dk Sales
870 Operation Supervision & Maintenance	561,859	27	All Other Dist Operation Exp
871 Load Dispatch	72,026	1	Dk Throughput
874 Mains & Services	988,155	22	Mains & Services
875 Measuring Stations - General	37,387	18	Meas & Reg Sta Eqpt - General
876 Measuring Stations - Industrial	28,955	21	Ind Meas & Reg Sta Eqpt
877 Measuring Stations - City Gate	5,227	19	Meas & Reg Eqpt - City Gate
878 Meters & House Regulators	660,887	16	Meters & Regulators
879 Customer Installations	895,890	10	Wtd Customers Excl AF, LI
880 Other Gas Distribution	1,475,119	27	All Other Dist Operation Exp
881 Rents	22,228	27	All Other Dist Operation Exp
885 Maintenance Supervision & Engineering	289,936	28	All Other Dist Maintenance Exp
886 Structures & Improvements	2,484	17	Structures & Improvements

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<u>LINE ITEM</u>		<u>ALLOCATION FACTOR</u>		
887	Mains	107,431	13	Distribution Mains
889	Measuring Stations - General	21,043	18	Meas & Reg Sta Eqpt - General
890	Measuring Stations - Industrial	2,943	21	Ind Meas & Reg Sta Eqpt
891	Measuring Stations - City Gate	224	19	Meas & Reg Eqpt - City Gate
892	Services	100,102	12	Weighted Customers @ Distribution
893	Meters & House Regulators	99,852	16	Meters & Regulators
894	Other Equipment	186,076	28	All Other Dist Maintenance Exp
901	Customer Accounts	262,999	8	Average Customers
902	Meter Reading	572,434	43	Total Weighted Customers
903	Customer Records & Collection	1,591,194	8	Average Customers
904	Uncollectible Accounts	178,014	8	Average Customers
905	Miscellaneous Customer Accounts	158,553	8	Average Customers
907	Customer Service & Info	166,788	8	Average Customers
911	Sales Expenses	496,319	8	Average Customers
920	Administration & General	5,498,904	30	O&M Excl Gas Cost and A&G

DEPRECIATION EXPENSE REPORT.

374	Land Rights	967	13	Distribution Mains
	Total General Plant	167,928	15	Distribution Plant
	Total Common Plant	437,094	15	Distribution Plant
375	Structures	4,425	17	Structures & Improvements
376	Mains	956,848	13	Distribution Mains
378	Meas & Reg Sta - General	14,607	18	Meas & Reg Sta Eqpt - General
379	Meas & Reg Sta - City Gate	5,232	19	Meas & Reg Eqpt - City Gate
380	Services	923,707	12	Weighted Customers @ Distribution
381	Meters	355,481	12	Weighted Customers @ Distribution
383	Service Regulators	42,596	20	Service Regulators
385	Measuring & Reg Equip - Indust	8,464	21	Ind Meas & Reg Sta Eqpt
386	Other Property on Customer's Premises	8,587	13	Distribution Mains
386 3	Gas Plant Leased to Others	1,063	15	Distribution Plant
387	Cathodic Protection & Other Equipment	37,457	13	Distribution Mains
406	Acquistion Adjustment	29,837	15	Distribution Plant

TAXES OTHER THAN INCOME REPORT:

	Ad Valorem Taxes	627,260	15	Distribution Plant
	Other Taxes - Payroll, Franchise, Other	671,837	31	O&M Excl Cost of Gas

DEFERRED INCOME TAXES REPORT

	Unrecovered Purchased Gas Costs	1,893,366	33	Total Gas Costs
	Other	(261,097)	25	Total Gas Plant in Service
	Closing Filing and Out of Period & Fed/State FAS	141,108	25	Total Gas Plant in Service
	Accumulated Balance 12/31/03	(3,909,480)	25	Total Gas Plant in Service

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<u>LINE ITEM</u>	<u>ALLOCATION FACTOR</u>		
<u>INCOME TAXES REPORT</u>			
Interest Charges	975,871	24	Net Gas Plant in Service
Deductions			
Purchased Gas Cost Adjustment	4,780,020	33	Total Gas Costs
Other	(468,618)	25	Total Gas Plant in Service
Preferred Dividend Paid Deduction	15,397	25	Total Gas Plant in Service
State Income Tax	(367,346)	35	Taxable Income
Rounding & Prior Year Adjustments	(133,496)	25	Total Gas Plant in Service
Taxable Income @ Federal Tax Rate	35 00%		Direct Input
Credits & Adjustments	(3,011)	40	Total Tax Deductions & Adjustments
<u>WORKING CAPITAL REPORT</u>			
Materials & Supplies	392,679	15	Distribution Plant
Fuel Stocks	24,621	42	DK Sales - Propane Dk only
Prepayments	49,678	25	Total Gas Plant in Service
Unamortized Gas IRP Costs-Other	44,484	3	DK Sales
<u>RATE BASE REPORT</u>			
Investment Tax Credit Balance	(206,807)	25	Total Gas Plant in Service
Customer Advances for Const	(143,748)	11	Average Res & Firm General Cust
	(128,567)		Direct to Firm General Customer
	(24,786)		Direct to Small Interruptible
<u>COST OF SERVICE BY COMPONENT REPORT</u>			
Operating Income for Proposed Return	9 887%		
<u>Related Taxes for Increase</u>			
Inverse Tax Rate for Federal & State Income	60 450%		
Effective Federal Tax Rate	35 000%		
Combined Federal and State Tax	39 550%		
<u>Billing Units @ Customer</u>			
Dk Throughput	8,152,728		Direct to Residential Energy
	5,747,216		Direct to Firm General Energy
	879,865		Direct to Air Force Energy
	1,273,347		Direct to Small Int Energy
	2,229,392		Direct to Large Int Energy
<u>Bills</u>			
	899,028		Direct to Residential Customer
	138,384		Direct to Firm General Customer
	36		Direct to Air Force Customer
	1,662		Direct to Small Int Customer
	120		Direct to Large Int Customer

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LINE ITEM			ALLOCATION FACTOR
ADJUSTMENTS TO OPERATING INCOME			
Revenue:			
Projected 2005 @ Current Rates			
Residential	2,047,120		Direct to Residential Demand
	9,392,374		Direct to Residential Energy
	150,307		Direct to Residential Customer
Firm General	1,443,104		Direct to Firm General Demand
	6,355,675		Direct to Firm General Energy
	37,339		Direct to Firm General Customer
Air Force	57,511		Direct to Air Force Demand
	1,074,164		Direct to Air Force Energy
	0		Direct to Air Force Customer
Small Interruptible	34,830		Direct to Small Int Demand
	(146,026)		Direct to Small Int Energy
	4,200		Direct to Small Int Customer
Large Interruptible	0		Direct to Large Int Demand
	(311,705)		Direct to Large Int Energy
	1,200		Direct to Large Int Customer
Unbilled Revenues	(2,733,102)	26	Sales Revenue
Cost of Gas			
Current Cost of Purchased Gas	2,047,120		Direct to Residential Demand
	7,431,749		Direct to Residential Energy
	1,443,104		Direct to Firm General Demand
	5,235,613		Direct to Firm General Energy
	56,311		Direct to Air Force Demand
	798,124		Direct to Air Force Energy
	34,830		Direct to Small Int Demand
	521,450		Direct to Small Int Energy
	0		Direct to Large Int Demand
	0		Direct to Large Int Energy
Other O&M Expense			
Labor Expense			
Other Gas Supply	17,000	30	O&M Excl Cost of Gas and A&G
Distribution	549,000	39	Distribution O&M
Customer Accounts	237,000	38	Customer Expense Accounts O&M
Customer Service & Information	16,000	8	Average Customers
Sales	46,000	8	Average Customers
Administrative & General	206,000	30	O&M Excl Cost of Gas and A&G
Benefits Expense	1,325,000	30	O&M Excl Cost of Gas and A&G
Insurance Expense	(45,000)	30	O&M Excl Cost of Gas and A&G
Advertising Expense	(35,000)	8	Average Customers
Postage Expense	(1,000)	8	Average Customers
Industry Dues	(4,000)	30	O&M Excl Cost of Gas and A&G
Rate Case Expense	82,000	30	O&M Excl Cost of Gas and A&G
Uncollectible Accounts	75,000	8	Average Customers
Vehicles & Work Equipment	316,000	30	O&M Excl Cost of Gas and A&G
Energy Share	11,000	41	Total Operating Revenue
Telephone	6,000	30	O&M Excl Cost of Gas and A&G
All Other O&M	53,000	31	O&M Excl Cost of Gas
Depreciation Expense			
	(379,293)	15	Distribution Plant

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<u>LINE ITEM</u>	<u>ALLOCATION FACTOR</u>		
Taxes Other Than Income			
Ad Valorem Taxes	42,740	15	Distribution Plant
Other Taxes - Payroll, Franchise, Other	79,163	31	O&M Excl Cost of Gas
Current Income Taxes			
Interest Expense	(200,871)	24	Net Gas Plant in Service
Deductions			
Purchased Gas Cost Adjustment	(5,685,020)	33	Total Gas Costs
Other	(639,382)	25	Total Gas Plant in Service
Preferred Dividend Paid Deduction	(397)	25	Total Gas Plant in Service
Deferred Income Taxes			
Unrecovered Purchased Gas Cost	(2,252,366)	33	Total Gas Costs
Other	131,097	25	Total Gas Plant in Service
Closing Filing and Out of Period & Fed/State FAS	(525,108)	25	Total Gas Plant in Service
<u>ADJUSTMENTS TO RATE BASE</u>			
Plant in Service			
Distribution Plant	5,101,174	15	Distribution Plant
General Plant	(62,654)	15	Distribution Plant
Common Plant	278,754	15	Distribution Plant
Accumulated Reserve			
Distribution Plant	3,742,355	15	Distribution Plant
General Plant	(71,025)	15	Distribution Plant
Common Plant	236,898	15	Distribution Plant
Acquistion Adjustment	20,082	15	Distribution Plant
CWIP in Service Pending Reclassification	(427,154)	15	Distribution Plant
Additions to Rate Base			
Materials & Supplies	82,321	15	Distributin Plant
Fuel Stocks	(2,621)	42	DK Sales - Propane Dk only
Prepayments	140,322	25	Total Gas Plant in Service
Gas IRP - Other	(44,484)	3	DK Sales
Rate Case Expense	0	30	O&M Excl Cost of Gas and A&G
Deductions to Rate Base			
Accumulated Deferred Income taxes	(235,480)	25	Total Gas Plant in Service
Accumulated Investment Tax Credits	(60,807)	25	Total Gas Plant in Service
Customer Advances	(43,101)	11	Average Res & Firm General Customers

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	Total North Dakota	Residential			Firm General		
		Demand	Energy	Customer	Demand	Energy	Customer
1 Dk Throughput	18,282,548 100 000000%	0 000000%	8,152,728 44 592953%	0 000000%	0 000000%	5,747,216 31 435531%	0 000000%
2 1-Day Peak Sales	116,554 100 000000%	61,580 52 833881%	0 000000%	0 000000%	42,735 36 665408%	0 000000%	0 000000%
3 Dk Sales	15,350,072 100 000000%	0 000000%	8,152,728 53 111985%	0 000000%	0 000000%	5,747,216 37 440971%	0 000000%
4 Dk Throughput @ Distribution	15,803,294 100 000000%	0 000000%	7,992,053 50 572071%	0 000000%	0 000000%	5,614,958 35 530301%	0 000000%
5 1-Day Peak @ Distribution	109,779 100 000000%	61,149 55 701911%	0 000000%	0 000000%	42,380 38 604833%	0 000000%	0 000000%
8 Average Customers	86,603 100 000000%	0 000000%	0 000000%	74,919 86 508550%	0 000000%	0 000000%	11,532 13 315936%
9 Average Customers @ Distribution	85,054 100 000000%	0 000000%	0 000000%	73,594 86 526207%	0 000000%	0 000000%	11,316 13 304489%
10 Weighted Customers Excl AF, LI	123,853 100 000000%	0 000000%	0 000000%	73,594 59 420442%	0 000000%	0 000000%	45,264 36 546551%
11 Average Res & Firm General Cust	86,451 100 000000%	0 000000%	0 000000%	74,919 86 660652%	0 000000%	0 000000%	11,532 13 339348%
12 Weighted Customers @ Distribution	124,546 100 000000%	0 000000%	0 000000%	73,594 59 089815%	0 000000%	0 000000%	45,264 36 343198%
13 Distribution Mains	28,329,510 100 000000%	11,046,055 38 991336%	0 000000%	7,353,735 25 957865%	7,655,592 27 023383%	0 000000%	1,130,729 3 991347%

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	Air Force			Small Interruptible		
	Demand	Energy	Customer	Demand	Energy	Customer
1 Dk Throughput		879,865			1,273,347	
	0 000000%	4 812595%	0 000000%	0 000000%	6 964822%	0 000000%
2 1-Day Peak Sales	2,643			3,488		
	2 267618%	0 000000%	0 000000%	2 992604%	0 000000%	0 000000%
3 Dk Sales		879,865			570,263	
	0 000000%	5 731993%	0 000000%	0 000000%	3 715051%	0 000000%
4 Dk Throughput @ Distribution		121,578			1,229,569	
	0 000000%	0 769321%	0 000000%	0 000000%	7 780460%	0 000000%
5 1-Day Peak @ Distribution	566			3,368		
	0 515581%	0 000000%	0 000000%	3 067982%	0 000000%	0 000000%
8 Average Customers			3			139
	0 000000%	0 000000%	0 003464%	0 000000%	0 000000%	0 160503%
9 Average Customers @ Distribution			2			135
	0 000000%	0 000000%	0 002351%	0 000000%	0 000000%	0 158723%
10 Weighted Customers Excl AF, LI			0			4,995
	0 000000%	0 000000%	0 000000%	0 000000%	0 000000%	4 033007%
11 Average Res & Firm General Cust						
	0 000000%	0 000000%	0 000000%	0 000000%	0 000000%	0 000000%
12 Weighted Customers @ Distribution			0			4,995
	0 000000%	0 000000%	0 000000%	0 000000%	0 000000%	4 010566%
13 Distribution Mains	102,243	0	200	608,401	0	13,490
	0 360906%	0 000000%	0 000706%	2 147587%	0 000000%	0 047618%

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		Large Interruptible		
		Demand	Energy	Customer
1	Dk Throughput		2,229,392	
		0 000000%	12 194099%	0 000000%
2	1-Day Peak Sales	6,108		
		5 240489%	0 000000%	0 000000%
3	Dk Sales		0	
		0 000000%	0 000000%	0 000000%
4	Dk Throughput @ Distribution		845,136	
		0 000000%	5 347847%	0 000000%
5	1-Day Peak @ Distribution	2,316		
		2 109693%	0 000000%	0 000000%
8	Average Customers			10
		0 000000%	0 000000%	0 011547%
9	Average Customers @ Distribution			7
		0 000000%	0 000000%	0 008230%
10	Weighted Customers Excl AF, LI			0
		0 000000%	0 000000%	0 000000%
11	Average Res & Firm General Cust			
		0 000000%	0 000000%	0 000000%
12	Weighted Customers @ Distribution			693
		0 000000%	0 000000%	0 556421%
13	Distribution Mains	418,366	0	699
		1 476785%	0 000000%	0 002467%

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	Total North Dakota	Residential			Firm General		
		Demand	Energy	Customer	Demand	Energy	Customer
15 Distribution Plant	57,900,451 100 000000%	11,803,012 20 385009%	0 0 000000%	23,945,470 41 356277%	8,180,209 14 128057%	0 0 000000%	11,165,332 19 283670%
16 Meters & Regulators	14,581,831 100 000000%	0 0 000000%	0 0 000000%	8,586,124 58 882345%	0 0 000000%	0 0 000000%	5,306,046 36 388064%
17 Structures & Improvements	180,116 100 000000%	50,016 27 768770%	0 0 000000%	33,297 18 486420%	34,664 19 245375%	0 0 000000%	9,338 5 184437%
18 Meas & Reg Sta Eqpt - General	580,270 100 000000%	224,580 38 702674%	0 0 000000%	149,510 25 765592%	155,647 26 823203%	0 0 000000%	22,989 3 961776%
19 Meas & Reg Eqpt - City Gate	174,002 100 000000%	61,381 35 276028%	0 0 000000%	40,863 23 484213%	42,541 24 448570%	0 0 000000%	13,170 7 568879%
20 Service Regulators	1,747,785 100 000000%	0 0 000000%	0 0 000000%	1,002,510 57 358886%	0 0 000000%	0 0 000000%	641,743 36 717502%
21 Ind Meas & Reg Sta Eqpt	370,108 100 000000%	35,268 9 529109%	0 0 000000%	23,479 6 343826%	24,443 6 604288%	0 0 000000%	29,666 8 015498%
22 Mains & Services	41,024,898 100 000000%	11,046,055 26 925247%	0 0 000000%	14,855,416 36 210732%	7,655,592 18 660843%	0 0 000000%	5,744,639 14 002811%
23 Sales & Transportation Rev	102,683,157 100 000000%	9,804,175 9 547988%	38,932,550 37 915224%	7,992,607 7 783757%	6,911,391 6 730793%	26,726,014 26 027651%	3,546,606 3 453932%
24 Net Gas Plant in Service	22,912,306 100 000000%	4,256,456 18 577161%	0 0 000000%	9,761,886 42 605428%	2,949,982 12 875099%	0 0 000000%	4,740,795 20 691043%
25 Total Gas Plant in Service	72,555,993 100 000000%	14,790,546 20 385009%	0 0 000000%	30,006,457 41 356276%	10,250,752 14 128057%	0 0 000000%	13,991,457 19 283668%
26 Sales & Transport Revenue (excluding unbilled revenue)	99,950,056 100 000000%	9,543,219 9 547987%	37,896,288 37 915224%	7,779,869 7 783757%	6,727,432 6 730794%	26,014,652 26 027651%	3,452,207 3 453932%

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	Air Force			Small Interruptible		
	Demand	Energy	Customer	Demand	Energy	Customer
15 Distribution Plant	109,249 0 188684%	0 0 000000%	112,044 0 193511%	650,094 1 122779%	0 0 000000%	1,147,949 1 982625%
16 Meters & Regulators	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	605,214 4 150466%
17 Structures & Improvements	463 0 257057%	0 0 000000%	13,407 7 443536%	2,755 1 529570%	0 0 000000%	61 0 033867%
18 Meas & Reg Sta Eqpt - General	2,079 0 358281%	0 0 000000%	4,301 0 741207%	12,370 2 131766%	0 0 000000%	274 0 047219%
19 Meas & Reg Eqpt - City Gate	568 0 326433%	0 0 000000%	1 0 000576%	3,381 1 943081%	0 0 000000%	9,768 5 613729%
20 Service Regulators	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	90,496 5 177754%
21 Ind Meas & Reg Sta Eqpt	326 0 088082%	0 0 000000%	94,127 25 432306%	1,942 0 524712%	0 0 000000%	9,514 2 570601%
22 Mains & Services	102,243 0 249222%	0 0 000000%	200 0 000488%	608,401 1 483004%	0 0 000000%	522,647 1 273975%
23 Sales & Transportation Rev	275,431 0 268234%	3,668,967 3 573095%	15,657 0 015248%	166,814 0 162455%	3,729,745 3 632285%	202,182 0 196899%
24 Net Gas Plant in Service	39,398 0 171951%	0 0 000000%	73,889 0 322486%	234,442 1 023214%	0 0 000000%	506,118 2 208935%
25 Total Gas Plant in Service	136,902 0 188685%	0 0 000000%	140,404 0 193511%	814,644 1 122780%	0 0 000000%	1,438,513 1 982625%
26 Sales & Transport Revenue (excluding unbilled revenue)	268,100 0 268234%	3,571,311 3 573096%	15,240 0 015248%	162,374 0 162455%	3,630,471 3 632285%	196,800 0 196898%

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		Large Interruptible		
		Demand	Energy	Customer
15	Distribution Plant	447,036 0 772077%	0 0 000000%	340,056 0 587311%
16	Meters & Regulators	0 0 000000%	0 0 000000%	84,447 0 579125%
17	Structures & Improvements	1,894 1 051545%	0 0 000000%	34,221 18 999423%
18	Meas & Reg Sta Eqpt - General	8,506 1 465869%	0 0 000000%	14 0 002413%
19	Meas & Reg Eqpt - City Gate	2,325 1 336192%	0 0 000000%	4 0 002299%
20	Service Regulators	0 0 000000%	0 0 000000%	13,036 0 745858%
21	Ind Meas & Reg Sta Eqpt	1,336 0 360976%	0 0 000000%	150,007 40 530602%
22	Mains & Services	418,366 1 019786%	0 0 000000%	71,339 0 173892%
23	Sales & Transportation Rev	0 0 000000%	622,872 0 606596%	88,146 0 085843%
24	Net Gas Plant in Service	161,214 0 703613%	0 0 000000%	188,126 0 821070%
25	Total Gas Plant in Service	560,188 0 772077%	0 0 000000%	426,130 0 587312%
26	Sales & Transport Revenue (excluding unbilled revenue)	0 0 000000%	606,293 0 606596%	85,800 0 085843%

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	Total North Dakota	Residential			Firm General		
		Demand	Energy	Customer	Demand	Energy	Customer
27 All Other Dist Operation Exp	2,616,502 100 000000%	285,136 10 897603%	0 0 000000%	1,292,004 49 379057%	197,616 7 552679%	0 0 000000%	710,468 27 153352%
28 All Other Dist Maintenance Exp	331,596 100 000000%	50,392 15 196806%	0 0 000000%	151,494 45 686317%	34,924 10 532093%	0 0 000000%	78,089 23 549440%
30 O&M Excl Gas Cost and A&G	9,193,793 100 000000%	632,961 6 884657%	143,478 1 560596%	5,485,335 59 663457%	438,677 4 771447%	101,144 1 100134%	2,047,988 22 275768%
31 O&M Excl Cost of Gas	14,692,697 100 000000%	1,011,542 6 884657%	229,294 1 560598%	8,766,171 59 663460%	701,054 4 771445%	161,639 1 100132%	3,272,911 22 275767%
33 Total Cost of Gas	81,904,699 100 000000%	9,543,219 11 651614%	34,630,912 42 281959%	0 0 000000%	6,727,432 8 213731%	24,412,851 29 806411%	0 0 000000%
35 Taxable Income	(3,104,550) 100 000000%	(2,036,971) 65 612439%	2,044,450 -65 853343%	(2,783,260) 89 650996%	(1,415,243) 45 586091%	721,922 -23 253676%	(674,418) 21 723535%
38 Customer Account Expense O&M	262,999 100 000000%	0 0 000000%	0 0 000000%	227,517 86 508694%	0 0 000000%	0 0 000000%	35,021 13 316020%
39 Distribution O&M	5,557,825 100 000000%	632,961 11 388645%	32,119 0 577906%	2,678,246 48 188742%	438,677 7 892962%	22,642 0 407390%	1,459,928 26 267974%
40 Total Tax Deductions & Adjustments	4,326,797 100 000000%	464,560 10 736811%	2,021,086 46 710903%	(187,435) -4 331957%	328,586 7 594209%	1,424,752 32 928561%	(87,398) -2 019924%
41 Total Operating Revenues	103,088,903 100 000000%	9,868,348 9 572659%	38,936,227 37 769561%	8,181,723 7 936570%	6,955,876 6 747454%	26,728,555 25 927674%	3,628,747 3 520017%
42 Dk Sales - Propane	50,774 100 000000%	0 0 000000%	19,414 38 236105%	0 0 000000%	0 0 000000%	31,360 61 763895%	0 0 000000%
43 Total Weighted Customers	124,546 100 000000%	0 0 000000%	0 0 000000%	73,594 59 089815%	0 0 000000%	0 0 000000%	45,264 36 343198%

**MONTANA-DAKOTA UTILITIES CO
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
ALLOCATION FACTOR REPORT
TWELVE MONTHS ENDED DECEMBER 31, 2003**

	Air Force			Small Interruptible		
	Demand	Energy	Customer	Demand	Energy	Customer
27 All Other Dist Operation Exp	2,640 0 100898%	0 0 000000%	7,646 0 292222%	15,705 0 600229%	0 0 000000%	77,205 2 950695%
28 All Other Dist Maintenance Exp	467 0 140834%	0 0 000000%	905 0 272922%	2,775 0 836862%	0 0 000000%	8,309 2 505760%
30 O&M Excl Gas Cost and A&G	5,860 0 063739%	15,484 0 168418%	16,151 0 175673%	34,860 0 379169%	12,805 0 139279%	185,743 2 020309%
31 O&M Excl Cost of Gas	9,365 0 063739%	24,745 0 168417%	25,811 0 175672%	55,710 0 379168%	20,464 0 139280%	296,838 2 020310%
33 Total Cost of Gas	268,100 0 327332%	3,737,465 4 563188%	0 0 000000%	162,374 0 198247%	2,422,346 2 957518%	0 0 000000%
35 Taxable Income	(24,417) 0 786491%	(312,136) 10 054146%	(17,511) 0 564043%	(100,947) 3 251582%	1,144,975 -36 880546%	(192,088) 6 187306%
38 Customer Account Expense O&M	0 0 000000%	0 0 000000%	9 0 003422%	0 0 000000%	0 0 000000%	422 0 160457%
39 Distribution O&M	5,860 0 105437%	3,466 0 062363%	16,053 0 288836%	34,860 0 627224%	5,016 0 090251%	158,204 2 846509%
40 Total Tax Deductions & Adjustments	14,792 0 341870%	218,121 5 041166%	(877) -0 020269%	4,387 0 101391%	141,370 3 267313%	(8,986) -0 207682%
41 Total Operating Revenues	276,039 0 267768%	3,669,326 3 559380%	16,792 0 016289%	170,322 0 165219%	3,730,091 3 618324%	210,444 0 204138%
42 Dk Sales - Propane	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%
43 Total Weighted Customers	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	0 0 000000%	4,995 4 010566%

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY
ALLOCATION FACTOR REPORT
TWELVE MONTHS ENDED DECEMBER 31, 2003**

		Large Interruptible		
		Demand	Energy	Customer
27	All Other Dist Operation Exp	10,800 0 412765%	0 0 000000%	17,282 0 660500%
28	All Other Dist Maintenance Exp	1,909 0 575701%	0 0 000000%	2,332 0 703265%
30	O&M Excl Gas Cost and A&G	23,975 0 260774%	8,783 0 095532%	40,549 0 441048%
31	O&M Excl Cost of Gas	38,315 0 260776%	14,036 0 095530%	64,802 0 441049%
33	Total Cost of Gas	0 0 000000%	0 0 000000%	0 0 000000%
35	Taxable Income	(65,970) 2 124946%	608,294 -19 593629%	(1,230) 0 039619%
38	Customer Account Expense O&M	0 0 000000%	0 0 000000%	30 0 011407%
39	Distribution O&M	23,975 0 431374%	8,783 0 158029%	37,035 0 666358%
40	Total Tax Deductions & Adjustments	(3,499) -0 080868%	0 0 000000%	(2,662) -0 061524%
41	Total Operating Revenues	2,404 0 002332%	622,972 0 604306%	91,037 0 088309%
42	Dk Sales - Propane	0 0 000000%	0 0 000000%	0 0 000000%
43	Total Weighted Customers	0 0 000000%	0 0 000000%	693 0 556421%

MONTANA-DAKOTA UTILITIES CO
INCOME STATEMENT
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
Operating Revenues			
Sales	\$101,924	\$119,376	\$119,307
Transportation	759	783	783
Other	406	406	406
Total Revenues	<u>103,089</u>	<u>120,565</u>	<u>120,496</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	81,905	99,630	99,473
Other O&M	14,693	16,579	17,546
Total O&M	<u>96,598</u>	<u>116,209</u>	<u>117,019</u>
Depreciation	2,994	2,537	2,615
Taxes Other Than Income	1,299	1,362	1,421
Current Income Taxes	(1,462)	405	263
Deferred Income Taxes	1,773	(620)	(873)
Total Expenses	<u>101,202</u>	<u>119,893</u>	<u>120,445</u>
Operating Income	<u>\$1,887</u>	<u>\$672</u>	<u>\$51</u>
Average Rate Base	<u>\$19,438</u>	<u>\$20,170</u>	<u>\$20,914</u>
Rate of Return	<u>9.708%</u>	<u>3.332%</u>	<u>0.244%</u>

**MONTANA-DAKOTA UTILITIES CO.
SALES AND TRANSPORTATION REVENUE
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)**

	Projected 2004		Projected 2005	
	Dk	Revenue	Dk	Revenue
<u>Sales</u>				
Residential	8,150	\$66,711	8,153	\$66,810
Firm General	5,774	44,198	5,747	44,030
Air Force				
Firm	37	252	37	252
Interruptible	843	4,734	843	4,734
Total Air Force	880	4,986	880	4,986
Small Interruptible	570	3,481	570	3,481
Large Interruptible	0	0	0	0
Total Sales	15,374	\$119,376	15,350	\$119,307
<u>Transportation</u>				
Small Interruptible	703	\$401	703	\$401
Large Interruptible	2,230	382	2,230	382
Total Transportation	2,933	\$783	2,933	\$783
Total Throughput	18,307	\$120,159	18,283	\$120,090

MONTANA-DAKOTA UTILITIES CO.
MISCELLANEOUS REVENUES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
Miscellaneous Service Revenue	<u>\$38</u>	<u>\$38</u>	<u>\$38</u>
Rent from Property	302	302	302
Other Revenue	<u>66</u>	<u>66</u>	<u>66</u>
Total Misc Revenues	<u>\$406</u>	<u>\$406</u>	<u>\$406</u>

**MONTANA-DAKOTA UTILITIES CO.
OPERATION & MAINTENANCE EXPENSE
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000S)**

<u>Function</u>	<u>Total</u>	<u>Cost of Gas</u>	<u>Labor</u>	<u>Benefits</u>	<u>Insurance</u>	<u>Contract Labor</u>	<u>Materials</u>	<u>Vehicles & Work Equip</u>	<u>Postage</u>	<u>Telephone</u>
Cost of Gas	\$99,630	\$99,630								
Other Gas Supply	218		\$147							
Distribution	6,104		4,680			\$426	(\$63)	\$415	\$11	\$90
Customer Accounting	2,997		2,024			60	2	71	244	27
Customer Service & Info	179		136					6		1
Sales	492		395			1		14	3	6
Administrative and General	6,589		1,761	\$2,400	\$426	319	22	12	60	104
Total Other O&M	16,579	0	9,143	2,400	426	806	(39)	518	318	228
Total O&M	<u>\$116,209</u>	<u>\$99,630</u>	<u>\$9,143</u>	<u>\$2,400</u>	<u>\$426</u>	<u>\$806</u>	<u>(\$39)</u>	<u>\$518</u>	<u>\$318</u>	<u>\$228</u>

**MONTANA-DAKOTA UTILITIES CO.
OPERATION & MAINTENANCE EXPENSE
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000S)**

<u>Function</u>	<u>Office Supplies</u>	<u>Company Consumption</u>	<u>Uncollectible Accounts</u>	<u>Computer Rental</u>	<u>Industry Dues</u>	<u>Advertising</u>	<u>Energy Share</u>	<u>Rate Case Expense</u>	<u>Depreciation Study Expense</u>	<u>All Other O&M</u>
Cost of Gas										\$0
Other Gas Supply										71
Distribution	\$21	\$96								428
Customer Accounting	34	37	252	\$60						186
Customer Service & Info	1					\$27				8
Sales	4	6								63
Administrative and General	118	31		36	39	111	\$11	\$125	\$5	1,009
Total Other O&M	178	170	252	96	39	138	11	125	5	1,765
Total O&M	\$178	\$170	\$252	\$96	\$39	\$138	\$11	\$125	\$5	\$1,765

**MONTANA-DAKOTA UTILITIES CO.
OPERATION & MAINTENANCE EXPENSE
GAS UTILITY - NORTH DAKOTA
PROJECTED 2005
(000S)**

<u>Function</u>	<u>Total</u>	<u>Cost of Gas</u>	<u>Labor</u>	<u>Benefits</u>	<u>Insurance</u>	<u>Contract Labor</u>	<u>Materials</u>	<u>Vehicles & Work Equip</u>	<u>Postage</u>	<u>Telephone</u>
Cost of Gas	\$99,473	\$99,473								
Other Gas Supply	228		\$155							
Distribution	6,414		4,930			\$437	(\$64)	\$451	\$11	\$92
Customer Accounting	3,131		2,132			62	2	79	250	28
Customer Service & Info	186		143					6		1
Sales	516		416			1		15	3	6
Administrative and General	7,071		1,855	2,733	437	327	23	12	62	107
Total Other O&M	17,546	0	9,631	2,733	437	827	(39)	563	326	234
Total O&M	<u>\$117,019</u>	<u>\$99,473</u>	<u>\$9,631</u>	<u>\$2,733</u>	<u>\$437</u>	<u>\$827</u>	<u>(\$39)</u>	<u>\$563</u>	<u>\$326</u>	<u>\$234</u>

**MONTANA-DAKOTA UTILITIES CO.
OPERATION & MAINTENANCE EXPENSE
GAS UTILITY - NORTH DAKOTA
PROJECTED 2005
(000\$)**

<u>Function</u>	<u>Office Supplies</u>	<u>Company Consumption</u>	<u>Uncollectible Accounts</u>	<u>Computer Rental</u>	<u>Industry Dues</u>	<u>Advertising</u>	<u>Energy Share</u>	<u>Rate Case Expense</u>	<u>Depreciation Study Expense</u>	<u>All Other O&M</u>
Cost of Gas										\$0
Other Gas Supply										73
Distribution	\$22	\$96								439
Customer Accounting	35	37	252	\$63						191
Customer Service & Info	1					\$27				8
Sales	4	6								65
Administrative and General	121	31		38	39	111	\$11	\$125	\$5	1,034
Total Other O&M	<u>183</u>	<u>170</u>	<u>252</u>	<u>101</u>	<u>39</u>	<u>138</u>	<u>11</u>	<u>125</u>	<u>5</u>	<u>1,810</u>
Total O&M	<u><u>\$183</u></u>	<u><u>\$170</u></u>	<u><u>\$252</u></u>	<u><u>\$101</u></u>	<u><u>\$39</u></u>	<u><u>\$138</u></u>	<u><u>\$11</u></u>	<u><u>\$125</u></u>	<u><u>\$5</u></u>	<u><u>\$1,810</u></u>

MONTANA-DAKOTA UTILITIES CO
PROJECTED COST OF GAS
GAS UTILITY - NORTH DAKOTA
(000s)

	<u>Projected Dk Sales</u>	<u>Dk Adjusted for Distribution Losses 1/</u>	<u>Commodity Charge 2/</u>	<u>Projected Cost of Gas</u>
<u>Projected 2004</u>				
Residential	8,150	8,187	\$6 551	\$53,633
Firm General Service	5,774	5,800	6 551	37,996
Air Force				
Firm	37	37	6 551	242
Interruptible Contract	759	759	5 480	4,159
Total Air Force	<u>796</u>	<u>796</u>		<u>4,401</u>
Small Interruptible	654	657	5 480	3,600
Large Interruptible	0	0	5 480	0
Total	<u>15,374</u>	<u>15,440</u>		<u>\$99,630</u>
<u>Projected 2005</u>				
Residential	8,153	8,190	\$6 551	\$53,653
Firm General Service	5,747	5,773	6 551	37,819
Air Force				
Firm	37	37	6 551	242
Interruptible Contract	759	759	5 480	4,159
Total Air Force	<u>796</u>	<u>796</u>		<u>4,401</u>
Small Interruptible	654	657	5 480	3,600
Large Interruptible	0	0	5 480	0
Total	<u>15,350</u>	<u>15,416</u>		<u>\$99,473</u>

1/ Distribution loss factor of 45%

2/ Exhibit B, Purchased Gas Cost Adjustment effective February 1, 2004

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
LABOR EXPENSE
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 2/
Gas Supply	\$138	\$147	\$155
Distribution	4,381	4,680	4,930
Customer Acct	1,895	2,024	2,132
Customer Service & Info	127	136	143
Sales	370	395	416
A&G	1,649	1,761	1,855
Total	<u>\$8,560</u>	<u>\$9,143</u>	<u>\$9,631</u>

1/ Reflects average 6.82% increase

2/ Reflects projected 5.35% increase

MONTANA-DAKOTA UTILITIES CO.
BENEFITS EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected 1/	
		2004	2005
Medical/Dental	\$754	\$929	\$1,003
Pension expense	(201)	295	546
Post-retirement	579	619	635
401-K	214	231	237
Workers compensation	62	66	69
SISP	0	260	243
Total	<u>\$1,408</u>	<u>\$2,400</u>	<u>\$2,733</u>

1/ Each benefit adjusted individually

MONTANA-DAKOTA UTILITIES CO.
INSURANCE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 2/
A&G	\$482	\$426	\$437

1/ Reflects a decrease of 11.62%
2/ Reflects an increase of 2.50%

**MONTANA-DAKOTA UTILITIES CO.
CONTRACT LABOR AND CONSULTING SERVICES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)**

	2003	Projected	
		2004	2005 3/
Distribution 1/	\$333	\$426	\$437
Customer Accounting 2/	67	60	62
Sales 2/	1	1	1
A&G 2/	359	319	327
Total Contract Labor	<u>\$760</u>	<u>\$806</u>	<u>\$827</u>

- 1/ Reflects an increase of 27 89% in 2004
- 2/ Reflects a decrease of 11 05% in 2004
- 3/ Reflects and increase of 2 50%

MONTANA-DAKOTA UTILITIES CO.
MATERIALS, REIMBURSEMENTS, AND CAPITAL INSTALLATION CREDITS
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

2003				
	Total	Materials	Capital Installation Credits	Reimburse- ments
Distribution	\$3	\$286	(\$206)	(77)
Customer Accounting	2	2	0	0
A&G	26	26	0	0
Total	\$31	\$314	(\$206)	(\$77)

2004				
	Total	Materials 1/	Capital Installation Credits 2/	Reimburse- ments 3/
Distribution	(\$63)	\$244	(\$215)	(\$92)
Customer Accounting	2	2	0	0
A&G	22	22	0	0
Total	(\$39)	\$268	(\$215)	(\$92)

2005 4/				
	Total	Materials	Capital Installation Credits	Reimburse- ments
Distribution	(\$64)	\$250	(\$220)	(\$94)
Customer Accounting	2	2	0	0
A&G	23	23	0	0
Total	(\$39)	\$275	(\$220)	(\$94)

- 1/ Reflects a decrease of 14.80%
- 2/ Reflects an increase of 4.18%
- 3/ Reflects an increase of 18.87%
- 4/ Reflects an increase of 2.50%

**MONTANA-DAKOTA UTILITIES CO.
VEHICLES AND WORK EQUIPMENT
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)**

	2003	Projected 1/	
		2004	2005
Gas Supply	\$0	\$0	\$0
Distribution	199	415	451
Customer Accounting	33	71	79
Customer Service & Info	3	6	6
Sales	7	14	15
A&G	5	12	12
Total Company Vehicles	<u>\$247</u>	<u>\$518</u>	<u>\$563</u>

1/ Based on depreciation expense

MONTANA-DAKOTA UTILITIES CO.
POSTAGE EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 2/
Distribution	\$11	\$11	\$11
Customer Accounting	251	244	250
Sales	3	3	3
A&G	62	60	62
Total Postage	<u>\$327</u>	<u>\$318</u>	<u>\$326</u>

1/ Reflects a decrease of 2 93%

2/ Reflects an increase of 2 50%

MONTANA-DAKOTA UTILITIES CO
TELEPHONE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 2/
Distribution	\$90	\$90	\$92
Customer Accounting	27	27	28
Customer Service & Info	1	1	1
Sales	6	6	6
A&G	104	104	107
Total Telephone	\$228	\$228	\$234

1/ Reflects an increase of 35%

2/ Reflects an increase of 2 50%

MONTANA-DAKOTA UTILITIES CO.
OFFICE SUPPLIES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 2/
Distribution	\$25	\$21	\$22
Customer Accounting	40	34	35
Customer Service	1	1	1
Sales	5	4	4
A&G	138	118	121
Total Office Supplies	<u>\$209</u>	<u>\$178</u>	<u>\$183</u>

1/ Reflects a decrease of 14.66%

2/ Reflects an increase of 2.50%

MONTANA-DAKOTA UTILITIES CO.
COMPANY CONSUMPTION
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	Total	2003	
		Electric	Gas
Distribution	\$88	\$36	\$52
Customer Accounting	34	16	18
Sales	6	3	3
A&G	30	20	10
Total Company Consumption	<u>\$158</u>	<u>\$75</u>	<u>\$83</u>

	Total	2004	
		Electric 1/	Gas 2/
Distribution	\$96	\$36	\$60
Customer Accounting	37	16	21
Sales	6	3	3
A&G	31	20	11
Total Company Consumption	<u>\$170</u>	<u>\$75</u>	<u>\$95</u>

	Total	2005	
		Electric	Gas
Distribution	\$96	\$36	\$60
Customer Accounting	37	16	21
Sales	6	3	3
A&G	31	20	11
Total Company Consumption	<u>\$170</u>	<u>\$75</u>	<u>\$95</u>

1/ Reflects an increase of 1 18%
2/ Reflects an increase of 14 92%

MONTANA-DAKOTA UTILITIES CO.
UNCOLLECTIBLE ACCOUNTS
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected 1/	
		2004	2005
Customer Accounting	<u>\$177</u>	<u>\$252</u>	<u>\$252</u>

1/ Based on 5 year average of write-offs to revenues

MONTANA-DAKOTA UTILITIES CO.
COMPUTER RENTAL
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected 1/	
		2004	2005
Customer Accounting	\$51	\$60	\$63
A&G	30	36	38
Total Computer Rental	\$81	\$96	\$101

1/ Increase reflects cost of adding new GIS server

**MONTANA-DAKOTA UTILITIES CO.
INDUSTRY DUES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005**

	2003	Projected	
		2004	2005
Air Force Association - Minot	\$75	\$75	\$75
American Gas Association 1/	16,483	16,447	16,447
Belfield Area Chamber of Commerce	21	21	21
Bismarck-Mandan Area Chamber of Commerce	3,026	3,026	3,026
Bismarck-Mandan Board of Realtors	3,109	3,109	3,109
Bismarck-Mandan Homebuilders Association	168	168	168
Bowman Chamber	32	32	32
Carrington Chamber of Commerce	110	110	110
Cavalier Area Chamber of Commerce	150	150	150
Cavalier Retail Committee	210	210	210
Central North American Trade Corridor Assoc	2,500	2,500	2,500
Devils Lake Area Chamber of Commerce	662	662	662
Dickinson Area Chamber of Commerce	184	184	184
Divide County Economic Development	77	77	77
Downtown Business Association	314	314	314
Economic Development Association of ND	268	268	268
Forward Devils Lake Corporation	500	500	500
Garrison Chamber of Commerce	450	450	450
Grafton Area Chamber of Commerce	199	199	199
Hebron Business Club	8	8	8
Hettinger Area Chamber of Commerce	28	28	28
Jamestown Area Chamber of Commerce	700	700	700
Langdon Chamber of Commerce	135	135	135
Linton Chamber of Commerce	4	4	4
Linton Industrial Development Corporation	2	2	2
Mid-America Economic Development Council	130	130	130
Main Street/Downtown Jamestown	150	150	150
Mercer County Economic Development Corporation	870	870	870
Midwest Energy Association	4,054	4,054	4,054
Minot Area Chamber of Commerce	40	40	40
Minot Association of Builders	260	260	260
Minot Builders Exchange	125	125	125
Minot Convention and Visitors Bureau	250	250	250
NARUC	548	548	548
New England Commercial Club	8	8	8
New Rockford Area Chamber of Commerce	60	60	60
North Dakota Irrigation Caucus	469	469	469
Park River Commercial Club	75	75	75
Ray Association	34	34	34
Richardton Business Association	42	42	42
Stanley Commercial Club	170	170	170

**MONTANA-DAKOTA UTILITIES CO
INDUSTRY DUES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005**

	2003	Projected	
		2004	2005
Stark Development Corporation	105	105	105
Tioga Area Economic Development Corporation	9	9	9
Tioga Chamber of Commerce	34	34	34
Turtle Lake Commercial Club	75	75	75
Underwood Area Civic Club	50	50	50
United Telecom Council	660	660	660
Valley City Area Chamber of Commerce	375	375	375
Walhalla Chamber of Commerce	75	75	75
Washburn Civic Club	75	75	75
Washburn Area Economic Development	150	150	150
Watford City Area Chamber of Commerce	130	130	130
Watford City Economic Development	40	40	40
Williston Area Chamber of Commerce	252	252	252
Other	4,229	0	0
Total	<u>\$42,959</u>	<u>38,694</u>	<u>38,694</u>

1/ Reflects 2004 dues, adjusted to eliminate 2 28% for lobbying

MONTANA-DAKOTA UTILITIES CO
ADVERTISING EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
Informational	\$27	\$27	\$27
Promotional	35		
Institutional	111	111	111
Total	<u>\$173</u>	<u>\$138</u>	<u>\$138</u>

MONTANA-DAKOTA UTILITIES CO.
ENERGY SHARE OF NORTH DAKOTA
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
A&G	\$0	\$11	\$11

MONTANA-DAKOTA UTILITIES CO.
RATE CASE EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected 1/	
		2004	2005
A&G	<u>\$43</u>	<u>\$125</u>	<u>\$125</u>

1/ Reflects three year amortization of rate case expense plus rate case expense from Case No PU-399-02-183 not included in amortization

MONTANA-DAKOTA UTILITIES CO
DEPRECIATION STUDY EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

		Projected 1/	
	2003	2004	2005
A&G	<u>\$0</u>	<u>\$5</u>	<u>\$5</u>

1/ Reflects 5 year amortization of depreciation study expenses

MONTANA-DAKOTA UTILITIES CO
OTHER O&M EXPENSE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005 1/
Other Gas Supply	\$71	\$71	\$73
Distribution	428	428	439
Customer Accounting	186	186	191
Customer Service & Information	8	8	8
Sales	63	63	65
A&G	1,009	1,009	1,034
Total Other O&M	<u>\$1,765</u>	<u>\$1,765</u>	<u>\$1,810</u>

1/ Reflects an increase of 2.5%

MONTANA-DAKOTA UTILITIES CO.
OTHER O&M
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
(000s)

<u>Function</u>	<u>Per Books</u>	<u>Cost of Gas</u>	<u>Labor</u>	<u>Benefits</u>	<u>Insurance</u>	<u>Contract Labor</u>	<u>Materials</u>	<u>Vehicles & Work Equip</u>	<u>Postage</u>	<u>Telephone</u>
Cost of Gas	\$81,905	(\$81,905)								
Other Gas Supply	209		(\$138)							
Distribution	5,558		(4,381)			(\$333)	(\$3)	(\$199)	(\$11)	(\$90)
Customer Accounting	2,763		(1,895)			(67)	(2)	(33)	(251)	(27)
Customer Service & Info	167		(127)					(3)		(1)
Sales	496		(370)			(1)		(7)	(3)	(6)
Administrative and General	5,499		(1,649)	(1,408)	(482)	(359)	(26)	(5)	(62)	(104)
Total Other O&M	14,692	0	(8,560)	(1,408)	(482)	(760)	(31)	(247)	(327)	(228)
Total O&M	<u>\$96,597</u>	<u>(\$81,905)</u>	<u>(\$8,560)</u>	<u>(\$1,408)</u>	<u>(\$482)</u>	<u>(\$760)</u>	<u>(\$31)</u>	<u>(\$247)</u>	<u>(\$327)</u>	<u>(\$228)</u>

**MONTANA-DAKOTA UTILITIES CO.
OTHER O&M
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
(000s)**

<u>Function</u>	<u>Office Supplies</u>	<u>Company Consumption</u>	<u>Uncollectible Accounts</u>	<u>Computer Rental</u>	<u>Industry Dues</u>	<u>Advertising</u>	<u>Rate Case Expense</u>	<u>All Other O&M</u>
Cost of Gas								\$0
Other Gas Supply								71
Distribution	(\$25)	(\$88)						428
Customer Accounting	(40)	(34)	(177)	(\$51)				186
Customer Service & Info	(1)					(\$27)		8
Sales	(5)	(6)				(35)		63
Administrative and General	(138)	(30)		(30)	(43)	(111)	(43)	1,009
Total Other O&M	(209)	(158)	(177)	(81)	(43)	(173)	(43)	1,765
Total O&M	<u>(\$209)</u>	<u>(\$158)</u>	<u>(\$177)</u>	<u>(\$81)</u>	<u>(\$43)</u>	<u>(\$173)</u>	<u>(\$43)</u>	<u>\$1,765</u>

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
DEPRECIATION EXPENSE
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
Distribution	\$2,359	\$1,870	1,947
General	166	179	168
Intangible Plant - General	2	3	3
Common	236	272	263
Intangible Plant - Common	201	210	231
Acquisition Adjustment	30	3	3
Total	<u>\$2,994</u>	<u>\$2,537</u>	<u>\$2,615</u>

MONTANA-DAKOTA UTILITIES CO.
TAXES OTHER THAN INCOME
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

<u>Type of Tax</u>	<u>2003</u>	<u>Projected</u>	
		<u>2004</u>	<u>2005</u>
Ad Valorem			
Distribution	\$512	\$535	\$557
General	55	52	54
Common	58	58	56
Intangible	3	3	3
Total Ad Valorem Taxes	<u>\$628</u>	<u>\$648</u>	<u>\$670</u>
O&M Related Taxes - Other			
FICA	602	677	714
Federal Unemployment	9		
State Unemployment	23		
Franchise	12	12	12
Delaware Franchise	25	25	25
Total O&M Related Taxes	<u>671</u>	<u>714</u>	<u>\$751</u>
Total Taxes Other Than Income	<u>\$1,299</u>	<u>\$1,362</u>	<u>\$1,421</u>

MONTANA-DAKOTA UTILITIES CO.
AD VALOREM TAXES
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

Function	Effective Tax Rate	Projected 2004		Projected 2005	
		Plant Balance	Ad Valorem Tax	Plant Balance	Ad Valorem Tax
Distribution 1/	0.8846%	\$60,507	\$535	\$63,013	\$557
General	0.8026%	6,498	52	6,692	54
General Intangible	0.1287%	180	0	180	0
Common	1.0391%	5,558	58	5,409	56
Common Intangible	0.1287%	2,256	3	2,482	3
Total Ad Valorem Taxes		\$74,999	\$648	\$77,776	\$670

1/ Includes gas plant leased to others

**MONTANA-DAKOTA UTILITIES CO.
AD VALOREM TAXES
GAS UTILITY - NORTH DAKOTA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

<u>Function</u>	<u>Average Plant Balance @ 12/31/03</u>	<u>Ad Valorem Tax @ 12/31/03</u>	<u>Effective Tax Rate</u>
Distribution 1/	\$57,911,823	\$512,281	0 8846%
General	6,753,671	54,208	0 8026%
Common	5,573,420	57,915	1 0391%
Intangible 2/	<u>2,219,808</u>	<u>2,856</u>	0 1287%
Total	<u><u>\$72,458,722</u></u>	<u><u>\$627,260</u></u>	

1/ Includes gas plant leased to others

2/ General and common intangible

MONTANA-DAKOTA UTILITIES CO.
PAYROLL TAXES
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004 1/	2005 1/
FICA	\$602		
Federal Unemployment	9		
State Unemployment	23		
Total	<u>\$634</u>	<u>\$677</u>	<u>\$714</u>

1/ Calculated based on 2003 ratio of payroll taxes to labor

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
CALCULATION OF CURRENT INCOME TAXES
PROJECTED 2004-2005
(000s)

	Projected	
	2004	2005
Operating Revenues		
Sales Revenues	\$119,376	\$119,307
Transportation Revenues	783	783
Other Revenues	406	406
Total Operating Revenues	120,565	120,496
Operating Expenses		
Operation and Maintenance		
Cost of Gas	99,630	99,473
Other O&M	16,579	17,546
Total O&M	116,209	117,019
Depreciation Expense	2,537	2,615
Taxes other Than Income	1,362	1,421
Total Operating Expenses	120,108	121,055
Operating Income before Taxes	457	(559)
Deductions and Adjustments to Book Income		
Interest Expense	793	775
Preferred Dividend Paid	15	15
Other Tax Deductions	(1,376)	(2,013)
Total Adjustments to Taxable Income	(568)	(1,223)
Taxable Income	1,025	664
Federal & State Income Taxes @ 39.55%	\$405	\$263

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
INTEREST EXPENSE ANNUALIZATION
PROJECTED 2004-2005
(000s)**

	Projected	
	2004	2005
Rate Base	\$20,170	\$20,914
Long Term Debt Ratio	45.589%	43.535%
Long Term Debt Cost	8.624%	8.518%
Weighted Cost of Debt	3.932%	3.708%
Interest Expense	\$793	\$775

MONTANA-DAKOTA UTILITIES CO.
INCOME TAX DEDUCTIONS
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

	Projected	
	2004	2005
<u>1900 Account M-1's</u>		
Pension Expense	(183)	(141)
BOD Retirement	(93)	(93)
<u>2820 Account M-1's</u>		
Liberalized Depreciation and Other Property Timing Differences	337	(739)
<u>2830 Account M-1's</u>		
Purchased Gas Cost Adjustment	(1,282)	(905)
Amortization of Loss on Bond Retirements	(114)	(94)
<u>Permanent M-1's</u>		
Meals & Entertainment	(41)	(41)
Total M-1 Deductions	<u>(\$1,376)</u>	<u>(\$2,013)</u>

MONTANA-DAKOTA UTILITIES CO.
DEFERRED INCOME TAXES
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

	Projected	
	2004	2005
Gas Utility - Rate Base Deductions		
Depreciation, Retirements and Other Timing Differences Required to be Normalized	\$42	(\$384)
Total Rate Base Deductions	42	(384)
Gas Utility - Current Timing Differences		
Pension Expense	(154)	(130)
Unrecovered Purchased Gas Cost	(508)	(359)
Total Current Timing Differences	(662)	(489)
Total	<u>(\$620)</u>	<u>(\$873)</u>

MONTANA-DAKOTA UTILITIES CO
AVERAGE RATE BASE
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003	Projected	
		2004	2005
Gas Plant in Service	\$72,556	\$75,096	\$77,873
Accumulated Reserve for Depreciation	49,644	51,343	53,572
Net Gas Plant in Service	22,912	23,753	24,301
CWIP in Service Pending Reclassification	427		
Total Gas Plant in Service	23,339	23,753	24,301
Additions			
Materials and Supplies	393	475	475
Fuel Stock	25	22	22
Prepayments	50	181	190
Other	44	4	0
Total Additions	512	682	687
Total Before Deductions	\$23,851	\$24,435	\$24,988
Deductions			
Accumulated Deferred Income Taxes	\$3,909	\$3,845	\$3,674
Accumulated Investment Tax Credits	207	166	146
Customer Advances	297	254	254
Total Deductions	4,413	4,265	4,074
Total Rate Base	\$19,438	\$20,170	\$20,914

MONTANA-DAKOTA UTILITIES CO.
PLANT IN SERVICE
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	2003 1/	Projected 2004	Average 2004	Projected 2005	Average 2005
Distribution	\$59,417	\$61,596	\$60,507	\$64,429	\$63,013
General	6,574	6,783	6,678	6,961	6,872
Common	7,698	7,929	7,814	7,854	7,891
Acquisition Adjustment	97	97	97	97	97
Total	<u>\$73,786</u>	<u>\$76,405</u>	<u>\$75,096</u>	<u>\$79,341</u>	<u>\$77,873</u>

1/ Includes CWIP in Service

**MONTANA-DAKOTA UTILITIES CO.
PLANT IN SERVICE
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)**

	2003 1/ \$59,417	2004			Average 2004 \$60,507	2005			Average 2005 \$63,0
		Additions \$2,304	Retirements (\$125)	Balance \$61,596		Additions \$2,962	Retirements (\$129)	Balance \$64,429	
Distribution 2/									
<u>General</u>									
Other	2,592	49	(206)	2,435	2,514	26	(193)	2,268	2,351
Transportation	2,307	516	(183)	2,640	2,473	336	(209)	2,767	2,703
Work Equipment	1,456	66	(115)	1,407	1,431	259	(112)	1,554	1,481
Tools	39	85	(3)	121	80	81	(10)	192	157
Intangible	180	0	0	180	180	0	0	180	180
Total General	6,574	716	(507)	6,783	6,678	702	(524)	6,961	6,872
<u>Common</u>									
Other	4,279	227	(350)	4,156	4,218	187	(340)	4,003	4,079
Transportation	1,337	87	(109)	1,315	1,325	90	(108)	1,297	1,306
Work Equipment	15	0	(1)	14	15	21	(1)	34	24
Intangible	2,067	383	(6)	2,444	2,256	83	(7)	2,520	2,482
Total Common	7,698	697	(466)	7,929	7,814	381	(456)	7,854	7,891
Acquisition Adjustment	97			97	97			97	97
Total Gas Plant in Service	<u>\$73,786</u>	<u>\$3,717</u>	<u>(\$1,098)</u>	<u>\$76,405</u>	<u>\$75,096</u>	<u>\$4,045</u>	<u>(\$1,109)</u>	<u>\$79,341</u>	<u>\$77,873</u>

1/ Includes CWIP in Service by function

2/ Includes gas plant leased to others

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF ACCUMULATED RESERVE FOR DEPRECIATION
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004- 2005
(000s)

	2003	Projected 2004	Average 2004	Projected 2005	Average 2005
Distribution	\$43,576	\$45,320	\$44,448	\$47,136	\$46,228
General	3,056	3,302	3,179	3,552	3,427
Common	3,589	3,780	3,684	3,984	3,882
Acquisition Adjustment	30	33	32	36	35
Total	<u>\$50,251</u>	<u>\$52,435</u>	<u>\$51,343</u>	<u>\$54,708</u>	<u>\$53,572</u>

MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED RESERVE FOR DEPRECIATION
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)

	2003		Depreciation/ Amortization Rate 1/	2004			2004 Average Balance
	Acc Reserve for Depr	Average Plant In Service		Depreciation/ Amortization Expense	Retirements/ Removal	Ending Balance	
Distribution 2/	\$43,576	\$60,507	3.09%	\$1,870	(\$126)	\$45,320	\$44,448
General							
Other	975	2,514	7.14%	179	(156)	998	986
Transportation	1,049	2,473	20.82%	515	(168)	1,396	1,222
Work Equipment	810	1,431	0.44%	6	(130)	686	748
Tools	45	80	5.56%	4	(7)	42	44
Intangible	177	180	1.52%	3	0	180	179
Total General	<u>3,056</u>	<u>6,678</u>		<u>707</u>	<u>(461)</u>	<u>3,302</u>	<u>3,179</u>
Common							
Other	2,154	4,218	6.46%	272	(366)	2,060	2,107
Transportation	312	1,325	10.22%	135	(53)	394	353
Work Equipment	2	15	2.69%	0	0	2	2
Intangible	1,121	2,256	9.32%	210	(7)	1,324	1,222
Total Common	<u>3,589</u>	<u>7,814</u>		<u>617</u>	<u>(426)</u>	<u>3,780</u>	<u>3,684</u>
Acquisition Adjustment	<u>30</u>	<u>97</u>	3/	<u>3</u>	<u>0</u>	<u>33</u>	<u>32</u>
Total Gas Plant in Service	<u>\$50,251</u>	<u>\$75,096</u>		<u>\$3,197</u>	<u>(\$1,013)</u>	<u>\$52,435</u>	<u>\$51,343</u>
Depreciation Expense				<u>\$2,537</u>			

1/ Composite depreciation rates by function

2/ Includes gas plant leased to others

3/ Amortized over 34.5 years

MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED RESERVE FOR DEPRECIATION
GAS UTILITY - NORTH DAKOTA
PROJECTED 2005
(000s)

	2004 Acc Reserve for Depr	Average Plant In Service	Depreciation/ Amortization Rate 1/	2005			2005 Average Balance
				Depreciation/ Amortization Expense	Retirements/ Removal	Ending Balance	
Distribution 2/	\$45,320	\$63,013	3 09%	\$1,947	(\$131)	\$47,136	\$46,228
General							
Other	998	2,351	7 14%	168	(160)	1,006	1,002
Transportation	1,396	2,703	20 82%	563	(223)	1,736	1,565
Work Equipment	686	1,481	0 44%	7	(110)	583	635
Tools	42	157	5 56%	9	(7)	44	43
Intangible	180	180	1 52%	3	0	183	182
Total General	<u>3,302</u>	<u>6,872</u>		<u>750</u>	<u>(500)</u>	<u>3,552</u>	<u>3,427</u>
Common							
Other	2,060	4,079	6 46%	263	(350)	1,973	2,016
Transportation	394	1,306	10 22%	134	(67)	461	428
Work Equipment	2	24	2 69%	1	0	3	3
Intangible	1,324	2,482	9 32%	231	(8)	1,547	1,435
Total Common	<u>3,780</u>	<u>7,891</u>		<u>629</u>	<u>(425)</u>	<u>3,984</u>	<u>3,882</u>
Acquisition Adjustment	<u>33</u>	<u>97</u>	3/	<u>3</u>	<u>0</u>	<u>36</u>	<u>35</u>
Total Gas Plant in Service	<u>\$52,435</u>	<u>\$77,873</u>		<u>\$3,329</u>	<u>(\$1,056)</u>	<u>\$54,708</u>	<u>\$53,572</u>
Depreciation Expense				<u>\$2,615</u>			

1/ Composite depreciation rates by function

2/ Includes gas plant leased to others

3/ Amortized over 34 5 years

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF WORKING CAPITAL AND
CUSTOMER ADVANCES FOR CONSTRUCTION
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

<u>Working Capital</u>	<u>Average</u>	
	<u>2004</u>	<u>2005</u>
Materials and Supplies	\$475	\$475
Fuel Stocks	22	22
Prepayments	181	190
Gas IRP	<u>4</u>	<u>0</u>
Total Working Capital	<u>\$682</u>	<u>\$687</u>
Customer Advances for Construction	<u>\$254</u>	<u>\$254</u>

MONTANA-DAKOTA UTILITIES CO.
MATERIALS AND SUPPLIES
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
December 2002	\$376		
January 2003	371		
February	408		
March	504		
April	545		
May	500		
June	534		
July	540		
August	507		
September	488		
October	509		
November	483		
December	409		
13 Month Average	<u>\$475</u>	<u>\$475</u>	<u>\$475</u>

MONTANA-DAKOTA UTILITIES CO.
FUEL STOCKS
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000S)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
December 2002	\$24		
January 2003	24		
February	24		
March	13		
April	22		
May	23		
June	17		
July	19		
August	19		
September	21		
October	21		
November	34		
December	26		
13 Month Average	<u>\$22</u>	<u>\$22</u>	<u>\$22</u>

MONTANA-DAKOTA UTILITIES CO
PREPAYMENTS
GAS UTILITY - NORTH DAKOTA
TWELVE MONTHS ENDING DECEMBER 31, 2003
PROJECTED 2004-2005
(000s)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
December 2002	\$33	\$66	\$91
January 2003	10	345	363
February	164	313	329
March	144	287	301
April	231	255	267
May	203	224	234
June	190	191	200
July	166	164	170
August	133	131	136
September	110	98	101
October	99	66	67
November	110	124	125
December	66	91	90
13 Month Average	<u>\$128</u>	<u>\$181</u>	<u>\$190</u>

**MONTANA-DAKOTA UTILITIES CO
GAS INTEGRATED RESOURCE PLAN
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
December 2002	\$71	\$18	
January 2003	67	14	
February	62	9	
March	58	5	
April	53	0	
May	49	0	
June	44	0	
July	40	0	
August	36	0	
September	31	0	
October	27	0	
November	22	0	
December	18	0	
13 Month Average Balance	<u>\$44</u>	<u>\$4</u>	<u>\$0</u>

**MONTANA-DAKOTA UTILITIES CO.
CUSTOMER ADVANCES FOR CONSTRUCTION
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
December 2002	\$287		
January 2003	239		
February	191		
March	192		
April	224		
May	224		
June	240		
July	241		
August	241		
September	289		
October	311		
November	312		
December	307		
13 Month Average	<u>\$254</u>	<u>\$254</u>	<u>\$254</u>

MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED DEFERRED INCOME TAXES
ACCUMULATED INVESTMENT TAX CREDITS
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004-2005
(000s)

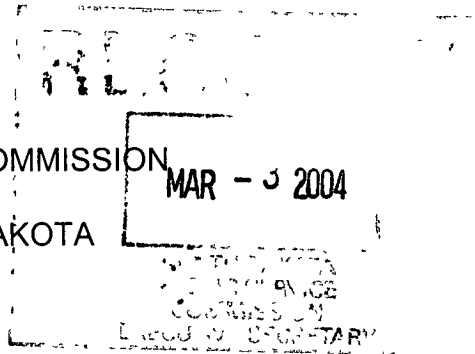
	2003	Projected 2004			Projected 2005		
		Changes	Balance	Average	Changes	Balance	Average
<u>Accumulated Deferred Income Taxes</u>							
Liberalized Depreciation	\$3,716						
Contribution in Aid of Construction	(157)						
Customer Advances	(109)						
Normalization	374						
Balance	<u>\$3,824</u>	<u>\$42</u>	<u>\$3,866</u>	<u>\$3,845</u>	<u>(\$384)</u>	<u>\$3,482</u>	<u>\$3,674</u>
 <u>Accumulated Investment Tax Credits</u>							
Balance	<u>\$178</u>	<u>(\$24)</u>	<u>\$154</u>	<u>\$166</u>	<u>(\$16)</u>	<u>\$138</u>	<u>\$146</u>



**MONTANA-DAKOTA UTILITIES CO.
CASE NO. PU-399-04-_____
INTERIM REQUEST**

**In the Matter of the Application of
Montana-Dakota Utilities Co. for
Authority to Establish Increased Rates
For Natural Gas Service in the
State of North Dakota**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA



In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES CO., a)
Division of MDU Resources Group, Inc ,)
for Authority to Establish Increased)
Rates for Natural Gas Service)

Case No. PU-399-04-__

APPLICATION AND NOTICE FOR
INTERIM INCREASE IN NATURAL GAS RATES

COMES NOW Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., and respectfully moves that the North Dakota Public Service Commission (Commission) authorize, on an interim basis, rate relief of \$1,869,539 to be effective within 60 days.

I.

Montana-Dakota is entitled to interim rate relief as more fully set forth in the Application and Notice, Testimony and Exhibits, and supporting Statements filed in this Case.

II.

The following rate schedules set forth in Appendix A hereto are proposed on an interim basis to be effective within 60 days:

- 16th Revised Sheet No. 3 Rate Summary Sheet
- 3rd Revised Sheet No. 4 Residential Gas Service Rate 60
- 3rd Revised Sheet No. 13 Firm General Gas Service Rate 70
- 3rd Revised Sheet No. 15 Optional Seasonal General Gas Service Rate 72
- 3rd Revised Sheet No. 32 Residential Propane Service Rate 90
- 3rd Revised Sheet No. 34 Firm General Propane Service Rate 92

III.

The requested interim relief as shown in Appendix B is computed pursuant to the requirements of the North Dakota Century Code, Sections 49-05-04 through 49-05-06 and is in full compliance therewith.


IV.

The requested interim rate increase of \$1,869,539 is calculated based upon the adjustments, methodologies, and return on equity contained in the Company's last North Dakota natural gas rate Order (Case No. PU-399-02-183).

Montana-Dakota respectfully requests that the North Dakota Public Service Commission grant interim rate relief in the amount of \$1,869,539, by authorizing the schedule of charges attached hereto as Appendix A, to become effective within 60 days.

Dated this 3rd day of March, 2004.

MONTANA-DAKOTA UTILITIES CO.,
a Division of MDU Resources Group, Inc.

By: 
Donald R. Ball
Assistant Vice President –
Regulatory Affairs



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
 16th Revised Sheet No. 3
 Canceling 15th Revised Sheet No. 3

RATE SUMMARY SHEET

Page 1 of 2

Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk
Residential Rate 60	4	\$0 29 per day	\$0 779	\$6 653	\$7 432
Air Force Rate 64	7				
Minot Air Force Base		\$1,000 00 per month			
PAR Site		\$135 00 per month			
Firm Service			\$0 138	\$6 653	\$6 791
Interruptible Service - PAR			\$0 120	\$5 761	\$5 881
Interruptible Service - MAFB			\$0 120	\$5 494	\$5 614
Firm General Service Rate 70	13				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 602	\$6 653	\$7 255
Small Interruptible Gas Rate 71	14	\$100 00 per month	Per Contract	\$5 761	Per Contract
Optional Seasonal Gas Service Rate 72	15				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day			
Winter Gas Usage			\$0 602	\$6 749	\$7 351
Summer Gas Usage			\$0 602	\$5 647	\$6 249
Transportation Service	24				
Small Interruptible Rate 81		\$150 00 per month			
Maximum			\$0 427		
Minimum			\$0 102		
Fuel Charge				\$0 025	
Large Interruptible Rate 82		\$725 00 per month			
Maximum			\$0 298		
Minimum			\$0 061		
Fuel Charge				\$0 025	
Large Interruptible Gas Rate 85	27	\$675 00 per month	Per Contract	\$5 761	Per Contract
Residential Propane Rate 90	32	\$0 29 per day	\$0 779	\$9 335	\$10 114
Firm General Propane Rate 92	34				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 602	\$9 335	\$9 937

Date Filed: March 3, 2004

Effective Date:

Issued By: Donald R. Ball
 Assistant Vice President -
 Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 4
Canceling 2nd Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge.	\$0.29 per day
Distribution Delivery Charge	\$.779 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed: March 3, 2004

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No. 13
Canceling 2nd Revised Sheet No. 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 1

Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour \$0.50 per day

For customers with meters rated over
500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge: \$ 602 per dk

Cost of Gas. Determined Monthly- See
Rate Summary Sheet for
Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed: March 3, 2004

Effective Date:

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Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No. 15
Canceling 2nd Revised Sheet No. 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0.50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge:

\$ 602 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Date Filed: March 3, 2004

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 32
Canceling 2nd Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 1

Availability:

For the community of Hettinger for all domestic purposes. See Rate 100, §V.3, for definition on class of service

Rate:

Basic Service Charge:	\$0 29 per day
Distribution Delivery Charge:	\$ 779 per dk
Cost of Propane:	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed: March 3, 2004

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 34
Canceling 2nd Revised Sheet No 34

FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge.

For customers with meters rated
under 500 cubic feet per hour \$0.50 per day

For customers with meters rated
over 500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge. \$.602 per dk

Cost of Propane: Determined Monthly- See Rate
Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto The cost of propane component is subject to change on a monthly basis.

Date Filed: March 3, 2004

Effective Date:

Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.:

TARIFFS REFLECTING PROPOSED CHANGES



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
 15th Revised Sheet No 3
 Canceling 14th Revised Sheet No 3

RATE SUMMARY SHEET

Page 1 of 2

Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk
Residential Rate 60	4	\$0 29 per day	\$0 779	\$6 653	\$7 432
Air Force Rate 64	7	\$1,000 00 per month \$135 00 per month			
Minot Air Force Base					
PAR Site					
Firm Service			\$0 138	\$6 653	\$6 791
Interruptible Service - PAR			\$0 120	\$5 761	\$5 881
Interruptible Service - MAFB			\$0 120	\$5 494	\$5 614
Firm General Service Rate 70	13				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 602	\$6 653	\$7 255
Small Interruptible Gas Rate 71	14	\$100 00 per month	Per Contract	\$5 761	Per Contract
Optional Seasonal Gas Service Rate 72	15				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day			
Winter Gas Usage			\$0 602	\$6 749	\$7 351
Summer Gas Usage			\$0 602	\$5 647	\$6 249
Transportation Service	24				
Small Interruptible Rate 81		\$150 00 per month			
Maximum			\$0 427		
Minimum			\$0 102		
Fuel Charge				\$0 025	
Large Interruptible Rate 82		\$725 00 per month			
Maximum			\$0 298		
Minimum			\$0 061		
Fuel Charge				\$0 025	
Large Interruptible Gas Rate 85	27	\$675 00 per month	Per Contract	\$5 761	Per Contract
Residential Propane Rate 90	32	\$0 29 per day	\$0 779	\$9 335	\$10 114
Firm General Propane Rate 92	34				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 602	\$9 335	\$9 937

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 4
Canceling 1st Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge:	\$0.29 per day	
Distribution Delivery Charge:	\$.641- <u>779</u> per dk	C
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate	

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 13
Canceling 1st Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 1

Availability:

In all communities served for all purposes except for resale See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour \$0.50 per day

For customers with meters rated over
500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge: \$.473-602 per dk

Cost of Gas: Determined Monthly- See
Rate Summary Sheet for
Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 15
Canceling 1st Revised Sheet No. 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0.50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge.

\$.473-602per dk

Cost of Gas.

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See -Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis

Date Filed.

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 32
Canceling 1st Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 1

Availability:

For the community of Hettinger for all domestic purposes See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge.	\$0.29 per day
Distribution Delivery Charge.	\$ 641 - <u>779</u> per dk
Cost of Propane	Determined Monthly- See Rate Summary -Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

General Terms and Conditions:

- The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
- The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street

Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 34
Canceling 1st Revised Sheet No. 34

FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V.3, for definition on class of service

Rate:

Basic Service Charge.

For customers with meters rated
under 500 cubic feet per hour

\$0 50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1 70 per day

Distribution Delivery Charge:

\$ 473-602 per dk

C

Cost of Propane:

Determined Monthly- See Rate
Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis

Date Filed:

Effective Date:

Issued By:

Case No.:

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
INTERIM
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)

	Before Additional Revenue Re- quirements	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$119,376	\$1,871	\$121,247
Transportation	783		783
Other	406		406
Total Revenues	<u>120,565</u>	<u>1,871</u>	<u>122,436</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	99,630		99,630
Other O&M	16,299		16,299
Total O&M	<u>115,929</u>		<u>115,929</u>
Depreciation	2,537		2,537
Taxes Other Than Income	1,362		1,362
Current Income Taxes	516	740	1,256
Deferred Income Taxes	(620)		(620)
Total Expenses	<u>119,724</u>	<u>740</u>	<u>120,464</u>
Operating Income	<u>\$841</u>	<u>\$1,131</u>	<u>\$1,972</u>
Rate Base	<u>\$20,170</u>		<u>\$20,170</u>
Rate of Return			
	<u>4.170%</u>		<u>9.776% 1/</u>

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT - INTERIM
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)**

	Projected 2004 1/	Adjustments		Interim
		SISP 2/	Rate Case Expense 3/	
Operating Revenues				
Sales	\$119,376			\$119,376
Transportation	783			783
Other	406			406
Total Revenues	<u>120,565</u>			<u>120,565</u>
Operating Expenses				
Operation and Maintenance				
Cost of Gas	99,630			99,630
Other O&M	16,579	(\$260)	(\$20)	16,299
Total O&M	<u>116,209</u>	<u>(260)</u>	<u>(20)</u>	<u>115,929</u>
Depreciation	2,537			2,537
Taxes Other Than Income	1,362			1,362
Current Income Taxes	405	103	8	516
Deferred Income Taxes	(620)			(620)
Total Expenses	<u>119,893</u>	<u>(157)</u>	<u>(12)</u>	<u>119,724</u>
Operating Income	<u>\$672</u>	\$157	\$12	<u>\$841</u>
Average Rate Base	<u>\$20,170</u>			<u>\$20,170</u>
Rate of Return	<u>3.332%</u>			<u>4.170%</u>
Return on Equity	<u>-1.654%</u>			<u>0.034%</u>

1/ Statement N, page 1

2/ Eliminates SISP, Statement N, page 10

3/ Reflects projected rate case expense amortized over 4 years, Statement N, page 25

**MONTANA-DAKOTA UTILITIES CO.
 AVERAGE UTILITY CAPITAL STRUCTURE
 PROJECTED 2004**

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$154,100,000	45.589%	8.624%	3.932%
Preferred Stock	16,150,000	4.778%	4.618%	0.221%
Common Equity	167,772,745	49.633%	11.329% 1/	5.623%
Total	<u>\$338,022,745</u>	<u>100.000%</u>		<u>9.776%</u>

1/ Return on equity authorized in Case No PU-399-02-183

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Proposed Interim Rates

Customer Class/Rate	Projected 2004		Total Proposed Revenue	Proposed Revenue Increase	Percent Increase	Increase per Dk	
	Customers	Dk Revenue					
Residential - Rate 60	74,149	8,150,298	\$66,710,124	\$67,834,865	\$1,124,741	1.7%	\$0.138
Firm General Service - Rate 70	11,470	5,773,626	44,197,944	44,942,742	744,798	1.7%	0.129
Air Force - Rate 64							
Firm	1	37,297	252,218	252,218	0	0.0%	0.000
Interruptible	2	842,568	4,734,108	4,734,108	0	0.0%	0.000
Total Air Force	<u>3</u>	<u>879,865</u>	<u>4,986,326</u>	<u>4,986,326</u>	<u>0</u>	<u>0.0%</u>	<u>0.000</u>
Small Interruptible							
Sales - Rate 71	82	570,263	3,481,200			0.0%	0.000
Transport - Rate 81	57	703,084	401,449			0.0%	0.000
Total Small Interruptible	<u>139</u>	<u>1,273,347</u>	<u>3,882,649</u>	<u>3,882,649</u>	<u>0</u>	<u>0.0%</u>	<u>0.000</u>
Large Interruptible							
Sales - Rate 85	0	0	0				
Transport - Rate 82	10	2,229,392	381,588				
Total Large Interruptible	<u>10</u>	<u>2,229,392</u>	<u>381,588</u>	<u>381,588</u>	<u>0</u>	<u>0.0%</u>	<u>0.000</u>
Total North Dakota	<u><u>85,771</u></u>	<u><u>18,306,528</u></u>	<u><u>\$120,158,631</u></u>	<u><u>\$122,028,170</u></u>	<u><u>\$1,869,539</u></u>	<u><u>1.6%</u></u>	



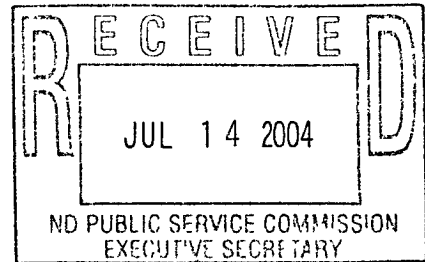
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

July 14, 2004



Executive Secretary
North Dakota Public Service
Commission
State Capitol Building
Bismarck, ND 58505-0480

Re. Application for Trade Secret Protection
Case No. PU-04-97

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith respectfully files an original and seven (7) copies of an Application for Trade Secret Protection covering certain information provided by Montana-Dakota in response to Discovery Requests served by the North Dakota Public Service Commission Advocacy Staff in the above referenced case. The trade secret information is included within the direct testimony and exhibits of Charles W. King to be filed in this proceeding on behalf of the Advocacy Staff and is detailed in the attached application.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

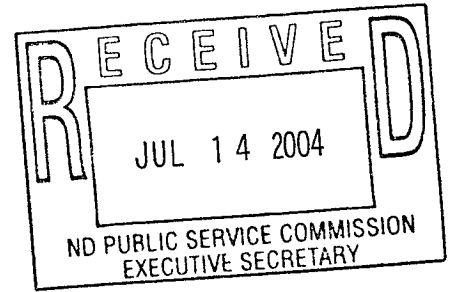
Sincerely,

Rita A. Mulkern
Regulatory Analysis Manager

Attachment

cc: Douglas W. Schulz
Donald R. Ball
Daniel S. Kuntz

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Montana-Dakota Utilities Co.) Case No. PU-04-97
Natural Gas Rate Increase Application)

TRADE SECRET PROTECTION APPLICATION

Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc. ("Montana-Dakota") requests the North Dakota Public Service Commission, pursuant to Chapter 69-02-09 of the North Dakota Administrative Code, to issue a protective order limiting the disclosure of certain trade secret information provided by Montana-Dakota in response to Discovery Requests served by the North Dakota Public Service Commission Advocacy Staff in this proceeding. The trade secret information is included within the direct testimony and exhibits of Charles W. King to be filed on behalf of the Advocacy Staff of the North Dakota Public Service Commission.

The direct testimony and exhibits with the trade secret information has been appropriately marked and is submitted in a sealed envelope with this filing.

1. General Description of the Nature of the Information Sought to be Protected.

The information sought to be protected is:

A. Confidential Information on pages 15-17 of the Direct Testimony of Charles W. King stating the amounts paid by Montana-Dakota under its incentive compensation plans to its various employee groups and describing the factors and characteristics of those plans.

B. Confidential Information on pages 25-28 of the Direct Testimony of

Charles W. King stating the percentage increases in annual compensation to officers and other employees since 1999.

C. Confidential Information on page 4 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the amounts paid by Montana-Dakota under its incentive compensation plans to its various employee groups and describing the factors and characteristics of those plans.

D. Confidential Information on page 8 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the number of employees within Montana-Dakota's various employee groups and the average compensation and average annual percentage compensation increase for each group since 1999.

2. An Explanation of Why the Information Derives Independent Economic Value, Actual or Potential, From Not Being Generally Known to Other Persons.

The Confidential Information contained in Charles W. King's testimony and exhibits describes the average annual amounts, annual percentage increases, and the factors and characteristics of Montana-Dakota's incentive compensation plans for its various employee groups. The Confidential Information also describes the number of employees within Montana-Dakota's employee groups and average compensation and the average annual percentage compensation increases for each of the groups since 1999. This information is confidential and proprietary to Montana-Dakota and is not publicly disclosed. This type of information is sensitive and its public disclosure would place Montana-Dakota at a competitive disadvantage in attracting and retaining employees. If disclosed, publicly, the information would disadvantage Montana-Dakota as the information reflects specifics

regarding Montana-Dakota compensation programs, particularly compensation programs for Montana-Dakota's executives and officers, that it is not required to disclose in public reports and which is confidential to both Montana-Dakota and its employees.

3. An Explanation of Why the Information is Not Readily Available by Proper Means to Other Parties.

The information at issue is proprietary to Montana-Dakota and is available only to those employees and representatives of Montana-Dakota who have a need to know the information to perform their duties and responsibilities. Montana-Dakota does not disclose this information outside the company except pursuant to the terms of agreements or orders to maintain the confidentiality of the information.

4. The General Description of the Persons or Entities that Would Obtain Economic Value from Disclosure or Use of the Information.

Competitors or potential competitors of Montana-Dakota for qualified and experienced employees in the field's of electric and natural gas distribution would obtain economic value from disclosure or use of the information.

5. Specific Description of Known Competitors or Competitor's Goods and Services that are Pertinent to the Information.

Competitors and potential competitors of Montana-Dakota for electric and natural gas employees include all investor owned utilities and rural electric cooperatives that provide electric or natural utility service in North Dakota as well as any other provider of electric or natural gas utility service in any other state of the United States.

6. Description of the Efforts Used to Maintain the Secrecy of the Information.

See No. 3 above.

Dated this 13th day of July, 2004.

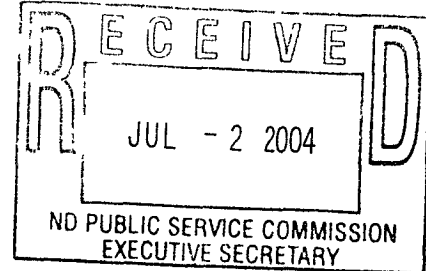
Respectfully submitted,

By: 

Daniel S. Kuntz (ID #03490)
Senior Attorney
MDU Resources Group, Inc.
918 East Divide Avenue
P.O. Box 5650
Bismarck, ND 58506-5650
(701)222-7612



June 28, 2004



Donald R. Ball
Asst Vice President – Regulatory Affairs
Montana-Dakota Utilities Company
400 North Fourth Street
Bismarck, ND 58501

Dear Mr. Ball:

Given the short time until our filing date, I have had to bring on one of my staff members to assist in assessing the confidential personnel and pay materials you have sent us

I enclose “Exhibit A” to the Confidentiality Agreement between our firm and your Company for Harry Gildea.

As regards confidentiality, I am not fully aware of the status of the permanent Commission Staff. I will be filing two testimonies, one of which will contain no confidential material, the other will be entirely confidential. The public testimony will be transmitted electronically to the names on my e-mail list. The confidential testimony will go only to you and to William Binek, and the two of you handle the distribution from there. Is there any objection to this plan? If so, please let me know.

In the meantime, I look forward to receiving your responses to our sixth data request.

Sincerely,

Charles W. King

cc William Binek, Esq.

69 PU-04-97

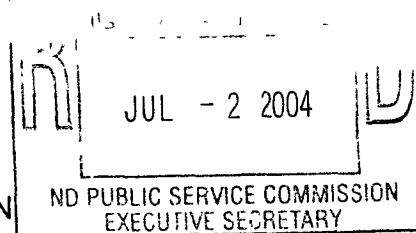
Pages 2

Copy of letter to MDU re Exhibit A to
Confidentiality Agreement
by Snavely King Majoros O'Connor & Lee Inc

07/02/2004 CC Comm Legal PUD (3) Mike ALJ

EXHIBIT A

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Montana-Dakota Utilities Co.)
Natural Gas Rate Increase)
Application) Case No. PU-04-97

NONDISCLOSURE AGREEMENT

I hereby certify that I am familiar with the terms and conditions of the Confidentiality Agreement between Montana-Dakota Utilities Co. and Charles W. King ("Recipient") in the above-captioned proceeding and agree to be bound by the terms and conditions thereof. I further certify that I am an employee or associate of the Recipient of the Confidential Information and am eligible to receive Confidential Information under the terms of Paragraph 3 of the Confidentiality Agreement.

Harry Gildea
(signature)

HARRY GILDEA
(type name)

CONSULTANT
(title)

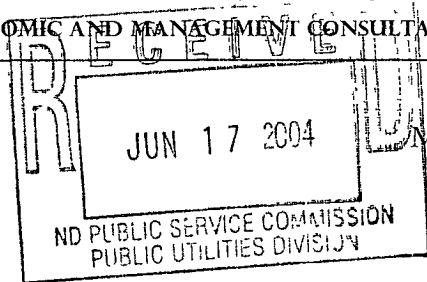
COMMISSION STAFF
(representing)

1220 L ST NW WASH DC 20007
(business address)

6-28-07
(date)



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS



May 25, 2004

Michael Diller
North Dakota Public Utilities Commission
State Capitol, 12th Floor
Bismarck, ND 58505-0480

Our file # 2126
Invoice # 7287
Billing through 05/25/04

For services rendered during the month ending May 25, 2004 in connection with the compensation issues in North Dakota P S C Docket No PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates

FEES

King, C	8 00 hrs	135 00 /hr	1,080 00
Gildea, H	7 50 hrs	75 00 /hr	562 50
TOTAL FEES			\$1,642 50

EXPENSES

Reproduction, In-house	13 44
	\$13 44

TOTAL FEES	\$1,642 50
TOTAL EXPENSES	\$13 44
TOTAL AMOUNT DUE	\$1,655.94

pic to pay

Pages 4

PU-04-97

67

Invoice for services rendered during the month ending 5/25/04 (compensation) by Snavely King Majoros O'Connor & Lee, Inc

06/17/2004 CC Comm Legal PUD (3) Mike ALJ

Snavely King Majoros O'Connor & Lee, Inc.

Harry Gildea
BPV 00022

For Period 4/26/2004
Beginning 5/25/2004

Client Bismark Compensation
Billing Code 2-126

Date	Hours	Activity
Wed, 28 Apr	1	Review task objectives
Thu, 29 Apr	1.5	Research on Library -- cost of living data
Fri, 30 Apr	2	Get census bureau income data by county and state
Tue, 4 May	3	Research on Commerce Dept personal income data for Charlie
Page Total	7.5	
Month Total	7.5	



SKA &

ECONOMIC CONSULTANTS

Snavely, King & Associates, Inc.
Reproduction Machine Usage Report

Month of May 04

SKA Accounting Code	Client/ Employee Code	Number of Copies	Client/ Employee Code	Number of Copies
F131 *	7099	5149		
F131	2992	1110		
F131	2998	242		
F131	3259	1156		
F131	3257	1294		
F131	3262	1486		
F131	3267	311		
F131 *	2126	112		
F131	2127	15		
F131	4488	1130		
F131	8155	40		
F131	8153	39		
F131	8159	108		
F131	8160	185		
F131	4464	123		
F131				
F131				
F131				
F131				
F131				

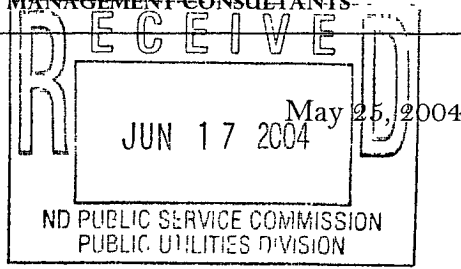
Posted to: Invoice Computation File

By: Angela L. Finch

Date: May 31, 2004



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS



Our file # 2124
Invoice # 7286
Billing through 05/25/04

Michael Diller
North Dakota Public Utilities Commission
State Capitol, 12th Floor
Bismarck, ND 58505-0480

For services rendered during the month ending May 25, 2004 in connection with the non-compensation issues in North Dakota P S C Docket No PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates

FEES

King, C	44 50 hrs	135 00 /hr	6,007 50
Gildea, H	37 00 hrs	75 00 /hr	2,775 00
TOTAL FEES		81 50 hrs	\$8,782 50
TOTAL FEES			\$8,782 50
TOTAL EXPENSES			\$0 00
TOTAL AMOUNT DUE			\$8,782 50

ch to pay
PP

Pages 3

PU-04-97

Invoice for services rendered during the month ending 5/25/04 by Snavely King Majoros O'Connor & Lee Inc 06/17/2004 CC Comm Legal PUD (3) Mike ALJ

1220 L STREET, NW • SUITE 410 • WASHINGTON, DC 20005

TEL (202) 371-1111 • FAX (202) 842-4966 • www.snavely-king.com



SNARELY, KING & ASSOCIATES, INC.
PROJECT ACTIVITY REPORT

Charles W. King
BWV12

For Period Beginning 4/26/04
Ending 5/25/04

Client North Dakota PSC Non-Compensation Issue Billing Code 2-124

Date	Hours	Activity
4/26	2.0	Read replies to 1st Data Requests
4/27	1.0	Review previous test year decisions
4/28	1.0	Read DR Replies, write data requests
4/29	2.0	" " " " " "
4/30	5.5	" " " " " "
5/3	6.0	" " " " " "
5/4	6.5	Prepare Debt Cost Exhibit
5/5	1.0	Write data requests
5/7	4.0	" " " " develop ROE settlement
5/11	1.0	Review research for GOSS; Brief HLG
5/17	.5	Review GOSS changes w. HLG
5/17	2.0	Read MDU Responses
5/20	.5	" " " "
5/21	3.5	" " " " prepare nonchuc adjmt
5/24	4.0	Prepare adjustments
5/25	.5	Read supplement responses from MDU
5/10	.5	Read DR Replies, write data requests
Page Total	44.5	
Month Total		

Snavely King Majoros O'Connor & Lee, Inc.

Harry Gildea
BPV 00022

For Period **4/26/2004**
Reopening **5/25/2004**

Client Bismark Cost of Service
Billing Code 2-124

Date	Hours	Activity
Mon, 10 May	6	Regression analyses - costs of pipe
Tue, 11 May	6	Regression analyses of pipe Start to look at Cost of Service study
Wed, 12 May	1	Look at Cost of Service study
Thu, 13 May	1	Review Cost of Service study
Fri, 14 May	1	Review Cost of Service study
Sun, 16 May	1 5	Work on changes to Bismark cost of service study
Mon, 17 May	7 5	Work on revisions to Bismark cost of service study
Thu, 20 May	2	Work on cost study
Fri, 21 May	1 5	Work on cost study
Mon, 24 May	7	Work on cost study
Tue, 25 May	2 5	Work on cost study
Page Total		
Month Total	37	

MINOT DAILY NEWS
 301 4TH ST SE
 P O BOX 1150
 MINOT ND

58702

ADVERTISING INVOICE/STATEMENT

YOUR SALESPERSON IS **CAREN WATTS 857-1914**

PHONE: 701 857 1900

ND PUBLIC SERVICE COMM
 STATE CAPITOL
 600 E BLVD AVE
 BISMARCK ND

58505-0408

STATEMENT NUMBER 13302E	BILLING DATE 5/31/04
ACCOUNT NUMBER D33673	BILLING PERIOD MAY 2004
TERMS OF PAYMENT	
BALANCE DUE UPON RECEIPT OF THIS INVOICE/STATEMENT	
NAME OF ADVERTISER	
ND PUBLIC SERVICE COMM	

DATE	REFERENCE NUMBER	CHARGE OR CREDIT DESCRIPTION / PRODUCT CODE	SAU/DIMENSIONS	BILLED UNITS	RATE	AMOUNT
9		PREVIOUS BALANCE NATURAL GAS RATES	2 X 4	E	14.35	0.00 114.80

65 PU-04-97 Pages 1
 Invoice for display ad
 by Minot Daily News
 06/11/2004 CC Comm Legal PUD (3) Mike ALJ

EDUCT \$	IF PAID WITHIN	DAYS	AGING				TOTAL AMOUNT DUE
			CURRENT	30 DAYS	60 DAYS	90 DAYS	
** NOT APPLICABLE **			114.80	.00	.00	.00	114.80

CHARGE/CREDIT LEGEND

A COLOR
 B POSITION
 C PRODUCTION
 D ART
 E PRE-PRINTS
 F PRINTING

TOTAL DISPLAY AMOUNT	TOTAL OTHER CHARGE	TOTAL CREDITS
114.80	.00	.00

CONTRACT INFORMATION

EXPIRATION DATE	REQUIREMENT
CURRENT MONTH	CUMULATIVE

REMITTANCE SLIP PLEASE DETACH AND SEND WITH PAYMENT

ACCOUNT NUMBER	ACCOUNT NAME
D33673	ND PUBLIC SERVICE COMM

REMITTANCE ADDRESS

MINOT DAILY NEWS
 301 4TH ST SE
 P O BOX 1150
 MINOT ND

58702

WRITE AMOUNT ENCLOSED

Investigation at the Abu Ghraib prison in Baghdad a

Details about many of the cases are sketchy

► Qam, Iraq, Nov 26, 2003 Maj Gen Abed Hamed Mowhoush, a former commander of Saddam Hussein's air defenses, loses consciousness and dies during interrogation after complaining he does not feel well. He was captured Oct 5 during a raid. Military officials said he was believed to be playing a financial role in the resistance to the U.S. occupation. The cause of death and interrogation techniques are under investigation. Mowhoush's

itary has said the cause of death is under investigation. The death may have involved a tractor working for the CIA. Intelligence officials say the case also is under investigation by the agency's inspector general

► Abu Ghraib, June 13, 2003 About 30 or 40 detainees riot and throw rocks at some guards, injuring one. Tower guards shoot

faces general court-martial on a single charge of dereliction of duty, a charge of assault and two charges of cruelty and maltreatment

Sgt Gary Pittman, who was accused of karate-kicking Hatab in the chest, faces two charges of dereliction of duty and four of assault. Several other reservists

ATTENTION ALL GARDENERS

FOR ALL YOUR BEDDING PLANTS AND GARDEN VEGETABLES

Bedding Plants

\$2.10 6 pack

\$2.49 jumbo 6 pack



Kraft's Greenhouse

In Surrey
(6 miles East of Fairgrounds on Hwy 2)
Open Mon - Sat 9 am - 8 pm
Sun 12 pm - 5 pm • 839-0042

Natural Gas Rates

Your Opportunity To Be Heard

The North Dakota Public Service Commission invites you to a **PUBLIC INPUT SESSION** on MDU natural gas rates.

Application by MDU to increase natural gas rates.

WHEN. May 10, 2004 at 7 30 pm (CDT) 6 30 pm (MDT)

WHERE:


- Bismarck** - Bismarck State College, Vocational-Technical Center, Room 228, 1200 College Drive
- Devils Lake** - Lake Region State College, Administration Building, Room 171, 1801 College Dr N
- Dickinson** - Dickinson State University, North Campus, Room 104, 1679 6th Avenue West
- Jamestown** - ND State Hospital, Learning Resource Center, Room 320, Circle Dr
- Minot** - Minot School District, Administration Building, 215 2nd Street SE
- Williston** - Williston State College, Crighton Building, Room 109, 1410 University Avenue

The public will also be able to hear the input session by connecting to the Commission's web site at www.psc.state.nd.us, clicking on "Highlighted Issues" then "Broadcast of Public Input Sessions". The Commission will receive e-mail questions during the input session at ndpsc@psc.state.nd.us

Mail comments to the Public Service Commission, 600 East Boulevard Avenue Dept 408, Bismarck ND 58505-0480. Individuals requiring special accommodations contact Ilona Jeffcoat-Sacco (1-701-328-2400 or TTY 1-800-366-6888) at least one working day prior to the meeting

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and American Family Agent



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Michael A. Lucy
605 31st Avenue SW
Suite 2
Minot, ND 58701
701-852-1078

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www.afl.com

ALL 07480 Rev 10/02



My dad says quality and safety always come first.

THEROME'S AUTO BODY

Serving Minot for over 28 years.

Finest in Collision Repair
(701) 852-5126
Located on North Hill next SRT

06/07/04 07:15 19 WH 003432 Bal 42.00 Acct Status: 05/01/04 - 06/30/04
 N.D PUBLIC SERVICE COMM. OBal 42.00 Crd Type/Limit / None
 Curr 42.00 LstP: 09/15/03 \$106.24
 600 EAST BLVD.AVE,DEPT.408 O30 0.00 LstT 05/09/04
 BISMARCK O60 0.00 Strt: 12/11/01 CC ToDte Expires
 ND 58505 000-328-2400 O90 0.00 Type.
 O120 0.00 SRep: 103 No Cntrct On File

TRX	DATE	DESCRIPTION	IO/CHECK	AMOUNT	RCD	SIZE	RATE
	#	PUBS			REP	CC CLS #	%DSC

***	05/01/04	OPENING BALANCE		0.00			
-----	----------	-----------------	--	------	--	--	--

001	05/09/04	NATURAL GAS RATES WH	MAIN NEWS	42.00	GD2 106	8.00	5.250
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OP_BALANCE	TOT_CHARGE	TOT_CREDIT	TOT_SIZE	#CHG	#CRD	SERVICE_CG	AGY_DSC
CL_BALANCE	CURRENT	OVER_30	OVER_60	OVER_90	OVER_120	SLS_TAX	
0.00	42.00	0.00	8.00			0.00	0.00
42.00	42.00	0.00	0.00	0.00		0.00	0.00
CUMULATIVE	42.00	0.00	8.00			0.00	0.00

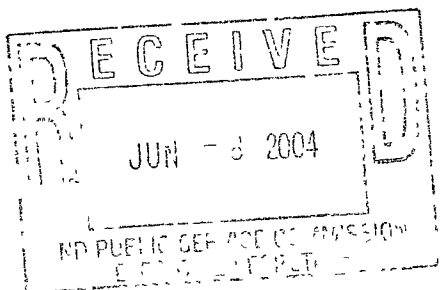
***	06/01/04	CURRENT OPENING		42.00			
-----	----------	-----------------	--	-------	--	--	--

OP_BALANCE	TOT_CHARGE	TOT_CREDIT	TOT_SIZE	#CHG	#CRD	SERVICE_CG	AGY_DSC
CL_BALANCE	CURRENT	OVER_30	OVER_60	OVER_90	OVER_120	SLS_TAX	
42.00	0.00	0.00	0.00	0.00		0.00	0.00
42.00	42.00	0.00	0.00	0.00		0.00	0.00
CUMULATIVE	42.00	0.00	8.00			0.00	0.00

They need

Timesheet

Attw: Glorina



rents, some say that...
ing to be pressure on rents
oner or later, it's just a mat-
r of how much and what the
arket will bear."

SOUTHWEST CENTRAL (McLean,
Sheridan, Logan, McIntosh,
Emmons, High, McLean)
1999—\$298

2001—\$877
2002—\$898
2003—\$981
2004—\$1,059

termine herbicide rate

North Dakota Weed Control
Guide. The table can be found
on page 67. A free copy of the
guide can be obtained from
his office by calling (701) 577-
595.

As long as I am on the topic
of herbicides, let's discuss
prayer clean out. Rinsing a
prayer reservoir and the sys-
tem with water only is not ade-
quate to remove all herbicides.
Some herbicides remain tight-
ly adsorbed in sprayers
through water rinsing and
even through several tank-
loads of other herbicides. Of-
ten times when a tank-load of
solution including an oil adju-
vant or nitrogen solution is
put in the sprayer. The previ-
ously used herbicide was des-

orbed, moved into the new
spray solution and then ap-
plied on a susceptible crop.
Highly active herbicides that
have been difficult to wash
from sprayers and have caused
crop injury include dicamba
(Banvel, etc.) The weed control
guide mentioned about con-
tains a step-by-step procedure
for rinsing a field crop spray
unit.

Common types of cleaning
solutions are chlorine bleach,
ammonia, and commercial
products formulated for such a
use. Chlorine lowers the PH of
a solution thus increasing de-
gregation. Ammonia increases
PH which increases solubility
of some herbicides. Commer-
cially formulated tank clean-

ers generally raise PH and act
as a detergent.

Product labels give recom-
mended tank cleaning solu-
tions and procedures.

LEGENDARY QUALITY

*Offer valid, subject to credit approval through GE
Capital Consumer Card Co. on purchases between
1/1/04 and 5/31/04. No payments required until 1/1/05
(except insurance premiums if applicable). Finance
charges will be assessed from date of purchase, unless the
total purchase price and all related insurance premiums
(if applicable) are paid in full within the promotional
period. Low monthly payments are based on 2% of origi-
nal purchase price.

**Farmers
Union Oil**

209 Washington Ave.
Williston • 572-2171

WWW.3NAPPER.COM

lift off this summer

As the school year comes to a
close, all families realize the
time to move on is real,
painfully real. Sons, daugh-
ters, relatives and friends pre-
pare to launch their own ca-
reers, and yes, "Lift off, we
have lift off." Here at the cross
roads of North Dakota State
University and Dickinson
State University, the student
population is mixed. Some stu-
dents find their home in Cana-
da, some other parts of the
world and some just across the
street.

The world is truly a small
place with real faces, real
smiles, real feelings on all
sides, sides totally indistin-
guishable from space in 1969.
The Iron Curtain, the Berlin
wall, the Great Wall of China,
the 49th parallel and all man-
made borders will eventually
be lost in time.

This summer, the Dickinson
Research Extension Center
will again be out and about
working, gathering, tagging,
vaccinating, weighing and just
plain enjoying cattle.

The summer interns, the
seasonal students, even the
seasoned crew will be water-
ing the roots of future
tales, tales to lighten and
speed along the upcoming
winter.

skills learned the past year.

Yes, we have lift off, but re-
member the world does not
have borders, only people do.
Cattle producers love cattle, re-
gardless of borders. Success is
measured in the heart, not in
the pocketbook. Have a safe
summer.

**Natural Gas Rates
Your Opportunity To Be Heard**

The North Dakota Public Service Commission invites you to a
PUBLIC INPUT SESSION on MDU natural gas rates.

Application by MDU to increase natural gas rates.

WHEN: May 10, 2004 at 7:30 pm (CDT) 6:30 pm (MDT)

WHERE:

- Bismarck** - Bismarck State College, Vocational-Technical Center, Room 228, 1200 College Drive
- Devils Lake** - Lake Region State College, Administration Building, Room 171, 1801 College Dr N
- Dickinson** - Dickinson State University, North Campus, Room 104, 1679 6th Avenue West
- Jamestown** - ND State Hospital, Learning Resource Center, Room 320, Circle Dr
- Minot** - Minot School District, Administration Building, 215 2nd Street SE
- Williston** - Williston State College, Crighton Building, Room 109, 1410 University Avenue

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Mail comments to the Public Service Commission, 600 East Boulevard Avenue, Dept 408, Bismarck ND 58505-0480. Individuals requiring special accommodations contact Ilona Jeffcoat-Sacco (1-701-328-2400 or TTY 1-800-366-6888) at least one working day prior to the meeting.

YES 79%

YES 94.7%

161.28

PLEASE PAY BY JUNE 15.

161.28

1 05-31-04

**CR54

ND PUBLIC SERVICE
DEPT 408
600 E BOULEVARD AV
BISMARCK ND 58505

BISMARCK TRIBUNE
PO BOX 5516
BISMARCK ND 58506-5516

29846-6

29846-6

A LATE CHARGE OF 1.75
PERCENT WILL BE ASSESSED
ON UNPAID CHARGES MORE
THAN 1 MONTH OLD.

INVOICE #00383001 01

AMT PAID \$ _____

CHECK # _____

05-09 00194048 BT

BT -LOCAL RETAIL ADVERTISING
NATURAL GAS RATES

2X 4.00
8.00I 20.16

BM10 SUB TOTAL 01 161.28

161.28 161.28

63

PU-04-97

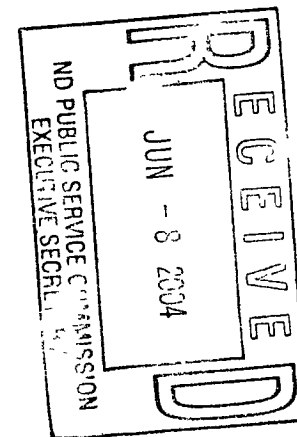
Pages 2

Invoice for Bismarck Tribune display ad

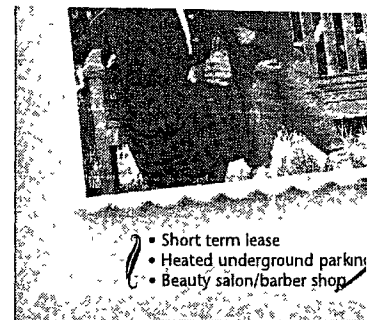
by Bismarck Tribune

06/08/2004

CC Comm Legal PUD (3) Mike ALJ



CLIMBING HIGH: Kylan Saylor reaches for a hand grip as he scales a 35-foot-tall rappel wall in one aspect of the newly constructed Circle of Courage Adventure Learning Center challenge course during a training session for facilitators south of Bismarck at Camp Neche on Friday. In all, 15 facilitators practiced on the 50-foot-tall high ropes course consisting of a catwalk, giants ladder, hanging vines and three other adventurous skills. The course is constructed to build cooperation, teamwork, personal and group challenges and the ability to handle pressure. Using the course will be local Girl Scout troops, residents at the state Youth Correctional Center, Youth Works, Young Life and corporations. There will be an open house to the center from 11:30 a.m. to 3 p.m. May 20.



- Short term lease
- Heated underground parking
- Beauty salon/barber shop

Trout stocking accelerates in the Black Hills

RAPID CITY, S.D. (AP) — The state Game, Fish and Parks Department has accelerated its trout-stocking schedule for lakes and streams in the Black Hills before some waters turn deadly to fish as drought conditions continue.

The Cleghorn Springs state hatchery in Rapid City and McNenny hatchery near Spearfish are compressing the entire planned trout stocking for May into a little more than a week, said Jack Erickson, a GF&P biologist.

Stocking plans are being accelerated at Horse Thief, Legion Sylvan, Center and Bismarck lakes, Spring, Box Elder, Battle and French creeks are among streams at highest risk.

Timing is crucial as the lower flows and warmer water in the area's smaller lakes and streams decrease the chances of survival for stocked fish, Erickson said.

"With water conditions as they are, if we wait much longer we might not have enough water or cool enough water to stock them in," Erickson said. "We don't want to stock these trout if they're not going to survive to be caught by anglers."

With an accelerated schedule, more fish than normal will be available in Black Hills streams and smaller lakes that are popular fishing spots and many of the fish are in the 11- to 12-inch range.

"These are nice fish. We expect them to be caught and kept," Erickson said. "If people want to go out, it's going to be a higher-than-normal density of trout in those streams and ponds for the next month."

Now at Guitarland:
Trial Purchase Instruments Available from Schmitt Music

Schmitt Music's Trial Purchase Plan offers you:

- Low down payment
- Low monthly payments
- Unlimited return option
- Quality educator-approved instruments
- Fast, friendly, flexible instrument exchanges, service and maintenance plan
- One-stop shopping for everything you'll need - music, books, accessories, lessons, service and repair

MAKING MUSIC MAKES KIDS SMARTER!

210 East Main, Bismarck
Guitarland (701) 255-0212

Natural Gas Rates
Your Opportunity To Be Heard

The North Dakota Public Service Commission invites you to a **PUBLIC INPUT SESSION** on MDU natural gas rates.

Application by MDU to increase natural gas rates.

WHEN: May 10, 2004 at 7:30 pm (MDT) 6:30 pm (MDT)

WHERE:

- Bismarck - Bismarck State College, Vocational-Technical Center, Room 228, 1200 College Drive
- Devils Lake - Lake Region State College, Administration Building, Room 171, 1801 College Dr N
- Dickinson - Dickinson State University, North Campus, Room 104, 1679 6th Avenue West
- Jamestown - ND State Hospital, Learning Resource Center, Room 320, Circle Dr
- Minot - Minot School District, Administration Building, 215 2nd Street SE
- Williston - Williston State College, Crighton Building, Room 109, 1410 University Avenue

The public will also be able to hear the input session by connecting to the Commission's web site at www.psc.state.nd.us, clicking on "Highlighted Issues" then "Broadcast of Public Input Sessions". The Commission will receive e-mail questions during the input session at ndpsc@psc.state.nd.us.

Mail comments to the Public Service Commission, 600 East Boulevard Avenue, Dept. 408, Bismarck ND 58505-0480. Individuals requiring special accommodations contact Ilona Jeffcoat-Sacco (1-701-328-2400 or TTY 1-800-366-6888) at least one working day prior to the meeting.

As a gift from Touchstone E members serve Bismarck Trout our service p you and an

Devils Lake

Journal

The Country **PEDDLER**

The Country Peddler
516 4th Street P O Box 1200 Devils Lake, ND 58301
Phone (701) 662-2127

1 BILLING PERIOD		2 ADVERTISER/CLIENT NAME	
23 TOTAL AMOUNT DUE		3 TERMS OF PAYMENT	
21 CURRENT NET AMOUNT DUE	22 30 DAYS	60 DAYS	OVER 90 DAYS

INVOICE

5 PAGE #	8 BILLING DATE	9 BILLED ACCOUNT NAME AND ADDRESS	9 REMITTANCE ADDRESS
BILLED ACCOUNT NUMBER		ADVERTISER/CLIENT NUMBER	

PLEASE DETACH AND RETURN UPPER PORTION WITH YOUR REMITTANCE

11 DATE	12 NEWSPAPER REFERENCE	13 14 DESCRIPTION-OTHER COMMENTS/CHARGES	15 16 BILLED UNITS	17 18 RATE	19 GROSS AMOUNT	20 NET AMOUNT

62 PU-04-97

Pages 1

Invoice for Devils Lake Journal display ad

by Devils Lake Journal

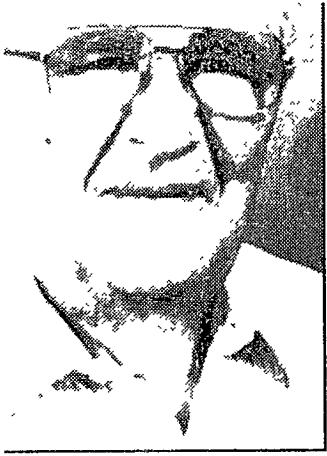
06/08/2004 CC Comm Legal PUD (3) Mike ALJ

STATEMENT OF ACCOUNT AGING OF PAST DUE AMOUNTS



21 CURRENT NET AMOUNT DUE	22 30 DAYS	60 DAYS	OVER 90 DAYS	23 TOTAL AMOUNT DUE
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25 ADVERTISER INFORMATION			
6 BILLING PERIOD	7 BILLED ACCOUNT NUMBER	2 ADVERTISER/CLIENT NUMBER	2 ADVERTISER/CLIENT NAME



h Catholic Church where
 id served as an Altar Boy,
 ber of the Knights of
 mbus, a life member of the
 s Lake Elks Lodge and
 active in Devils Lake
 ing circles
 us was an avid gardener
 ie especially enjoyed shar-
 he fruits of his labor with
 eighbors and friends
 is survived by daughters,
 Jarvis of Fargo, ND,
 orie "Marj" (Gerald)
 on of St Cloud, Minn , and
 nne (Jerome) Sattler of
 cott, Ariz, seven grand-
 ren, 15 great-grandchil-
 , sisters, Margaret (Angus)
 onald of Federal Way,
 1 and Theresa Schweitzer
 zeman, Mont
 e was preceded in death by
 arents, wife, sisters, Annie
 ndt and Mary Schweitzer,
 er, Nick Schmidt; step-
 er, Augustine Haman,
 stepsister, Pauline Wolf
 lbertson Funeral Home,
 ls Lake, is in charge of
 agements

smart shoe'

ever," said Erich
 minger, global marketing
 tor for Adidas "It senses,
 rstands and adapts"
 fter thousands of hours of
 ng, Adidas is confident the
 uted shoe will endure
 wear-and-tear of running
 most any condition — from
 pavement to dirt trails,
 dry streets to wet beaches
 the \$250 price tag is likely
 ake it a luxury item when it
 goes on sale in December,
 Paul Swangard, managing
 tor of the Warsaw Sports
 keting Center at the
 ersity of Oregon

Quam He attended grade
 school at the country school,
 near the Quam homestead
 farm and attended high school
 in Lakota After high school, he

Richard was preceded in
 death by his father and his
 brother Gerald
 Arrangements by the Aaker
 Funeral Home of Lakota, ND

Teen wounded after bringing gun to Washington state school

SPOKANE, Wash (AP) — A
 teenager severely wounded
 after bringing a gun to school,
 hoping police would kill him,
 entered guilty pleas Thursday
 in juvenile court that spare him
 prison but require him to talk
 to other teens about seeking
 help for depression

Prosecutors agreed to
 leniency for Sean Fitzpatrick,
 17, whose misshapen face
 bears the scars of a police bul-
 let that tore through his left
 eye socket and palate, leaving
 him partly blind and unable to
 speak clearly.

Fitzpatrick pleaded guilty to
 eight counts of reckless endan-
 germent, and was sentenced to
 45 days of electronic home
 monitoring and 400 hours of
 community service He will be
 on probation until he is 21 and
 must continue mental health
 counseling

Fitzpatrick was 16 when he
 brought a 9 mm pistol to a
 Lewis and Clark High School
 classroom on Sept 22; he fired

a shot into a closet when fellow
 students did not respond when
 he asked them to leave

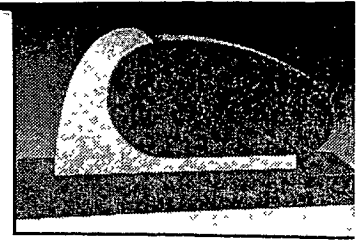
As students and teachers
 were evacuated from the
 school, Fitzpatrick briefly
 talked with officers before rais-
 ing the gun in their direction

Officers shot him in the face,
 stomach and right arm. At his
 home, investigators found a
 two-page note indicating the
 depressed teen planned to com-
 mit "suicide by cop."

In a badly slurred voice,
 Fitzpatrick apologized
 Thursday to police, students,
 teachers and the community,
 saying he never intended to
 hurt anyone but himself. He
 thanked the officers and doc-
 tors who helped save his life

"I look forward to talking to
 other teens about suicide and
 depression," he said.

Fitzpatrick is undergoing
 therapy and takes medication
 to control his depression, his
 lawyer, Carl Hueber, told the
 court



Phone: 701-662-61
 Open weekdays, with evening a

May Visiting

Clinic Hours
 Monday - Thursday
 8:00 a.m. - 6:45 p.m.
 Friday
 8:00 a.m. - 5:00 p.m.

For appointments,
 call 701-662-2158.

Physician referral required



ALTRU CLINIC

1001
 Devils Lake

Natural Gas Rates

Your Opportunity To Be Heard

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The Dickinson Press & The Advertiser

ADVERTISING INVOICE STATEMENT

3 INVOICE NO.

77779845

PO BOX 1367, DICKINSON, ND 58602-1367
225-8111 • 1-800-279-9150 • FAX 701-225-4205

4 BILL DATE 05/31/04 5 BILL FROM 05/01/04 6 BILL TO 05/31/04

2 B L D D I O
ND PUBLIC SERVICE COMMISSION
600 E BLVD
DEPT 408
BISMARCK ND 58505

6 TERMS OF PAYMENT PAGE

NET 30 1

SALES REPRESENTATIVE

HOUSE ACCOUNT

7 BILLED ACCOUNT NO. 8 ADVERTISER NO.

03463 03463

9 ADVERTISER 14 PRODUCT/SERVICE

ND PUBLIC SER CO

1-1/2% Service Charge on Past Due Balances - Annual Rate 18%.

11 REFERENCE NO	12/13 DESCRIPTION	16 RATE	19/20 AMOUNT	AMOUNT DUE
15 SAU/DIMENSION	STARTED	18 TIMES	17 UNITS	

BALANCE FORWARD 00

04 06901601 NATURAL GAS RATES 10 35 82 80
2 0X 4 00"

TOTAL DUE 82 80

* SUMMARY *
PAY 82 80

61 PU-04-97

Pages 1

Invoice for Dickinson Press display ad

by Dickinson Press & The Advertiser

06/08/2004 CC Comm Legal PUD (3) Mike ALJ

0 DAYS 00	OVER 60 DAYS 00	OVER 90 DAYS 00	22 CURRENT AMOUNT 82 80	PAY THIS AMOUNT	25 TOTAL AMOUNT 82 80
-----------	-----------------	-----------------	-------------------------	-----------------	-----------------------

ACCOUNT NO. 27 BILLED ACCOUNT
ND PUBLIC SER CO

MENT 7845 BILL DATE 05/31/04

REMITTANCE
DETACH & RETURN THIS PORTION WITH YOUR PAYMENT

The Dickinson Press & Advertiser

PO BOX 1367, DICKINSON, ND 58602-1367
701-225-8111 • 1-800-279-9150

* AMOUNT ENCLOSED

Your complete contracting specialists
(701) 290-9518

All Types of Siding
Vinyl or Wood Clad
Windows

Soffit & Fascia
Entry Doors
Seamless Gutter
Decks

Interior/Exterior Remodels

You supply or we supply materials
See our Ad daily in the Business Directory

FREE!
No Setup
Fees

No Contracts!
No Busy Signals
Pop-Up Blocking
Virus/Spam Control
Local (toll-free)

Month Turbo
Fast Satellite
from \$29.95
Turbo Dialup
Surf up to 5x
faster! \$5.00



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net

http://www.bmi.net
Extended Hours: Mon-Fri: 7am-8pm & Weekends: 9am-6pm

info@bmi.net

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Blue Mountain Internet
800-485-5006

Advanced Vision Centers
presents the 5th annual
*Super, Spectacular, Sizzling,
Spring Spectacle*

FRAME SALE

Thursday, May 13th, from 10:00 am to 6:00 pm

**Nike
Flexon
Eyewear**

**Cover Girl
Mossimo
Eyewear**

**50% off frames
20% off sunwear**



ADVANCED VISION CENTERS

446 3rd Ave. West,
Dickinson
225-2020

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4 Nights
From **\$270***

Including roundtrip airfare
From BISMARCK

Now with 21 hotel partners

Golden Nugget • Four Queens • Imperial Palace
San Remo • Stardust • Tropicana • Riviera
MGM Grand • Circus Circus • Flamingo • Bally's
Luxor • Paris • Venetian • Excalibur • Frontier
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the Four Queens**

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vacations**

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Non-stop
jet service



Flight + Hotel =
Great Savings

* Per person based on double occupancy at the Four Queens and 4 night stays. Subject to availability. Restrictions apply. Does not include PFC's segment fees of up to \$25 per passenger. Prices subject to change without notice. Other departure days, longer stays and 20 additional hotels are available at higher prices.

www.allegiantair.com

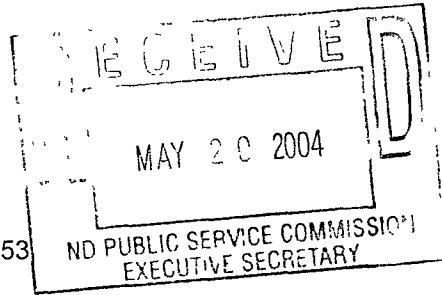
May is Foster Parent Appreciation Month

*We would like to thank all
to the foster parents in
southwestern North Dakota
for fostering a brighter
future for children and
families in our communities.*

Adams, Bowman/Slope, Dunn, Golden
Valley/Billings, Hettinger and Stark
County social Service offices, PATH and
Badlands Human Service Center.



PO Box 8384
 Grand Forks, ND 58202-8384
 Phone 701-777-6354 Fax 701-777-6353



INVOICE

DATE: 5/18/2004
 INVOICE # 1887

Bill To:

ND Public Service Commission
 600 E Boulevard Ave , Dept 408
 Bismarck, ND 58505-0480

For:

Event(s) on IVN
 05/10/04
 7 30-9 30pm

Attn Sandi Scott

DESCRIPTION	HOURS	RATE	AMOUNT
Telephone Line Charge	2	80 00	\$ 160 00
Technical Charge \$10/hr/site	2	50 00	100 00
Sites BSC, LRSC, DSU, State Hospital, WSC			
Set up fee			25 00
Stream -	2	10 00	20 00
Archive		10 00	10 00
CD			20 00
SUBTOTAL			\$ 335 00
OTHER			-
TOTAL			\$ 335 00

Make all checks payable to University of North Dakota and mail to ND Interactive Video Network, PO Box 8384, Grand Forks, ND 58202-8384

Events cancelled less than 24 hours before the event will be charged the administration and site fee
 Sites dropped less than 24 hours before the event will be charged the technical support fee

THANK YOU FOR USING THE NORTH DAKOTA I **59** **PU-04-97** Pages 1

Invoice for 5/10/04 Public Input Meeting

by North Dakota Interactive Video Network

05/20/2004 CC Comm Legal PUD (3) Mike ALJ

194048

Rename/Renumber _____ Previous Ad Ticket # _____
 Renumber/Make Attached Changes _____ Previous Ad Ticket # _____

ART REQUEST (SPEC) Date Needed _____ Size _____ Qt _____
 COLOR B&W Black+Spot Full Creativity Set As Is C

MARKET CODE ROP Classified (No) _____ Other _____

Date 5/1/04 Customer No N... Sales Person No 1710
 Customer Name ND Public Service Commission
 Address 101 Capitol - 600 E. Boulevard Ave
 Phone 701-646-3000 Product Bis ND 58505-0108
To keep competing products separate

Purchase Order No _____ Team No **1 2 3 4**

Kyline Natural Gas Rates COUPON REVERSE

Ac Size 2x4 = 8 Designer _____
Columns Inches TOTAL INCHES

AD ELEMENTS CAMERA READY Negatives or Sticks (Circle One)
 Adsend No _____
 Disc _____
 E-Mail _____
 Artwork _____
 Need Scanning Need Inputting

PROOFING EARLY PROOF Date/Time Needed _____
 PROOF NEEDED
 Store Sales Rep
 FAX Attn _____
 FAX No _____

TEARSHEETS _____ With Co-op _____ Info _____
Quantity Quantity
 Mail Store Sales Rep With Billing

INSERTION DATE		POSITION
Date	Day	<input type="checkbox"/> Paid
5/1	Sun	H
/		
/		
/		
/		
/		
/		
/		
/		
/		

PLACEMENT OPTIONS (Circle one)					Early*	Late*
+5%	+10%	+15%	+25%	+30%	3%	+5%
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L
S	A	P	P3	WL	E	L

COLOR NAME	COLOR CODE	COLOR COST

FLAT CHARGE AD COST	SPECIAL INCH RATE	NEEDS
	H	

RECEIVED
 MAY 12 2004
 ND PUBLIC SERVICE COMMISSION
 EXECUTIVE SECRETARIAT

NOTES

Authorized By _____

INTERNET • Attach all elements • Indicate above if a proof is needed

Button
 Web Link (to) _____
 Micro Site _____
 Other _____

Total Cost (be specific) \$ _____

Publication Tie-In Internet Only
 From (Publication Name) _____

INSERTS

Pkg _____ Size (pgs) _____ Total To Print _____
 Weight (oz) _____ CPM _____ Total Cost _____
 Distribution Full _____ Zoned _____
 Special Distribution _____

SALES REPRESENTATIVE

Pages 2
 PU-04-97
 Copy of Display Ad
 by Bismarck Tribune
 05/12/2004
 CC Comm Legal PUD (3) Mike ALJ



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
 ECONOMIC AND MANAGEMENT CONSULTANTS



April 25, 2004

Mike Diller
 North Dakota Public Utilities Division
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480

Our file # 2124
 Invoice # 7241
 Billing through 04/25/04

For services rendered during the month ending April 25, 2004 in connection with the non-compensation issues in North Dakota P S C Docket No PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates

FEES

C, King	13 50 hrs	135 00 /hr	1,822 50
	TOTAL FEES	13 50 hrs	<u>\$1,822 50</u>

EXPENSES

Communications, Telephone			2 79
			<u>\$2 79</u>

TOTAL FEES			\$1,822 50
TOTAL EXPENSES			\$2 79
TOTAL AMOUNT DUE			<u>\$1,825.29</u>

OK to pay
[Signature]

Invoice for services rendered during the month ending April 25, 2004 by Snavely King Majoros O'Connor & Lee, Inc

05/10/2004 CC Comm Legal PUD (3) Mike ALJ



**SNAVELY, KING & ASSOCIATES, INC.
PROJECT ACTIVITY REPORT**

Page ____ of ____

Charles W. King
BWV12

For Period Beginning 3/26/04
Ending 4/25/04

Client N.D. PSC vs MDU - Gas (Non-Comp) Billing Code 2-124

Date	Hours	Activity
4/6	3.0	Read MDU Testimony
4/7	4.0	Write Data Request
4/9	3.0	" " "
4/12	3.5	" " " ; Send to MDU
Page Total		
Month Total	13.5	

Account Number	Bill Date	Payment Due Date
030 237 1228 001	MAR 28, 2004	APR 23, 2004



SNAVELEY KING & ASSOC
1220 L ST NW STE 410
WASHINGTON DC 20005-4018

Location: 011 024 2327 003

TELEPHONE NUMBER: 202 371 1111

AT&T All in One Service

Call Detail

For Customer Care: 1 877 325-0445

ITEM	DATE	TIME (hh:mm:ss)	DAY OF WEEK	PLACE	AREA CODE/NUMBER	DURATION (hh:mm:ss)	CALL TYPE	AMOUNT
LONG DISTANCE SERVICE								
PRIMARY ACCOUNT CODE:				02123				
STATE-TO-STATE CALLS								
1	3/05/04	2:58:14P	FRI	TO LANSING	MI 517 373-1123	2:00	DDC	0.22
2	3/24/04	9:41:15A	WED	TO LANSING	MI 517 373-1123	1:00	DDC	0.11
3	3/25/04	2:28:48P	THU	TO LANSING	MI 517 373-1123	19:00	DDC	2.13
4	3/26/04	11:14:36A	FRI	TO LANSING	MI 517 373-1123	12:00	DDC	1.34
SUBTOTAL						0:51:00		\$5.70
TOTALS FOR ACCOUNT CODE: 02123						0:51:00		\$5.70
PRIMARY ACCOUNT CODE:				02124				
STATE-TO-STATE CALLS								
5	3/24/04	12:52:44P	WED	TO BISMARCK	ND 701 328-1035	22:00	DDC	2.46
6	3/25/04	2:27:30P	THU	TO BISMARCK	ND 701 328-1035	1:00	DDC	0.11
7	3/26/04	9:13:47A	FRI	TO BISMARCK	ND 701 328-1035	2:00	DDC	0.22
SUBTOTAL						0:25:00		\$2.79
TOTALS FOR ACCOUNT CODE: 02124						0:25:00		\$2.79
PRIMARY ACCOUNT CODE:				02902				
STATE-TO-STATE CALLS								
8	3/12/04	10:54:13A	FRI	TO DIR ASST	MD 410 555-1212		DDC	1.99
9	3/12/04	10:55:39A	FRI	TO BALTIMORE	MD 410 685-5225	1:00	DDC	0.11
10	3/12/04	10:56:49A	FRI	TO BALTIMORE	MD 410 685-2370	2:00	DDC	0.22
11	3/12/04	11:04:36A	FRI	TO BALTIMORE	MD 410 396-7102	1:00	DDC	0.11
12	3/17/04	9:55:58A	WED	TO RALEIGH	NC 919 850-2828	1:00	DDC	0.11
13	3/17/04	9:57:18A	WED	TO RALEIGH	NC 919 850-2828	1:00	DDC	0.11
14	3/17/04	10:08:19A	WED	TO RALEIGH	NC 919 733-4326	3:00	DDC	0.34
15	3/17/04	10:11:26A	WED	TO RALEIGH	NC 919 850-2821	1:03:00	DDC	7.06
SUBTOTAL						1:12:00		\$10.05
TOTALS FOR ACCOUNT CODE: 02902						1:12:00		\$10.05
PRIMARY ACCOUNT CODE:				02992				
STATE-TO-STATE CALLS								
16	3/01/04	10:07:37A	MON	TO AUSTIN	TX 512 480-9200	2:00	DDC	0.22
17	3/01/04	12:31:30P	MON	TO SAN FRAN	CA 415 442-3378	1:00	DDC	0.11
18	3/02/04	12:35:46P	TUE	TO SAN FRAN	CA 415 442-3378	1:00	DDC	0.11
19	3/02/04	2:25:05P	TUE	TO SAN FRAN	CA 415 703-1473	1:00	DDC	0.11
20	3/02/04	2:39:39P	TUE	TO SAN FRAN	CA 415 703-1473	1:00	DDC	0.11
21	3/02/04	2:48:08P	TUE	TO SAN FRAN	CA 415 703-1473	1:00	DDC	0.11
22	3/02/04	2:57:47P	TUE	TO SAN FRAN	CA 415 703-1473	1:00	DDC	0.11
23	3/02/04	3:57:18P	TUE	TO SAN FRAN	CA 415 703-1473	1:00	DDC	0.11
24	3/08/04	4:01:22P	MON	TO CHICAGO	IL 312 236-0123	6:00	DDC	0.67
25	3/10/04	9:12:05A	WED	TO AUSTIN	TX 512 322-9020	1:00	DDC	0.11

AT&T Call Type Information:
DDC-Direct Dialed Call
CCS-Calling Card Station Call

CCO-Operator Handled Card Call
CCP-Calling Card Person Call
OHS-Operator Handled Station Call

OBR-Operator Handled Station Call-Dial Rate
OHP-Operator Handled Person Call
OCP-Operator Handled Person Collect Call

Helbling, Sharon D.

From: Lein, Jerry R
Sent: Monday, May 03, 2004 1 35 PM
To: 'composing@devilslakejournal.com', 'js@jamestownsun.com', 'mdnads@ndweb.com', 'advertising@willistonherold.com', 'bobette@ndonline.com', 'team1@ndonline.com', 'ropadvertising@thedickinsonpress.com'
Cc: Jeffcoat-Sacco, Illona, Anderson, Lori D , Helbling, Sharon D
Subject: Display Ad

Attached is a display ad that the Public Service Commission requests be published once in each of the following papers

Bismarck Tribune
Dickinson Press
Williston Herold
Minot Daily News
Jamestown Sun
Devils Lake Journal

Except for Devils Lake and Jamestown, please publish the attached ad on Sunday, May 9, 2004 Please publish on Friday, May 7, 2004 in Devils Lake and on Saturday, May 8, 2004 in Jamestown

I would appreciate your response to this e-mail confirming that the ad will be published or letting me know if something further is needed

Please bill the Commission at the address below

Thanks

Jerry Lein
701 328-1035

North Dakota Public Service Commission
State Capitol
600 E Boulevard Avenue
Bismarck, ND 58505-0408

Natural Gas Rates Your Opportunity To Be Heard

The North Dakota Public Service Commission invites you to a
PUBLIC INPUT SESSION on MDU natural gas rates.

Application by MDU to increase natural gas rates.

WHEN May 10, 2004 at 7 30 pm (CDT) 6 30 pm (MDT)

WHERE.

Bismarck - Bismarck State College, Vocational-Technical
Center, Room 228, 1200 College Drive

Devils Lake - Lake Region State College, Administration
Building, Room 171, 1801 College Dr N

Dickinson - Dickinson State University, North Campus, Room
104, 1679 6th Avenue West

Jamestown - ND State Hospital, Learning Resource Center,
Room 320, Circle Dr

Minot - Minot School District, Administration Building, 215 2nd
Street SE

Williston - Williston State College, Crighton Building, Room
109, 1410 University Avenue

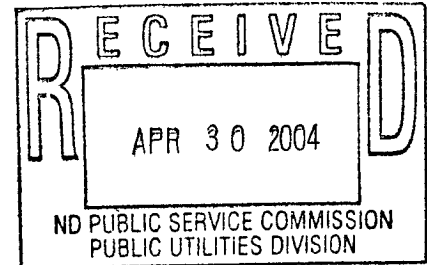
The public will also be able to hear the input session by connecting to the Commission's
web site at www.psc.state.nd.us, clicking on "Highlighted Issues" then "Broadcast of Public
Input Sessions" The Commission will receive e-mail questions during the input session at
ndpsc@psc.state.nd.us

Mail comments to the Public Service Commission, 600 East Boulevard Avenue, Dept 408,
Bismarck ND 58505-0480. Individuals requiring special accommodations contact Ilona Jeffcoat-Sacco
(1-701-328-2400 or TTY 1-800-366-6888) at least one working day prior to the meeting.



April 26, 2004

Sharon Helbling:
North Dakota Public Service Commission
12th Floor
State Capitol
Bismarck, ND 58505-0480



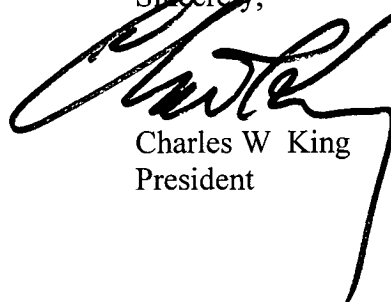
Dear Ms. Helbling:

Enclosed is a signed copy of the contract between your office and our firm for expert witness consulting assistance in Case No. PU-04-97, the gas distribution rate case for Montana-Dakota Utilities. It is my understanding that this contract covers the compensation elements of the case and that it is in addition to the contract dated March 31, 2004 covering issues other than compensation.

I am also enclosing the two copies of a letter from Exel Energy to Ms. Jeffcoat-Sacco of your office that inadvertently were included with the contracts

If you have any questions or comments, please call me at (202)371-9156 or contact me by e-mail at charlieking@snavely-king.com.

Sincerely,



Charles W King
President

53 PU-04-97

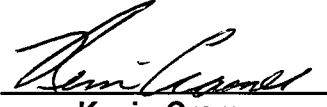
Pages 1


Cover letter re Signed contract

by Snavely King Majoros O'Connor & Lee Inc

04/30/2004 CC Comm Legal PUD (3) Mike ALJ

NORTH DAKOTA PUBLIC SERVICE COMMISSION
 ADMINISTRATION DIVISION
 PERSONAL SERVICE CONTRACT
 SFN 53824 (7/2003)

Administrator:	State of North Dakota Public Service Commission	600 E Boulevard Avenue Bismarck, ND 58505-0480 Phone (701) 328-2400
Date: April 21, 2004		
 Susan E. Wefald Commissioner	 Tony Clark President	 Kevin Cramer Commissioner

Contractor		
Snaveley King Majoros O'Connor & Lee, Inc		
Name		
1220 L St NW Ste 410	Washington D C 20005	202-371-9156
Address	City/State/Zip	Phone
Charles W King		President
Typed Name		Title
		April 26, 2004
Signature		Date

Agreement Information	
PSC Case No	PU-04-97
Contract No	PU-492-04
Start Date	Upon Signing
End Date	June 30, 2005
Program Title	MDU Natural Gas Rate Application
Type of Contract:	() Fixed Price
(X) Cost Reimb	() Unit Price
() Other	

Budget Information	
Cost Center	7700
Services	\$13,360
Optional on-site review	
Expenses	
Not to exceed	\$13,360
Type of Contractor:	() Individual
(X) Corporation	() Partnership
() Public Agency	
() Nonprofit Organization	
() Other – Joint Venture	

Pages 8

52 PU-04-97

Signed Contract No PU-492-04
 by Snaveley King Majoros O'Connor & Lee Inc
 04/30/2004 CC Comm Legal PUD (3) Mike ALJ

This contract is entered into between the State of North Dakota acting through the Public Service Commission (State) and Snaveley King Majoros O'Connor & Lee, Inc (Contractor) This contract consists of this sheet, general provisions and specific provisions

GENERAL PROVISIONS

CONTRACTUAL FEATURES

LEGAL AUTHORITY

The Contractor assures that it possesses legal authority to participate in this contract.

ASSIGNMENT/SUBCONTRACTING

The Contractor may not assign this contract or any part thereof, or assign any of the monies to be paid hereunder, nor shall any part of the work done or material furnished under this contract be sublet without the State's express written consent

The Contractor may not enter into subcontracts for any of the work contemplated under this contract unless included in the specific provisions of this contract. Any such subcontract must acknowledge the bonding nature of the contract and must incorporate this contract, including any attachments. Contractor is solely responsible for the performance of any subcontractor. Contractor shall not have the authority to contract for or incur obligations on behalf of the State.

TERMINATION

The State, by written notice of default listing causes and reasons, may terminate this contract in whole or in part if (1) the Contractor fails to provide services required by this contract within the time specified or any extension agreed to by the State, or (2) the Contractor fails to perform any of the other conditions or provisions of this contract, or so fails to pursue the work so as to endanger performance of this contract in accordance with its terms. The State will be liable only for payment provisions of this contract for services satisfactorily rendered prior to the effective date of termination.

Significant deviation from performance standards in this contract may result in reduced or terminated financial participation of the Contractor, subsequent to negotiations with the State.

This contract may be terminated in whole or in part without cause by mutual consent of the Contractor and the State.

The parties shall agree upon the termination conditions including effective date and in the case of partial terminations, that portion to be terminated.

The State may terminate this contract effective upon delivery of written notice to the Contractor or on any later date stated in the notice in the event (1) funding from federal, state or other sources is not obtained and continued at levels sufficient to allow for purchases of the services or supplies in the indicated quantities or term; (2) federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract, or (3) any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.

Any contract that extends beyond the current biennium may be terminated by the State if sufficient funds are unavailable, if the law regarding the contract is changed, or without cause at any time.

The rights and remedies of the State provided in the termination provisions related to defaults by the Contractor are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

FORCE MAJEURE

Contractor will not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond the Contractor's reasonable control and the Contractor gives notice to the State immediately upon occurrence of the event causing the delay or default or which is reasonably expected to cause a delay or default.

DISPUTES

The Contractor agrees to attempt to resolve disputes arising from this contract by informal administrative process and negotiations in lieu of litigation. Continued

performance by the Contractor during disputes is assured

The State does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolutions. The parties have the right to enforce their rights and remedies in judicial proceedings. The State does not waive any right to a jury trial.

MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms shall not be affected, and if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

NOTICE

All notices or other communications required under this contract shall be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

State

Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E. Boulevard Ave. Dept 408
Bismarck, ND 58505-0480

Contractor

Charles W. King, President
Snively King Majoros O'Connor & Lee, Inc
1220 L St NW Ste 410
Washington, D C 20005

APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be brought in the District Court of Burleigh County, North Dakota.

SPOILIATION – NOTICE OF POTENTIAL CLAIMS

Contractor shall promptly notify State of all potential claims that arise or result from this contract. Contractor shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to the State the opportunity to review and inspect the evidence, including the scene of an accident.

INDEMNITY

Contractor shall defend, indemnify, and hold harmless the State of North Dakota, its agencies, officers and employees, from any and all claims of any nature including all costs, expenses and attorneys' fees, that may in any manner result from or arise out of this agreement, except for claims resulting from or arising out of the State's sole negligence. The legal defense provided by Contractor to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. Contractor also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

CONFIDENTIALITY

Contractor agrees not to use or disclose any information it receives from the State under this contract that the State has previously identified as confidential or exempt from mandatory public disclosure.

except as necessary to carry out the purposes of this contract or as authorized in advance by the State. The State agrees not to disclose any information it receives from Contractor that the Contractor has previously identified as confidential and which the State determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N D C C §44-04-18. The duty of the State and Contractor to maintain confidentiality of information under this section continues beyond the term of this contract, or any extensions or renewals of it.

Contractor understands that, except for disclosures prohibited in N D C C Chapter 47-25 1, the State must disclose to the public upon request any records it receives from Contractor. Contractor further understands that any records that are obtained or generated by the Contractor under this contract, except for records that are confidential under N D C C Chapter 47-25 1, may, under certain circumstances, be open to the public upon request under North Dakota open records law. Contractor agrees to contact the State immediately upon receiving a request for information under the open records law and to comply with the State's instructions on how to respond to the request.

INSURANCE

a. Required Coverages.

Contractor shall secure and keep in force during the term of this contract, from an insurance company, government self-insurance pool or government self-retention fund authorized to do business in North Dakota, the following insurance coverages covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from this contract:

- (1) Commercial general liability, including products or completed operations coverage (if applicable), with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (2) Professional errors and omissions, including a three year "tail coverage

endorsement," with minimum liability limits of \$1,000,000 per occurrence and in the aggregate

- (3) Automobile liability, with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (4) Workers compensation coverage meeting all North Dakota statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract
- (5) Employer's liability or "stop gap" insurance of not less than \$1,000,000 as an endorsement on the workers compensation or commercial general liability insurance if Contractor is domiciled outside the State of North Dakota

b. General Insurance Requirements.

The insurance coverages listed above must meet the following additional requirements:

- (1) Any deductible or self-insured retention amount or similar obligation under the policies shall be the sole responsibility of the Contractor. The amount of any deductible or self-retention is subject to approval by the State.
- (2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A" or better by A M Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A" rating must be approved by the State. The policies shall be in form and terms approved by the State.
- (3) The State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement

shall not be limited by the insurance required in this contract

- (4) The State of North Dakota and its agencies, officers, and employees (State) shall be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. The State shall have all the rights and coverages as Contractor under said policies. The additional Insured endorsement for the commercial general liability policy shall be written on a form equivalent to ISO 1985 CG 20 10-form, or such other form as approved by the State, and shall not limit or delete State's coverage in any way based upon State's acts or omissions.

- (5) The insurance required in this agreement, through a policy or endorsement, shall include
- a a "Waiver of Subrogation" waiving any right to recovery the insurance company may have against the State,
 - b a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior notice to the undersigned State representative,
 - c a provision that any attorney who represents the State under this policy must first qualify as and be appointed by the North Dakota Attorney General as a Special Assistant Attorney General as required under N D C C § 54-12-08,
 - d a provision that Contractor's insurance coverage shall be primary (i.e., pay first) as respects

any insurance, self-insurance or self-retention maintained by the State, and that any insurance, self-insurance or self-retention maintained by the State shall be in excess of the Contractor's insurance and shall not contribute with it,

- e cross liability/severability of interest for all policies and endorsements
- (6) The legal defense provided to the State under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary
- (7) The Contractor shall furnish a certificate of insurance and all endorsements to the undersigned State representative prior to commencement of this agreement
- (8) Failure to provide insurance as required in this agreement is a material breach of contract entitling the State to terminate this agreement immediately.

ATTORNEY FEES

In the event a lawsuit is instituted by the State to obtain performance due of any kind under this contract, and the State is the prevailing party, Contractor shall, except when prohibited by N D C.C § 28-26-04, pay the State's reasonable attorney fees and costs in connection with the lawsuit

INDEPENDENT ENTITY

Contractor is an independent entity under this contract and is not a State employee for any purpose, including but not limited to the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. The Contractor retains

sole and absolute discretion in the manner and means of carrying out the Contractor's activities and responsibilities under this contract, except to the extent specified in the contract

FISCAL RESPONSIBILITIES

RECORDS

All records, regardless of physical form, and the accounting practices and procedures of the Contractor relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. The Contractor shall maintain and retain all books, records, and other documents required by the State and to produce program narrative and statistical data at times prescribed by the State relevant to this agreement for four years after final payment. Records shall be retained beyond four years if audit findings have not been resolved.

NO CLAIM FOR ADDITIONAL WORK

No claim for additional services not specifically herein provided, done, or furnished by the Contractor will be allowed, nor shall the Contractor do any work or furnish any material not covered by the contract, unless such work is ordered in writing by the State.

TIME KEEPING PROCEDURES

The Contractor shall require employees and subcontractors, if applicable, whose positions are funded under this contract or included as match, to maintain adequate documentation for services provided. For positions that are funded from more than one source, an analysis of duties performed by program shall also be prepared.

MONITORING, EVALUATION AND AUDIT

The Contractor agrees to cooperate with any monitoring, evaluating and/or audit conducted by the State, or its designee who shall have full access to and the right to examine all books, records and other relevant documents.

The Contractor agrees to take immediate corrective action on deficiencies

disclosed through program monitoring of costs disallowed in the course of an audit, review, or monitoring.

PREPAYMENT

The State will not make any advance payments before performance by the Contractor under this contract.

TAXPAYER ID

Contractor's North Dakota tax ID number is _____

Contractor's federal employer ID number is 52-0901220

PROGRAM REQUIREMENTS

COMPLIANCE WITH LAWS

Contractor agrees to comply with all applicable laws, rules, regulations and policies, including but not limited to those relating to nondiscrimination, accessibility and civil rights. Contractor agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including but not limited to sales and use taxes and unemployment compensation and workers' compensation premiums. Contractor shall have and keep current at all times during the term of this contract all licenses and permits required by law.

EQUAL OPPORTUNITY

No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration of or in connection with this contract because of race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

NONDISCRIMINATION

This contract and any subcontract hereunder is subject to the Age

Discrimination Act of 1975, Section 504 of the Rehabilitation Act, Title VI of the Civil Rights of 1964 and the Americans with Disabilities Act of 1990

WORK PRODUCT, EQUIPMENT AND MATERIALS

All work product, equipment or materials created or purchased under this contract belong to the State and must be delivered to the State at the State's request upon termination of this contract. Contractor agrees that all materials prepared under this contract are "works for hire" within the meaning of copyright laws of the United States and assigns to State all

rights and interests Contractor may have in the materials its prepares under this contract, including any right to derivative use of the material. Contractor shall execute all necessary documents to enable State to protect its rights under this section. Contractor shall include provisions appropriate to effectuate the purposes of this condition in all subcontracts entered into relating to this project.

EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by both parties.

SPECIFIC PROVISIONS

Purpose

Montana-Dakota Utilities Co has filed an application to increase its North Dakota natural gas utility service rates To fully pursue and represent its case, staff requires assistance to analyze MDU's filing and to provide written and oral testimony The work will include sufficient detail as is necessary to successfully testify under cross-examination

All work under this contract must be completed prior to the commission's fiscal year ending June 30, 2005 More importantly, the work needs to be sufficiently complete so that the contractor can provide written testimony by a date to be determined and oral testimony at the technical hearing scheduled to begin August 31, 2004

The specific purpose of this contract is to investigate, analyze and provide testimony on the projected wages and fringe benefits as set forth in MDU's application

The scope of work includes

- 1 Professional analysis and review of filing.
- 2 Prepare and conduct discovery
- 3 Periodic progress reports of discovery, conclusions and recommendations to keep staff updated
- 4 Prepare written testimony and provide an advanced copy to staff for review prior to submitting as a formal document
- 5 Prepare written and oral testimony in rebuttal to testimony of other parties in the proceeding
- 6 Testify at the hearing
- 7 Assist staff legal counsel in preparation of cross-examination of the witnesses of other parties to the proceedings
- 8 After the hearing, assist staff legal counsel in preparation of findings of fact for a proposed commission decision

Compensation

The Contractor will be compensated based on periodic submittal of progress reports Final payment will be made upon satisfactory completion of the described project work, as determined by the commission

In the event the case is settled or this agreement is otherwise terminated prior to completion of project work, then compensation will be awarded for work satisfactorily completed

No part of this contract may be assigned, sublet or subcontracted

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that.

she is over the age of 18 years and not a party to this action and, on the **28th day of April, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **two** envelopes with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of.

Order

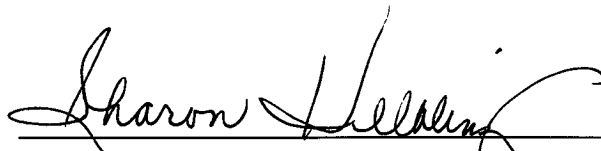
The envelopes were addressed as follows:


Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501
Cert. No. 7002 2410 0003 4912 5673

Dan Kuntz
P O Box 1695
Bismarck ND 58502-1695
Cert. No. 7002 2410 0003 4912 5680

Each address shown is the respective addressee's last reasonably ascertainable post office address

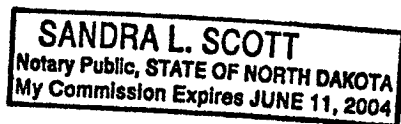
Subscribed and sworn to before me
this **28th day of April, 2004**.





Notary Public

SEAL



STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED AND ORDINARY MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **28th day of April, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Order

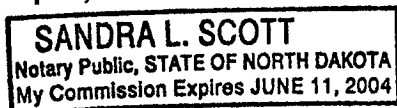
The envelope was addressed as follows.

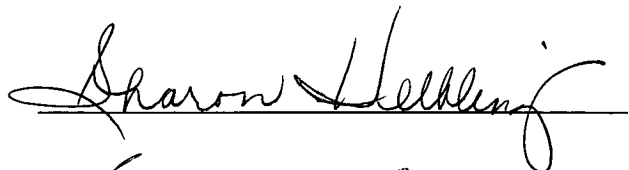

Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501
Cert. No. 7001 2410 0003 4912 5611

Each address shown is the respective addressee's last reasonably ascertainable post office address

Subscribed and sworn to before me
this **28th day of April, 2004**.

SEAL





Notary Public

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY ORDINARY MAIL OR E-MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

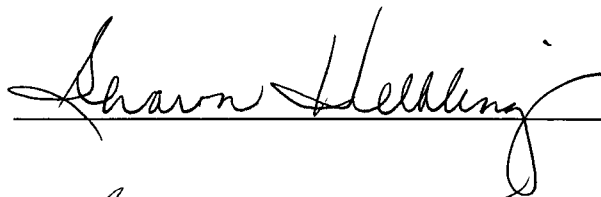
she is over the age of 18 years and not a party to this action and, on the **28th day of April, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, envelopes by first class mail, fully prepaid, securely sealed, each containing a photocopy of:

Order

The envelopes were addressed as follows:

See Attached List

Each address shown is the respective addressee's last reasonably ascertainable post office address



Subscribed and sworn to before me
this **28th day of April, 2004**.



SANDRA L. SCOTT
Notary Public, STATE OF NORTH DAKOTA
My Commission Expires JUNE 11, 2004

Notary Public

SEAL

James Roache
P O Box 564
Crosby ND 58730

F James Moriarty
2333 Plum Grove Dr
O'Fallon MO 63366

Steven Tomac
2498 59th St
St Anthony ND 58566-9640

Will Kaul
Cooperative Power Association
P O Box 800
Elk River MN 55330-0800

Patricia Estes
Daily News
PO Box 760
Wahpeton ND 58074-0760

Laurie Baranko
Dakota Resource Council
PO Box 1095
Dickinson ND 58602-1095

Frank Morehouse
Great Plains Natural Gas Co
PO Box 176
Fergus Falls MN 56548-0176

Jay Casler
INDEPTH DATA INC
44 S Bdwy 18th Fl
White Plains NY 10601-4425

Karyn Grass
IPAMS
6620 Denver Club Bldg 518 17th St
Denver CO 80202-4167

Rick Jensen
KHND AM Radio
PO Box 6
Harvey ND 58341-0006

Kelley Richardson
King Publishing Co
PO Box 52210
Knoxville TN 37950-2210

Terry Hildestad
Knife River Coal Mining Company
1915 N Kaveney Dr
Bismarck ND 58501

Minnesota PUC
121 E 7th Pl Ste 350
St Paul MN 55101-2147

Bruce Imsdahl
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Ron Tipton
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mike Foley
NARUC
1101 Vermont Avenue NW Ste 200
Washington DC 20005

Robert Burns
National Regulatory Research Inst
406 Bevis Hall 1080 Carmack
Columbus OH 43210

Dennis Lavalley
Nat'l Assoc Plumbing-Htng-Cooling
PO Box 6808
Falls Church VA 22046-6808

Scott Speaker
Natural Gas Week
1401 New York Ave NW Ste 500
Washington DC 20005-2150

Everett Morris
NJ Public Service Electric & Gas
80 Park Pl
Newark NJ 07101

Public Utilities Reports Inc
Law Dept
8229 Boone Blvd Ste 401
Vienna VA 22182
Paul Lehman
Xcel Energy
512 Nicollet Mall
Minneapolis MN 55402

John Kapsner
The Vogel Law Firm
P O Box 2097
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APPROVED

MOTION

DATE: 4-27-04
KMF

April 27, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission adopt the Order on interim rates in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase Application, Case No. PU-04-97.

sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

ORDER
April 27, 2004

On March 3, 2004, Montana Dakota Utilities Co. (MDU) filed an application to increase its natural gas rates. The application included a request for interim rate increase. On April 26, 2004, MDU filed an amendment to its request for interim rate increase including revised interim rate increase tariffs.

Under N.D.C.C. section 49-05-06(2) the Commission must order an interim rate increase, but the rate increase must meet certain specified criteria. The criteria include that the calculation of additional revenue requirement include: the same rate of return on common equity authorized by the commission in the public utility's most recent rate proceeding; rate base and expense items the same in nature and kind allowed by a currently effective commission order in the public utility's most recent rate proceeding and, no change in existing rate design.

MDU's interim rate request amendment revised the original interim request to include short-term debt as part of the company's cost of capital and to allocate the proposed interim rate increase equally to all customer classes with no change to existing rate design.

MDU's interim rate increase request is based on a projected 2004 test year and seeks an increase in annual revenue collections of \$1 714 million, or an overall increase in revenues of 1.43%. MDU proposes that an Interim Rate Adjustment, applied to each dekatherm of gas use, be included as a separate line item on the customer bill.

MDU automatically passes through its cost of gas to consumers, which accounts for about 82% of its operating expenses. Therefore, if the cost of gas is excluded, the interim rate increase represents an increase of approximately 8% for revenues unrelated to natural gas supplies.

In the event a final order in this proceeding approves a rate increase of an amount less than an interim rate increase authorized in this Order, MDU is required to refund any interim rate increase amounts collected in excess of the amounts authorized by the Commission's final order, plus interest.

Order

The Commission orders.

48 **PU-04-97**

Pages 2

Order

by Public Service Commission

04/27/2004

CC Comm Legal PUD (3) Mike ALJ

Order

The Commission orders:

1. MDU's request for an interim rate increase, as amended April 26, 2004, is GRANTED effective for service rendered on or after May 3, 2004.

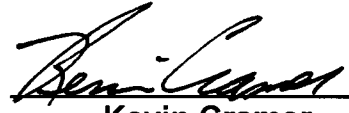
PUBLIC SERVICE COMMISSION

"ABSENT"

**Susan E. Wefald
Commissioner**



**Tony Clark
President**



**Kevin Cramer
Commissioner**



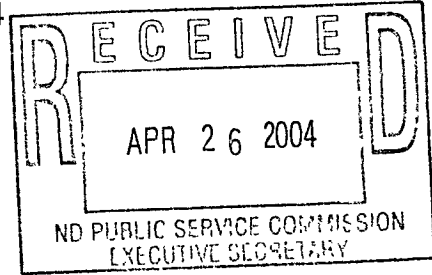
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

April 26, 2004



Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505-0480

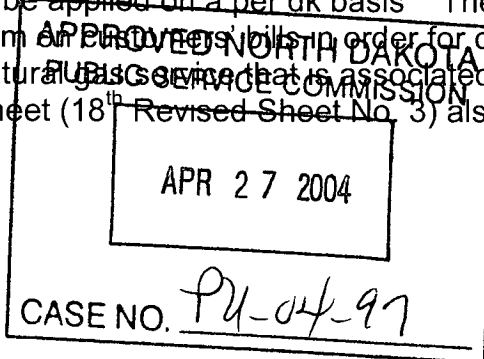
Re Case No PU-04-97
Amended Interim Rates

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc., hereby submits amended rate schedules to reflect an adjustment in the annual amount of rate relief to be implemented on an interim basis, in the above referenced Case, in accordance with discussions with the Commission's Staff

The interim revenue increase as amended to include short-term debt as part of the capital structure is \$1,714,000. Please refer to Attachment A for the work papers underlying the calculation of the amended interim revenue increase

Pursuant to discussions with Staff, the application of the interim revenue requirement is also being amended to reflect an equal percentage increase applied to each rate class. The original filing reflected an allocation of the increase to the Residential and Firm General Service classes only in accordance with the Commission's last natural gas rate Order in Case No. PU-399-02-183. The \$1,714,000 increase represents a 1.4293% increase in annual revenues excluding contract related revenues. The work papers underlying the allocation of the interim rate increase to each class along with the resulting increase per dk are included as Attachment B

The interim rate adjustment is set forth on the attached tariff sheets as a separate charge to be applied on a per dk basis. The adjustment will also be displayed as a separate line item on customers' bills in order for customers to determine the amount of their bill for natural gas service that is associated with the interim adjustment. The Rate Summary Sheet (18th Revised Sheet No. 3) also reflects the cost of gas effective as of May 1, 2004



47 PU-04-97

Pages 29

Amended Interim Rates

by Montana-Dakota Utilities Co a Division of MDU Resources Group, Inc.

04/26/2004 CC Comm Legal PUD (3) Mike ALJ

Montana-Dakota requests that the attached rate schedules be implemented for service rendered on an after May 2, 2004.

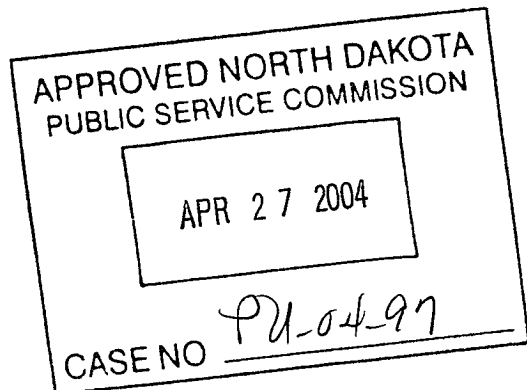
Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Donald R. Ball
Asst. Vice President – Regulatory Affairs

Attachment





Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
 18th Revised Sheet No. 3
 Canceling 17th Revised Sheet No. 3

RATE SUMMARY SHEET

Page 1 of 2

Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk	Interim Per Dk
Residential Rate 60	4	\$0 29 per day	\$0 641	\$6 285	\$6 926	\$0 117
Air Force Rate 64	7					
Minot Air Force Base		\$1,000 00 per month				
PAR Site		\$135 00 per month				
Firm Service			\$0.138	\$6 285	\$6 423	\$0 097
Interruptible Service - PAR			\$0.120	\$5 416	\$5 536	\$0 080
Interruptible Service - MAFB			\$0 120	\$5 204	\$5 324	\$0 080
Firm General Service Rate 70	13					
Meters rated < 500 cubic feet		\$0 50 per day				
Meters rated > 500 cubic feet		\$1 70 per day	\$0 473	\$6 285	\$6 758	\$0 109
Small Interruptible Gas Rate 71	14	\$100 00 per month	Per Contract	\$5 416	Per Contract	\$0 087
Optional Seasonal Gas Service Rate 72	15					
Meters rated < 500 cubic feet		\$0 50 per day				
Meters rated > 500 cubic feet		\$1 70 per day				
Winter Gas Usage			\$0 473	\$6 388	\$6 861	\$0 109
Summer Gas Usage			\$0 473	\$5 327	\$5 800	\$0 109
Transportation Service	24					
Small Interruptible Rate 81		\$150.00 per month				
Maximum			\$0 427			
Minimum			\$0 102			
Fuel Charge				\$0 022		\$0 008
Large Interruptible Rate 82		\$725 00 per month				
Maximum			\$0 298			
Minimum			\$0 061			
Fuel Charge				\$0 022		\$0 006
Large Interruptible Gas Rate 85	27	\$675 00 per month	Per Contract	\$5 416	Per Contract	\$0 000
Residential Propane Rate 90	32	\$0 29 per day	\$0 641	\$6 285	\$6 926	\$0 117
Firm General Propane Rate 92	34					
Meters rated < 500 cubic feet		\$0.50 per day				
Meters rated > 500 cubic feet		\$1 70 per day	\$0 473	\$6 469	\$6 942	\$0 109

APPROVED NORTH DAKOTA
 PUBLIC SERVICE COMMISSION
 APR 27 2004
 CASE NO. PU-04-97
 PU-04-162

Date Filed: April 26, 2004
 Issued By: Donald R Ball
 Asst. Vice President - Regulatory Affairs

Effective Date: _____

Case No. PU-04-97
 PU-04-162



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 4
Canceling 2nd Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge:	\$0.29 per day
Distribution Delivery Charge:	\$.641 per dk
Cost of Gas.	Determined Monthly- See Rate Summary Sheet for Current Rate
Interim Rate Adjustment:	\$.117 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: April 26, 2004

Effective Date:

APR 27 2004

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:

PU-04-97

CASE NO. _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 7
Canceling Original Sheet No 7

AIR FORCE Rate 64

Page 1 of 2

Availability:

Minot Air Force Base near Minot, North Dakota, and the Perimeter Acquisition Radar (PAR) Site, near Concrete, North Dakota. The Air Force shall make an election of its requirements under each available service and such requirements shall be set forth in a service agreement with the Company.

Rate:

Basic Service Charge:

Minot Air Force Base	\$1,000.00 per month
Perimeter Acquisition Radar (PAR) Site	\$135.00 per month

Distribution Delivery Charge:

Firm Service	\$.138 per dk
Interruptible Service	\$.120 per dk

Cost of Gas:

Determined Monthly- See Rate Summary Sheet for Current Rate

Interim Rate Adjustment:

Firm Service	\$.097 per dk
Interruptible Service	\$.080 per dk

Minimum Bill:

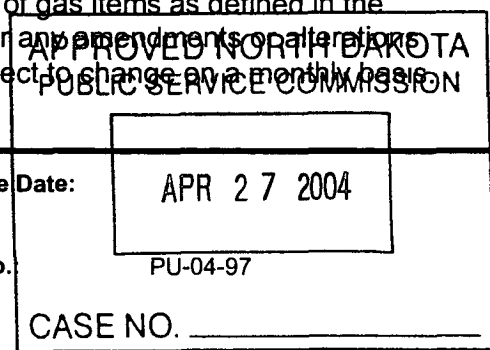
Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.



Date Filed: April 26, 2004

Effective Date:

APR 27 2004

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.

PU-04-97

CASE NO. _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 13
Canceling 2nd Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 1

Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour

\$0 50 per day

For customers with meters rated over
500 cubic feet per hour

\$1 70 per day

Distribution Delivery Charge:

\$ 473 per dk

Cost of Gas:

Determined Monthly- See
Rate Summary Sheet for
Current Rate

Interim Rate Adjustment:

\$.109 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 24 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: April 26, 2004

Effective Date: APR 27 2004

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.: PU-04-97

CASE NO. _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 14
Canceling 2nd Revised Sheet No 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge:	\$100.00 per month	
Distribution Delivery Charge:	<u>Maximum</u> \$.871 per dk	<u>Minimum</u> \$.427 per dk
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate	
Interim Rate Adjustment:	\$.087 per dk	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

APR 27 2004

Date Filed: April 26, 2004

Effective Date:

Issued By: Donald R Ball
Director of Regulatory Affairs

Case No.: PU-04-97

CASE NO. _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 14 1
Canceling Original Sheet No 14 1

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 2 of 3

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

- PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10.
- PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
- AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: April 26, 2004

Effective Date:

APR 27 2004

Issued By: Donald R. Ball
Director of Regulatory Affairs

Case No.: PU-04-97

CASE NO. _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 15
Canceling 2nd Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0.50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge:

\$.473 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Interim Rate Adjustment:

\$.109 per dk

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable costs as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: April 26, 2004

Effective Date: APR 27 2004

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.: PU-04-97

CASE NO _____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 24 1
Canceling 1st Revised Sheet No. 24 1

TRANSPORTATION SERVICE Rates 81 and 82

Page 2 of 10

Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge:

Rate 81 \$150.00 per month
Rate 82 \$725.00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0.427	\$0.298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300
Interim Rate Adjustment:	\$0.008	\$0.006

Fuel Charge:

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet t for currently effective charge.

General Terms and Conditions:

1. **CRITERIA FOR SERVICE:** In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

APR 27 2004

Effective Date: _____

Case No.: PU-04-97

CASE NO _____

Date Filed: April 26, 2004

Issued By: Donald R. Ball
Director of Regulatory Affairs

Effective Date:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No. 32
Canceling 2nd Revised Sheet No. 32

RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 1

Availability:

For the community of Hettinger for all domestic purposes. See Rate 100, §V.3, for definition on class of service

Rate:

Basic Service Charge:	\$0.29 per day
Distribution Delivery Charge.	\$.641 per dk
Cost of Propane:	Determined Monthly- See Rate Summary Sheet for Current Rate
Interim Rate Adjustment:	\$.117 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

General Terms and Conditions:

- The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
- The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

APPROVED NORTH DAKOTA PUBLIC SERVICE COMMISSION	
APR 27 2004	
CASE NO _____	

Date Filed: April 26, 2004
Issued By: Donald R Ball
 Assistant Vice President -
 Regulatory Affairs

Effective Date:
Case No.: PU-04-97



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 34
Canceling 2nd Revised Sheet No 34

FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour \$0.50 per day

For customers with meters rated
over 500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge. \$.473 per dk

Cost of Propane. Determined Monthly- See Rate
Summary Sheet for Current Rate

Interim Rate Adjustment: \$.109 per dk

Minimum Bill:

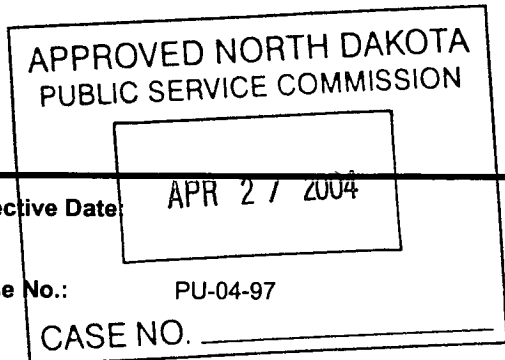
Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.



Date Filed: April 26, 2004
Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Effective Date: APR 27 2004
Case No.: PU-04-97

CASE NO. _____

TARIFFS REFLECTING PROPOSED CHANGES



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 4
Canceling 1st Revised Sheet No. 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge	\$0.29 per day
Distribution Delivery Charge:	\$.641 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate
<u>Interim Rate Adjustment</u>	<u>\$ 117 per dk</u>

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No..



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 7

AIR FORCE Rate 64

Page 1 of 2

Availability:

Minot Air Force Base near Minot, North Dakota, and the Perimeter Acquisition Radar (PAR) Site, near Concrete, North Dakota The Air Force shall make an election of its requirements under each available service and such requirements shall be set forth in a service agreement with the Company.

Rate:

Basic Service Charge:

Minot Air Force Base	\$1,000.00 per month
Perimeter Acquisition Radar (PAR) Site	\$135.00 per month

Distribution Delivery Charge.

Firm Service	\$.138 per dk
Interruptible Service	\$.120 per dk

Cost of Gas.

Determined Monthly- See Rate Summary Sheet for Current Rate

Interim Rate Adjustment

<u>Firm Service</u>	<u>\$.097 per dk</u>
<u>Interruptible Service</u>	<u>\$.080 per dk</u>

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Date Filed:

Effective Date:

Issued By:

Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 13
Canceling 1st Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 1

Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour

\$0.50 per day

For customers with meters rated over
500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge:

\$.473 per dk

Cost of Gas:

Determined Monthly- See
Rate Summary Sheet for
Current Rate

Interim Rate Adjustment:

\$.109 per dk

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 14
Canceling 1st Sheet No. 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge.	\$100.00 per month	
Distribution Delivery Charge:	<u>Maximum</u>	<u>Minimum</u>
	\$.871 per dk	\$ 427 per dk
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate	
<u>Interim Rate Adjustment</u>	<u>\$ 087 per dk</u>	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Date Filed:

Effective Date:

Issued By: Donald R Ball
Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 14 1

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 2 of 3

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

Date Filed:

Effective Date:

Issued By: Donald R Ball
Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 15
Canceling 1st Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale See Rate 100, §V.3,
for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0.50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge:

\$.473 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Interim Rate Adjustment:

\$.109 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on
the bill Past due bills are subject to a late payment charge in accordance with
the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the
Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations
thereto. The cost of gas component is subject to change on a monthly basis

Date Filed:

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No. 24 1
Canceling Original Sheet No 24 1

TRANSPORTATION SERVICE Rates 81 and 82

Page 2 of 10

Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge:

Rate 81 \$150.00 per month
Rate 82 \$725.00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0.427	\$0.298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300
<u>Interim Rate Adjustment</u>	<u>\$0 008</u>	<u>\$0 006</u>

Fuel Charge:

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet t for currently effective charge.

General Terms and Conditions:

1. **CRITERIA FOR SERVICE:** In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).

Date Filed:

Effective Date:

Issued By:

Donald R. Ball
Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 32
Canceling 1st Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 1

Availability:

For the community of Hettinger for all domestic purposes. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge:	\$0.29 per day
Distribution Delivery Charge:	\$.641 per dk
Cost of Propane:	Determined Monthly- See Rate Summary Sheet for Current Rate
<u>Interim Rate Adjustment</u>	<u>\$ 117 per dk</u>

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date:

Issued By:

Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 34
Canceling 1st Revised Sheet No 34

FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour \$0.50 per day

For customers with meters rated
over 500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge: \$ 473 per dk

Cost of Propane: Determined Monthly- See Rate
Summary Sheet for Current Rate

Interim Rate Adjustment \$ 109 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

Date Filed:

Effective Date:

Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.:

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
INTERIM
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)

	Before Additional Revenue Re- quirements	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$119,376	\$1,714	\$121,090
Transportation	783		783
Other	406		406
Total Revenues	<u>120,565</u>	<u>1,714</u>	<u>122,279</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	99,630		99,630
Other O&M	16,299		16,299
Total O&M	<u>115,929</u>		<u>115,929</u>
Depreciation	2,537		2,537
Taxes Other Than Income	1,362		1,362
Current Income Taxes	528	678	1,206
Deferred Income Taxes	(620)		(620)
Total Expenses	<u>119,736</u>	<u>678</u>	<u>120,414</u>
Operating Income	<u>\$829</u>	<u>\$1,036</u>	<u>\$1,865</u>
Rate Base	<u>\$20,170</u>		<u>\$20,170</u>
<hr/>			
Rate of Return	4.110%		9.247% 1/

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT - INTERIM
GAS UTILITY - NORTH DAKOTA
PROJECTED 2004
(000s)**

	Projected 2004 1/	Adjustments			Interim
		SISP 2/	Rate Case Expense 3/	Short Term Debt 4/	
Operating Revenues					
Sales	\$119,376				\$119,376
Transportation	783				783
Other	406				406
Total Revenues	<u>120,565</u>				<u>120,565</u>
Operating Expenses					
Operation and Maintenance					
Cost of Gas	99,630				99,630
Other O&M	16,579	(\$260)	(\$20)		16,299
Total O&M	<u>116,209</u>	<u>(260)</u>	<u>(20)</u>		<u>115,929</u>
Depreciation	2,537				2,537
Taxes Other Than Income	1,362				1,362
Current Income Taxes	405	103	8	12	528
Deferred Income Taxes	(620)				(620)
Total Expenses	<u>119,893</u>	<u>(157)</u>	<u>(12)</u>	<u>12</u>	<u>119,736</u>
Operating Income	<u>\$672</u>	\$157	\$12	(\$12)	<u>\$829</u>
Average Rate Base	<u>\$20,170</u>				<u>\$20,170</u>
Rate of Return	<u>3 332%</u>				<u>4 110%</u>
Return on Equity	<u>-1 418%</u>				<u>0 259%</u>

1/ Statement N, page 1

2/ Eliminates SISP, Statement N, page 10

3/ Reflects projected rate case expense amortized over 4 years, Statement N, page 25

4/ Reflects inclusion of short term debt in the capital structure

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY CAPITAL STRUCTURE
PROJECTED 2004**

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$154,100,000	42 622%	8 624%	3 676%
Short Term Debt	<u>23,525,000</u>	<u>6 507%</u>	1 658%	<u>0 108%</u>
Total Debt	<u>177,625,000</u>	<u>49 129%</u>		<u>3 784%</u>
Preferred Stock	16,150,000	4 467%	4 618%	0 206%
Common Equity	167,772,745	46 404%	11 329% 1/	5 257%
Total	<u><u>\$361,547,745</u></u>	<u><u>100 000%</u></u>		<u><u>9 247%</u></u>

1/ Return on equity authorized in Case No PU-399-02-183

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
CALCULATION OF CURRENT INCOME TAXES
PROJECTED 2004 - INTERIM
(000s)**

	Projected 2004
Operating Revenues	
Sales Revenues	\$119,376
Transportation Revenues	783
Other Revenues	406
Total Operating Revenues	<u>120,565</u>
Operating Expenses	
Operation and Maintenance	
Cost of Gas	99,630
Other O&M	16,579
Total O&M	<u>116,209</u>
Depreciation Expense	2,537
Taxes other Than Income	1,362
Total Operating Expenses	<u>120,108</u>
Operating Income before Taxes	457
Deductions and Adjustments to Book Income	
Interest Expense	763
Preferred Dividend Paid	15
Other Tax Deductions	<u>(1,376)</u>
Total Adjustments to Taxable Income	(598)
Taxable Income	1,055
Federal & State Income Taxes @ 39.55%	<u><u>\$417</u></u>

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
INTEREST EXPENSE ANNUALIZATION
PROJECTED 2004 - INTERIM
(000s)

	Projected 2004
Rate Base	<u>\$20,170</u>
Weighted Cost of Debt	3.784%
Interest Expense	<u><u>\$763</u></u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
Interim Increase
Amended Allocation of Revenues**

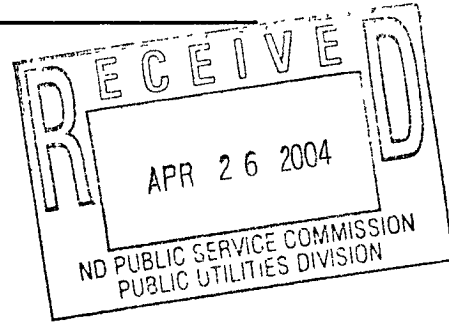
	Billing Units		Revenue @ Current Rates	Proposed Interim Increase	% Increase	Increase Per Dk
	Bills	Dk				
Residential Gas Service- Rates 60/90	889,788	8,150,298	\$66,710,124	\$953,488	1 43%	\$0 117
Firm General Gas Service - Rates 70/92	137,640	5,773,626	44,197,944	631,721	1 43%	0 109
Air Force Firm Gas Service - Rate 64	12	37,297	252,218	3,605	1 43%	0 097
Air Force Interruptible Gas Service - Rate 64	24	842,568	4,734,108	67,665	1 43%	0 080
Small Interruptible Gas Service - Rate 71 (Maximum Rate)	984	570,263	3,481,200	49,757	1 43%	0 087
Small Interruptible Gas Service - Rate 71 (Flexed Rate)	0	0	0	0	0 00%	0 000
Small Interruptible Transportation Service - Rate 81 (Maximum Rate)	672	701,643	400,402	5,723	1 43%	0 008
Small Interruptible Transportation Service - Rate 81 (Flexed Rate)	6	1,441	1,047	0	0 00%	0 000
Large Interruptible Gas Service - Rate 85 (Maximum Rate)	0	0	0	0	0 00%	0 000
Large Interruptible Gas Service - Rate 85 (Flexed Rate)	0	0	0	0	0 00%	0 000
Large Interruptible Transportation Service - Rate 82 (Maximum Rate)	48	368,017	144,469	2,065	1 43%	0 006
Large Interruptible Transportation Service - Rate 82 (Flexed Rate)	72	1,861,375	237,119	0	0 00%	0 000
Total North Dakota	1,029,246	18,306,528	\$120,158,631	\$1,714,024	1 43%	

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
CALCULATION OF INTERIM INCREASE**

Interim Revenue Deficiency	\$1,714,000	
Total Operating Revenues	120,158,631	Interim Appendix B - Page 4
Less Revenues @ Discounted Rates	<u>238,166</u>	
Net Revenues	119,920,465	
Interim % Increase	<u><u>1 4293%</u></u>	



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS



April 5, 2004

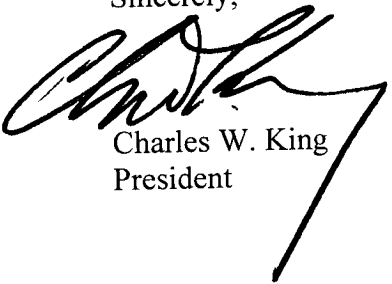
Sharon Helbling
Public Utilities Division
Public Service Commission
State Capitol, 12th Floor
Bismarck, ND 58505-0480

Dear Ms Helbling:

Enclosed herewith is the signed copy of Contract No. PU-04-97 concerning expert consulting assistance that our firm will provide to the Adversary Staff of the Commission in the current Montana-Dakota Utilities Gas Rate Case

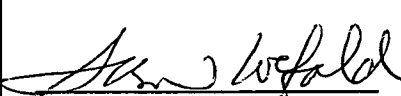

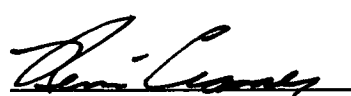
I would be happy to respond to any questions or comments you may have concerning this contract or this project. My direct number is (202) 371-9156 My e-mail address is charlieking@snavely-king.com

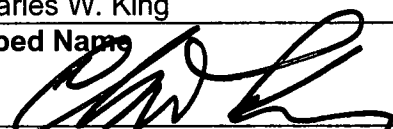
Sincerely,



Charles W. King
President

NORTH DAKOTA PUBLIC SERVICE COMMISSION
 ADMINISTRATION DIVISION
 PERSONAL SERVICE CONTRACT
 SFN 53824 (7/2003)

Administrator:	State of North Dakota Public Service Commission	600 E. Boulevard Avenue Bismarck, ND 58505-0480 Phone (701) 328-2400
Date: March 31, 2004		
		
Susan E. Wefald Commissioner	Tony Clark President	Kevin Cramer Commissioner

Contractor		
Snavey King Majoros O'Connor & Lee, Inc		
Name		
1220 L St NW Ste 410	Washington D C 20005	202-371-9156
Address	City/State/Zip	Phone
Charles W. King		President
Typed Name		Title
		4/5/04
Signature		Date

Agreement Information	
PSC Case No :	PU-04-97
Contract No :	PU-480-04
Start Date:	Upon Signing
End Date:	6/30/05
Program Title:	MDU Natural Gas Rate Application
Type of Contract:	() Fixed Price (X) Cost Reimb. () Unit Price () Other

Budget Information	
Cost Center:	7700
Services:	\$22,110
Optional on-site review:	0
Expenses:	\$ 1,504
Not to exceed:	\$23,614
Type of Contractor:	() Individual (X) Corporation () Partnership () Public Agency () Nonprofit Organization () Other – Joint Venture

45 PU-04-97 Pages 8

This contract is entered into between the State of North Dakota acting through the Public Service Commission (State) and Snavey King Majoros O'Connor & Lee, Inc. (Contractor). This contract consists of this sheet, general provisions and specific provisions

Signed Contract No PU-480-04
 by Snavey King Majoros O'Connor & Lee Inc
 04/26/2004 CC Comm Legal PUD (3) Mike ALJ

GENERAL PROVISIONS

CONTRACTUAL FEATURES

LEGAL AUTHORITY

The Contractor assures that it possesses legal authority to participate in this contract.

ASSIGNMENT/SUBCONTRACTING

The Contractor may not assign this contract or any part thereof, or assign any of the monies to be paid hereunder, nor shall any part of the work done or material furnished under this contract be sublet without the State's express written consent.

The Contractor may not enter into subcontracts for any of the work contemplated under this contract unless included in the specific provisions of this contract. Any such subcontract must acknowledge the bonding nature of the contract and must incorporate this contract, including any attachments. Contractor is solely responsible for the performance of any subcontractor. Contractor shall not have the authority to contract for or incur obligations on behalf of the State.

TERMINATION

The State, by written notice of default listing causes and reasons, may terminate this contract in whole or in part if (1) the Contractor fails to provide services required by this contract within the time specified or any extension agreed to by the State, or (2) the Contractor fails to perform any of the other conditions or provisions of this contract, or so fails to pursue the work so as to endanger performance of this contract in accordance with its terms. The State will be liable only for payment provisions of this contract for services satisfactorily rendered prior to the effective date of termination.

Significant deviation from performance standards in this contract may result in reduced or terminated financial participation of the Contractor, subsequent to negotiations with the State.

This contract may be terminated in whole or in part without cause by mutual consent of the Contractor and the State.

The parties shall agree upon the termination conditions including effective date and in the case of partial terminations, that portion to be terminated.

The State may terminate this contract effective upon delivery of written notice to the Contractor or on any later date stated in the notice in the event (1) funding from federal, state or other sources is not obtained and continued at levels sufficient to allow for purchases of the services or supplies in the indicated quantities or term; (2) federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract; or (3) any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.

Any contract that extends beyond the current biennium may be terminated by the State if sufficient funds are unavailable, if the law regarding the contract is changed, or without cause at any time.

The rights and remedies of the State provided in the termination provisions related to defaults by the Contractor are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

FORCE MAJEURE

Contractor will not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond the Contractor's reasonable control and the Contractor gives notice to the State immediately upon occurrence of the event causing the delay or default or which is reasonably expected to cause a delay or default.

DISPUTES

The Contractor agrees to attempt to resolve disputes arising from this contract by informal administrative process and negotiations in lieu of litigation. Continued

performance by the Contractor during disputes is assured.

The State does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolutions. The parties have the right to enforce their rights and remedies in judicial proceedings. The State does not waive any right to a jury trial.

MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms shall not be affected, and if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

NOTICE

All notices or other communications required under this contract shall be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

State

Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E. Boulevard Ave. Dept 408
Bismarck, ND 58505-0480

Contractor

Charles W. King, President
Snavey King Majoros O'Connor & Lee, Inc.
1220 L St NW Ste 410
Washington, D.C. 20005

APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be brought in the District Court of Burleigh County, North Dakota.

SPOILIATION – NOTICE OF POTENTIAL CLAIMS

Contractor shall promptly notify State of all potential claims that arise or result from this contract. Contractor shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to the State the opportunity to review and inspect the evidence, including the scene of an accident.

INDEMNITY

Contractor shall defend, indemnify, and hold harmless the State of North Dakota, its agencies, officers and employees, from any and all claims of any nature including all costs, expenses and attorneys' fees, that may in any manner result from or arise out of this agreement, except for claims resulting from or arising out of the State's sole negligence. The legal defense provided by Contractor to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. Contractor also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

CONFIDENTIALITY

Contractor agrees not to use or disclose any information it receives from the State under this contract that the State has previously identified as confidential or exempt from mandatory public disclosure

except as necessary to carry out the purposes of this contract or as authorized in advance by the State. The State agrees not to disclose any information it receives from Contractor that the Contractor has previously identified as confidential and which the State determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N.D.C.C. 44-04-18. The duty of the State and Contractor to maintain confidentiality of information under this section continues beyond the term of this contract, or any extensions or renewals of it.

Contractor understands that, except for disclosures prohibited in N.D.C.C. Chapter 47-25 1, the State must disclose to the public upon request any records it receives from Contractor. Contractor further understands that any records that are obtained or generated by the Contractor under this contract, except for records that are confidential under N.D.C.C. Chapter 47-25.1, may, under certain circumstances, be open to the public upon request under North Dakota open records law. Contractor agrees to contact the State immediately upon receiving a request for information under the open records law and to comply with the State's instructions on how to respond to the request

INSURANCE

a. Required Coverages.

Contractor shall secure and keep in force during the term of this contract, from an insurance company, government self-insurance pool or government self-retention fund authorized to do business in North Dakota, the following insurance coverages covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from this contract:

- (1) Commercial general liability, including products or completed operations coverage (if applicable), with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence.
- (2) Professional errors and omissions, including a three year "tail coverage

endorsement," with minimum liability limits of \$1,000,000 per occurrence and in the aggregate.

- (3) Automobile liability, with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (4) Workers compensation coverage meeting all North Dakota statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract
- (5) Employer's liability or "stop gap" insurance of not less than \$1,000,000 as an endorsement on the workers compensation or commercial general liability insurance if Contractor is domiciled outside the State of North Dakota.

b. General Insurance Requirements.

The insurance coverages listed above must meet the following additional requirements:

- (1) Any deductible or self insured retention amount or similar obligation under the policies shall be the sole responsibility of the Contractor. The amount of any deductible or self-retention is subject to approval by the State.
- (2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A" or better by A.M. Best Company, Inc , provided any excess policy follows form for coverage. Less than an "A" rating must be approved by the State. The policies shall be in form and terms approved by the State.
- (3) The State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement

shall not be limited by the insurance required in this contract.

- (4) The State of North Dakota and its agencies, officers, and employees (State) shall be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. The State shall have all the rights and coverages as Contractor under said policies. The additional Insured endorsement for the commercial general liability policy shall be written on a form equivalent to ISO 1985 CG 20 10-form, or such other form as approved by the State, and shall not limit or delete State's coverage in any way based upon State's acts or omissions.
- (5) The insurance required in this agreement, through a policy or endorsement, shall include:
 - a. a "Waiver of Subrogation" waiving any right to recovery the insurance company may have against the State;
 - b. a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior notice to the undersigned State representative;
 - c. a provision that any attorney who represents the State under this policy must first qualify as and be appointed by the North Dakota Attorney General as a Special Assistant Attorney General as required under N.D.C.C. § 54-12-08;
 - d. a provision that Contractor's insurance coverage shall be primary (i.e., pay first) as respects

any insurance, self-insurance or self-retention maintained by the State, and that any insurance, self-insurance or self-retention maintained by the State shall be in excess of the Contractor's insurance and shall not contribute with it;

- e. cross liability/severability of interest for all policies and endorsements
- (6) The legal defense provided to the State under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary.
- (7) The Contractor shall furnish a certificate of insurance and all endorsements to the undersigned State representative prior to commencement of this agreement.
- (8) Failure to provide insurance as required in this agreement is a material breach of contract entitling the State to terminate this agreement immediately.

ATTORNEY FEES

In the event a lawsuit is instituted by the State to obtain performance due of any kind under this contract, and the State is the prevailing party, Contractor shall, except when prohibited by N.D.C.C. § 28-26-04, pay the State's reasonable attorney fees and costs in connection with the lawsuit.

INDEPENDENT ENTITY

Contractor is an independent entity under this contract and is not a State employee for any purpose, including but not limited to the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. The Contractor retains

sole and absolute discretion in the manner and means of carrying out the Contractor's activities and responsibilities under this contract, except to the extent specified in the contract.

FISCAL RESPONSIBILITIES

RECORDS

All records, regardless of physical form, and the accounting practices and procedures of the Contractor relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. The Contractor shall maintain and retain all books, records, and other documents required by the State and to produce program narrative and statistical data at times prescribed by the State relevant to this agreement for four years after final payment. Records shall be retained beyond four years if audit findings have not been resolved.

NO CLAIM FOR ADDITIONAL WORK

No claim for additional services not specifically herein provided, done, or furnished by the Contractor will be allowed, nor shall the Contractor do any work or furnish any material not covered by the contract, unless such work is ordered in writing by the State.

TIME KEEPING PROCEDURES

The Contractor shall require employees and subcontractors, if applicable, whose positions are funded under this contract or included as match, to maintain adequate documentation for services provided. For positions that are funded from more than one source, an analysis of duties performed by program shall also be prepared.

MONITORING, EVALUATION AND AUDIT

The Contractor agrees to cooperate with any monitoring, evaluating and/or audit conducted by the State, or its designee who shall have full access to and the right to examine all books, records and other relevant documents.

The Contractor agrees to take immediate corrective action on deficiencies

disclosed through program monitoring of costs disallowed in the course of an audit, review, or monitoring.

PREPAYMENT

The State will not make any advance payments before performance by the Contractor under this contract.

TAXPAYER ID

Contractor's North Dakota tax ID number is: _____

Contractor's federal employer ID number is: 52-0901220

PROGRAM REQUIREMENTS

COMPLIANCE WITH LAWS

Contractor agrees to comply with all applicable laws, rules, regulations and policies, including but not limited to those relating to nondiscrimination, accessibility and civil rights. Contractor agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including but not limited to sales and use taxes and unemployment compensation and workers' compensation premiums. Contractor shall have and keep current at all times during the term of this contract all licenses and permits required by law.

EQUAL OPPORTUNITY

No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration of or in connection with this contract because of race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

NONDISCRIMINATION

This contract and any subcontract hereunder is subject to the Age

Discrimination Act of 1975, Section 504 of the Rehabilitation Act, Title VI of the Civil Rights of 1964 and the Americans with Disabilities Act of 1990.

WORK PRODUCT, EQUIPMENT AND MATERIALS

All work product, equipment or materials created or purchased under this contract belong to the State and must be delivered to the State at the State's request upon termination of this contract. Contractor agrees that all materials prepared under this contract are "works for hire" within the meaning of copyright laws of the United States and assigns to State all

rights and interests Contractor may have in the materials its prepares under this contract, including any right to derivative use of the material. Contractor shall execute all necessary documents to enable State to protect its rights under this section. Contractor shall include provisions appropriate to effectuate the purposes of this condition in all subcontracts entered into relating to this project.

EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by both parties.



SPECIFIC PROVISIONS

Purpose

Montana-Dakota Utilities Co has filed an application to increase its North Dakota natural gas utility service rates. To fully pursue and represent its case, staff requires assistance to analyze MDU's filing and to provide written and oral testimony. The work will include sufficient detail as is necessary to successfully testify under cross-examination.

All work under this contract must be completed prior to the commission's fiscal year ending June 30, 2005. More importantly, the work needs to be sufficiently complete so that the contractor can provide written testimony by a date to be determined and oral testimony at the technical hearing scheduled to begin August 31, 2004.

The specific purpose is to investigate, analyze and provide testimony on issues identified below and in accordance with the contractor's March 25, 2004 proposal in order to provide MDU an opportunity to earn a fair and reasonable return on its electric utility investment in North Dakota. The issues are:

1. Expenses, excluding compensation.
2. Capital expenditures.
3. The cost of capital, including capital structure, the cost of debt, and the cost of equity.
4. Cost allocation among customer classes.
5. Rate design

The scope of work includes:

- 1 Professional analysis and review of filing.
2. Prepare and conduct discovery.
3. Periodic progress reports of discovery, conclusions and recommendations to keep staff updated.
4. Prepare written testimony and provide an advanced copy to staff for review prior to submitting as a formal document.
5. Prepare written and oral testimony in rebuttal to testimony of other parties in the proceeding.
6. Testify at the hearing.
7. Assist staff legal counsel in preparation of cross-examination of the witnesses of other parties to the proceedings.
- 8 After the hearing, assist staff legal counsel in preparation of findings of fact for a proposed commission decision.

Compensation

The Contractor will be compensated based on periodic submittal of progress reports. Final payment will be made upon satisfactory completion of the described project work, as determined by the commission.

In the event the case is settled or this agreement is otherwise terminated prior to completion of project work, then compensation will be awarded for work satisfactorily completed

No part of this contract may be assigned, sublet or subcontracted.



Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

April 21, 2004

Charles W King
Snively King Majoros O'Connor & Lee Inc
1220 L St NW Ste 410
Washington D C 20005

Dear Mr. King:

Enclosed is Contract No. PU-492-04 for consulting services in Case No. PU-04-97. Please sign both copies of the contract, keep one copy for your files and return one copy to me.

When submitting invoices for payment, **please send them directly to Mike Diller** and identify the case number for each invoiced amount.

If you have any questions, please call me at 701-328-4076

Sincerely,

A handwritten signature in cursive script that reads "Sharon Helbling".

Sharon Helbling
Public Utilities Division

Enclosures

APPROVED

DATE: 4-21-04
KMF

MOTION

April 21, 2004

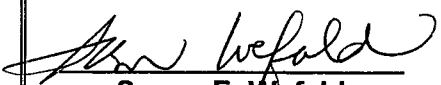
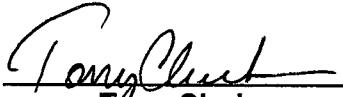
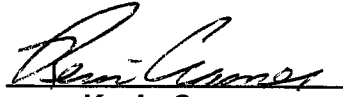
**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission execute a contract with Snavelly, King, Majoros,
O'Connor & Lee, Inc for consulting services in Montana-Dakota Utilities Co 's Natural
Gas Rate Increase Application, Case No. PU-04-97.

sdh

NORTH DAKOTA PUBLIC SERVICE COMMISSION
 ADMINISTRATION DIVISION
 PERSONAL SERVICE CONTRACT
 SFN 53824 (7/2003)

Administrator:	State of North Dakota Public Service Commission	600 E Boulevard Avenue Bismarck, ND 58505-0480 Phone (701) 328-2400
Date: April 21, 2004		
 Susan E. Wefald Commissioner	 Tony Clark President	 Kevin Cramer Commissioner

Contractor		
Snavelly King Majoros O'Connor & Lee, Inc.		
Name		
1220 L St NW Ste 410	Washington D C 20005	202-371-9156
Address	City/State/Zip	Phone
Charles W King		President
Typed Name		Title
Signature		Date

Agreement Information	
PSC Case No.:	PU-04-97
Contract No.	PU-492-04
Start Date:	Upon Signing
End Date:	June 30, 2005
Program Title:	MDU Natural Gas Rate Application
Type of Contract:	() Fixed Price (X) Cost Reimb () Unit Price () Other

Budget Information	
Cost Center.	7700
Services	\$13,360
Optional on-site review.	
Expenses.	
Not to exceed.	\$13,360
Type of Contractor:	() Individual (X) Corporation () Partnership () Public Agency () Nonprofit Organization () Other – Joint Venture

Pages 8
 Contract #PU-492-04 issued to Snavelly King Majoros O'Connor & Lee, Inc by Public Service Commission
 04/21/2004 CC Comm Legal PUD (3) Mike ALJ

This contract is entered into between the State of North Dakota acting through the Public Service Commission (State) and Snavelly King Majoros O'Connor & Lee, Inc (Contractor) This contract consists of this sheet, general provisions and specific provisions

GENERAL PROVISIONS

CONTRACTUAL FEATURES

LEGAL AUTHORITY

The Contractor assures that it possesses legal authority to participate in this contract

ASSIGNMENT/SUBCONTRACTING

The Contractor may not assign this contract or any part thereof, or assign any of the monies to be paid hereunder, nor shall any part of the work done or material furnished under this contract be sublet without the State's express written consent

The Contractor may not enter into subcontracts for any of the work contemplated under this contract unless included in the specific provisions of this contract Any such subcontract must acknowledge the bonding nature of the contract and must incorporate this contract, including any attachments Contractor is solely responsible for the performance of any subcontractor Contractor shall not have the authority to contract for or incur obligations on behalf of the State

TERMINATION

The State, by written notice of default listing causes and reasons, may terminate this contract in whole or in part if (1) the Contractor fails to provide services required by this contract within the time specified or any extension agreed to by the State; or (2) the Contractor fails to perform any of the other conditions or provisions of this contract, or so fails to pursue the work so as to endanger performance of this contract in accordance with its terms The State will be liable only for payment provisions of this contract for services satisfactorily rendered prior to the effective date of termination

Significant deviation from performance standards in this contract may result in reduced or terminated financial participation of the Contractor, subsequent to negotiations with the State

This contract may be terminated in whole or in part without cause by mutual consent of the Contractor and the State

The parties shall agree upon the termination conditions including effective date and in the case of partial terminations, that portion to be terminated

The State may terminate this contract effective upon delivery of written notice to the Contractor or on any later date stated in the notice in the event (1) funding from federal, state or other sources is not obtained and continued at levels sufficient to allow for purchases of the services or supplies in the indicated quantities or term; (2) federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract; or (3) any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed

Any contract that extends beyond the current biennium may be terminated by the State if sufficient funds are unavailable, if the law regarding the contract is changed, or without cause at any time

The rights and remedies of the State provided in the termination provisions related to defaults by the Contractor are not exclusive and are in addition to any other rights and remedies provided by law or under this contract

FORCE MAJEURE

Contractor will not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond the Contractor's reasonable control and the Contractor gives notice to the State immediately upon occurrence of the event causing the delay or default or which is reasonably expected to cause a delay or default

DISPUTES

The Contractor agrees to attempt to resolve disputes arising from this contract by informal administrative process and negotiations in lieu of litigation Continued

performance by the Contractor during disputes is assured

The State does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolutions. The parties have the right to enforce their rights and remedies in judicial proceedings. The State does not waive any right to a jury trial.

MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms shall not be affected, and if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

NOTICE

All notices or other communications required under this contract shall be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses.

State

Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E Boulevard Ave. Dept 408
Bismarck, ND 58505-0480

Contractor

Charles W King, President
Snively King Majoros O'Connor & Lee, Inc
1220 L St NW Ste 410
Washington, D C 20005

APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be brought in the District Court of Burleigh County, North Dakota.

SPOILIATION – NOTICE OF POTENTIAL CLAIMS

Contractor shall promptly notify State of all potential claims that arise or result from this contract. Contractor shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to the State the opportunity to review and inspect the evidence, including the scene of an accident.

INDEMNITY

Contractor shall defend, indemnify, and hold harmless the State of North Dakota, its agencies, officers and employees, from any and all claims of any nature including all costs, expenses and attorneys' fees, that may in any manner result from or arise out of this agreement, except for claims resulting from or arising out of the State's sole negligence. The legal defense provided by Contractor to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. Contractor also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

CONFIDENTIALITY

Contractor agrees not to use or disclose any information it receives from the State under this contract that the State has previously identified as confidential or exempt from mandatory public disclosure.

except as necessary to carry out the purposes of this contract or as authorized in advance by the State. The State agrees not to disclose any information it receives from Contractor that the Contractor has previously identified as confidential and which the State determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N D C C §44-04-18. The duty of the State and Contractor to maintain confidentiality of information under this section continues beyond the term of this contract, or any extensions or renewals of it.

Contractor understands that, except for disclosures prohibited in N D C C Chapter 47-25 1, the State must disclose to the public upon request any records it receives from Contractor. Contractor further understands that any records that are obtained or generated by the Contractor under this contract, except for records that are confidential under N.D.C.C. Chapter 47-25 1, may, under certain circumstances, be open to the public upon request under North Dakota open records law. Contractor agrees to contact the State immediately upon receiving a request for information under the open records law and to comply with the State's instructions on how to respond to the request.

INSURANCE

a. Required Coverages.

Contractor shall secure and keep in force during the term of this contract, from an insurance company, government self-insurance pool or government self-retention fund authorized to do business in North Dakota, the following insurance coverages covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from this contract:

- (1) Commercial general liability, including products or completed operations coverage (if applicable), with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (2) Professional errors and omissions, including a three year "tail coverage

endorsement," with minimum liability limits of \$1,000,000 per occurrence and in the aggregate

- (3) Automobile liability, with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (4) Workers compensation coverage meeting all North Dakota statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract
- (5) Employer's liability or "stop gap" insurance of not less than \$1,000,000 as an endorsement on the workers compensation or commercial general liability insurance if Contractor is domiciled outside the State of North Dakota

b. General Insurance Requirements.

The insurance coverages listed above must meet the following additional requirements:

- (1) Any deductible or self insured retention amount or similar obligation under the policies shall be the sole responsibility of the Contractor. The amount of any deductible or self-retention is subject to approval by the State.
- (2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A" or better by A M Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A" rating must be approved by the State. The policies shall be in form and terms approved by the State.
- (3) The State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement

- shall not be limited by the insurance required in this contract
- (4) The State of North Dakota and its agencies, officers, and employees (State) shall be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. The State shall have all the rights and coverages as Contractor under said policies. The additional Insured endorsement for the commercial general liability policy shall be written on a form equivalent to ISO 1985 CG 20 10-form, or such other form as approved by the State, and shall not limit or delete State's coverage in any way based upon State's acts or omissions
- (5) The insurance required in this agreement, through a policy or endorsement, shall include
- a a "Waiver of Subrogation" waiving any right to recover the insurance company may have against the State,
 - b a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior notice to the undersigned State representative,
 - c a provision that any attorney who represents the State under this policy must first qualify as and be appointed by the North Dakota Attorney General as a Special Assistant Attorney General as required under N D C C § 54-12-08,
 - d a provision that Contractor's insurance coverage shall be primary (i.e., pay first) as respects

any insurance, self-insurance or self-retention maintained by the State, and that any insurance, self-insurance or self-retention maintained by the State shall be in excess of the Contractor's insurance and shall not contribute with it;

- e cross liability/severability of interest for all policies and endorsements
- (6) The legal defense provided to the State under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary.
- (7) The Contractor shall furnish a certificate of insurance and all endorsements to the undersigned State representative prior to commencement of this agreement
- (8) Failure to provide insurance as required in this agreement is a material breach of contract entitling the State to terminate this agreement immediately

ATTORNEY FEES

In the event a lawsuit is instituted by the State to obtain performance due of any kind under this contract, and the State is the prevailing party, Contractor shall, except when prohibited by N.D.C.C. § 28-26-04, pay the State's reasonable attorney fees and costs in connection with the lawsuit

INDEPENDENT ENTITY

Contractor is an independent entity under this contract and is not a State employee for any purpose, including but not limited to the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. The Contractor retains

sole and absolute discretion in the manner and means of carrying out the Contractor's activities and responsibilities under this contract, except to the extent specified in the contract

FISCAL RESPONSIBILITIES

RECORDS

All records, regardless of physical form, and the accounting practices and procedures of the Contractor relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. The Contractor shall maintain and retain all books, records, and other documents required by the State and to produce program narrative and statistical data at times prescribed by the State relevant to this agreement for four years after final payment. Records shall be retained beyond four years if audit findings have not been resolved.

NO CLAIM FOR ADDITIONAL WORK

No claim for additional services not specifically herein provided, done, or furnished by the Contractor will be allowed, nor shall the Contractor do any work or furnish any material not covered by the contract, unless such work is ordered in writing by the State.

TIME KEEPING PROCEDURES

The Contractor shall require employees and subcontractors, if applicable, whose positions are funded under this contract or included as match, to maintain adequate documentation for services provided. For positions that are funded from more than one source, an analysis of duties performed by program shall also be prepared.

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The Contractor agrees to cooperate with any monitoring, evaluating and/or audit conducted by the State, or its designee who shall have full access to and the right to examine all books, records and other relevant documents.

The Contractor agrees to take immediate corrective action on deficiencies

disclosed through program monitoring of costs disallowed in the course of an audit, review, or monitoring.

PREPAYMENT

The State will not make any advance payments before performance by the Contractor under this contract.

TAXPAYER ID

Contractor's North Dakota tax ID number is _____

Contractor's federal employer ID number is: 52-0901220

PROGRAM REQUIREMENTS

COMPLIANCE WITH LAWS

Contractor agrees to comply with all applicable laws, rules, regulations and policies, including but not limited to those relating to nondiscrimination, accessibility and civil rights. Contractor agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including but not limited to sales and use taxes and unemployment compensation and workers' compensation premiums. Contractor shall have and keep current at all times during the term of this contract all licenses and permits required by law.

EQUAL OPPORTUNITY

No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration of or in connection with this contract because of race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

NONDISCRIMINATION

This contract and any subcontract hereunder is subject to the Age

Discrimination Act of 1975, Section 504 of the Rehabilitation Act, Title VI of the Civil Rights of 1964 and the Americans with Disabilities Act of 1990

WORK PRODUCT, EQUIPMENT AND MATERIALS

All work product, equipment or materials created or purchased under this contract belong to the State and must be delivered to the State at the State's request upon termination of this contract Contractor agrees that all materials prepared under this contract are "works for hire" within the meaning of copyright laws of the United States and assigns to State all

rights and interests Contractor may have in the materials its prepares under this contract, including any right to derivative use of the material Contractor shall execute all necessary documents to enable State to protect its rights under this section Contractor shall include provisions appropriate to effectuate the purposes of this condition in all subcontracts entered into relating to this project

EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by both parties.

SPECIFIC PROVISIONS

Purpose

Montana-Dakota Utilities Co has filed an application to increase its North Dakota natural gas utility service rates. To fully pursue and represent its case, staff requires assistance to analyze MDU's filing and to provide written and oral testimony. The work will include sufficient detail as is necessary to successfully testify under cross-examination.

All work under this contract must be completed prior to the commission's fiscal year ending June 30, 2005. More importantly, the work needs to be sufficiently complete so that the contractor can provide written testimony by a date to be determined and oral testimony at the technical hearing scheduled to begin August 31, 2004.

The specific purpose of this contract is to investigate, analyze and provide testimony on the projected wages and fringe benefits as set forth in MDU's application.

The scope of work includes:

1. Professional analysis and review of filing
2. Prepare and conduct discovery.
3. Periodic progress reports of discovery, conclusions and recommendations to keep staff updated.
4. Prepare written testimony and provide an advanced copy to staff for review prior to submitting as a formal document.
5. Prepare written and oral testimony in rebuttal to testimony of other parties in the proceeding
6. Testify at the hearing.
7. Assist staff legal counsel in preparation of cross-examination of the witnesses of other parties to the proceedings
8. After the hearing, assist staff legal counsel in preparation of findings of fact for a proposed commission decision

Compensation

The Contractor will be compensated based on periodic submittal of progress reports. Final payment will be made upon satisfactory completion of the described project work, as determined by the commission.

In the event the case is settled or this agreement is otherwise terminated prior to completion of project work, then compensation will be awarded for work satisfactorily completed.

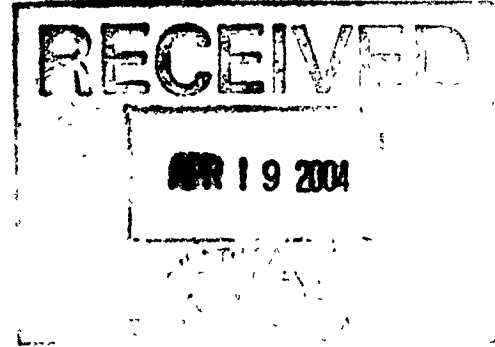
No part of this contract may be assigned, sublet or subcontracted.

PRINCIPAL OFFICES
2252 KILLEARN CENTER BLVD
TALLAHASSEE, FLORIDA 32309
850-893-8600
FAX 850-668-2731

ECONOMIC RESEARCH
AND ANALYSIS

**Ben Johnson®
Associates, Inc**

April 12, 2004



Illona A. Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismark, North Dakota 58505-0480

Re: Request for Proposal, Case No. PU-04-97

Dear Ms. Jeffcoat-Sacco:

Although Ben Johnson Associates appreciates the opportunity to bid in regard to the above referenced project, we are declining to submit a proposal in this matter.

However, we certainly wish to remain on your list of potential consultants, in the hope of being able to respond more positively to a future invitation.

Sincerely,

A handwritten signature in black ink, appearing to read "John Nesmith". The signature is fluid and cursive.

John Nesmith
Senior Research Consultant

JN:ekb

6070 HILL ROAD
BOISE IDAHO 83703
208-342-1700
FAX 208-384-1511

VISIT OUR WEBSITES
benjohnsonassociates.com
utilityregulation.com

ELECTRONIC MAIL
staff@benjohnsonassociates.com

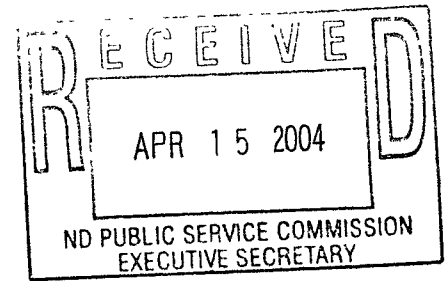
41 **PU-04-97**

Pages 1

Letter declining to submit a proposal

by Ben Johnson Associates Inc.

04/19/2004 CC Comm Legal PUD (3) Mike ALJ



Memo

To: Commissioners, Bill & PUD Staff
From: Mike Diller
Date: April 15, 2004
Re: Bids for Review of MDU's Compensation (Case No. PU-04-97)

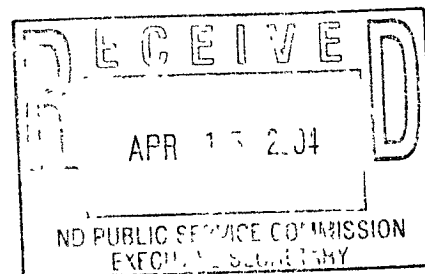
Staff received five proposals ranging from a low of \$13,360 to a high of \$180,700. Because of the emphasis put on cost, Snavelly King's bid of \$13,360 wins by default if the commission adheres to the point system used in the past. The firms and proposed cost are as follows:

Snavelly King Majoros O'Connor & Lee, Inc.	\$ 13,360
Larkin & Associates, PLLC	\$ 24,990
Free State Synergies	\$ 49,920
Business Research Bureau	\$ 50,000
Barrington-Wellesley Group, Inc.	\$180,700

I have not reviewed the plans in detail but will be ready to discuss them tomorrow. I think the discussion or thought should include how much is too much to spend and what is it we want to accomplish. If for instance, we decide \$50k is too much to spend then we have two remaining proposals to pick from. The commission knows both of the remaining entities quite well and in my opinion the price differential would easily decide the choice in favor of King.

I'm sorry I don't have more time to devote to this today so if other staff members would like to write more this afternoon—it won't bother me. Otherwise, I will be prepared tomorrow to discuss each proposal as much as you wish.

Memo



To: Commissioners, Bill & PUD Staff
From: Mike Diller
Date: April 15, 2004
Re: MDU's Interim Rate Increase Request (PU-04-97)

Following are the applicable laws governing the interim gas rate increase requested by MDU:

49-05-06. Hearing by commission on proposed change of rates.

2. Notwithstanding that the commission may suspend a filing and order a hearing, a public utility may file for interim rate relief as part of its general rate increase application and filing. If interim rates are requested, the commission shall order that the interim rate schedule take effect no later than sixty days after the initial filing date and without a public hearing. The interim rate schedule must be calculated using the proposed test year cost of capital, rate base, and expenses, except that the schedule must include:
 - a. A rate of return on common equity for the public utility equal to that authorized by the commission in the public utility's most recent rate proceeding;
 - b. Rate base or expense items the same in nature and kind as those allowed by a currently effective commission order in the public utility's most recent rate proceeding; and
 - c. No change in existing rate design.
3. In ordering an interim rate schedule, the commission may require a bond to secure any projected refund required by subsection 4. The terms of the bond, including the amount and surety, are subject to the commission's approval.
4. As ordered by the commission, the utility shall promptly refund to persons entitled thereto all interim rate amounts collected by the public utility in excess of the final rates approved by the commission plus reasonable interest at a rate to be determined by the commission.

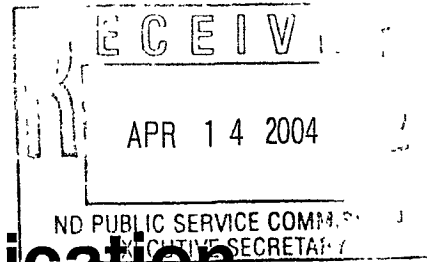
According to staff's review of MDU's application for interim rate relief, MDU used a 2004 projected test year to calculate its interim rate relief. The rate of return on common equity used is 11.329% which coincides with the commission's last order in Case No. PU-399-02-183. In the last order, the commission disallowed SISP costs and such are also excluded from MDU's interim rate calculation. The company also adjusts its projected rate case expense to reflect a 4 year amortization rather than its proposed 3 year amortization to conform to the commission's last decision.

However, the commission also required the inclusion of short term debt in the company's capitalization structure in the last rate case. MDU continues in this case to oppose that decision and has not adjusted its capitalization to include short term debt in its interim rate calculation. This is likely not material to the overall requested increase but a difference nonetheless.

The law also specifically states that the interim rate change may not change existing rate design. Staff contends that this requirement requires any interim rate change to be applied equally to all customer classes. MDU argues that its proposal is in accordance with the commission's decision in the last rate case to only increase rates to residential and firm commercial customers. Staff does not argue with MDU's contention but that is not the point. Again, the difference is not material but MDU should be familiar with the law. The rate increase needs to be applied evenly to all customers including the Air Force and its interruptible customers.

Last, even though the commission may require a bond to ensure a refund in the event that the commission does not find in MDU's favor, staff believes the financial security of MDU is such that one is not required.

In summary, staff believes that MDU must revise its filing to comport with newly enacted legislation by including its short term debt in its capitalization structure and that the rate increase must be proportionately distributed to all customer classes in order to maintain existing rate design.



Affidavit of Publication

Colleen Park, being duly sworn, state as follows:

1. I am the designated agent, under the provisions and for the purposes of, Section 31-04-06, NDCC, for the newspapers listed on the attached exhibits.
2. The newspapers listed on the exhibits published the advertisement of:
PSC / udu Rates, 1 time(s)
as required by law or ordinance.
3. All of the listed newspapers are legal newspapers in the State of North Dakota and, under the provisions of Section 46-05-01, NDCC, are qualified to publish any public notice or any matter required by law or ordinance to be printed or published in a newspaper in North Dakota.

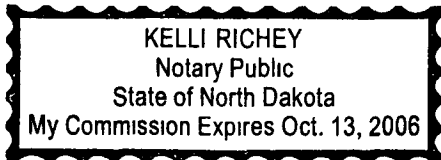
Signed: Colleen Park

State of ND

County of Burleigh

Subscribed and sworn to before me this 12th day of April 2004.

Kelli Richey

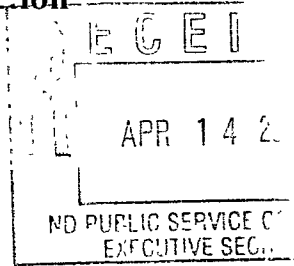




North Dakota Newspaper Association

1435 Interstate Loop
 Bismarck, ND 58503-0567
 Ph (701) 223-6397 • Fax (701) 223-8185

INVOICE



Order **18867-04041PP1** Invoice # **35495**

April 13, 2004

PUBLIC SERVICE COMMISSION
600 E. BOULEVARD AVE.
STATE CAPITOL
BISMARCK, ND 58505

Voice 701-328-4076

Advertiser **Public Service Commission**

P O #

Amount Due **\$576.06**

Amount Paid

Please detach and return this portion with your payment

Public Service Commission Invoice # 18867-04041PP1-35495

Ad Size	Rate Type	Rate	Total	Discount (%)	Caption	Page	Run Date
DAILY							
Bismarck Tribune (Bismarck ND)							
127 00	SPR2	0 64	81 28	0 00	MDU Rate Increase		04/06/04
Devils Lake Daily Journal (Devils Lake ND)							
137 00	SPR2	0 63	86 31	0 00	MDU Rate Increase		04/07/04
Dickinson Press (Dickinson ND)							
147 00	SPR2	0 57	83 79	0 00	MDU Rate Increase		04/07/04
Jamestown Sun (Jamestown ND)							
145 00	SPR2	0 54	78 30	0 00	MDU Rate Increase		04/06/04
Minot Daily News (Minot ND)							
149 00	SPR2	0 54	80 46	0 00	MDU Rate Increase		04/06/04
Valley City Times-Record (Valley City ND)							
140 00	SPR2	0 61	85 40	0 00	MDU Rate Increase		04/06/04
Williston Herald (Williston ND)							
132 00	SPR2	0 61	80 52	0 00	MDU Rate Increase		04/06/04

Gross Advertising	576 06	Total Misc	0 00	Amount Paid	0 00
Agency Discount		Tax	0 00	Adjustments	0 00
Other Discount	0 00	Total Billed	576 06	Payment Date	
Service Charge	0 00	Unbilled	0 00	Balance Due	576 06

State of North Dakota
Public Service Commission

Case No: PU-04-97

Notice Of Hearing, Notice of Public
Input Sessions and Notice of Intervention

Dead Line

March 31, 2004

Bismarck	4-6
Devils Lake	4-7
Dickinson	4-7
Jamestown	4-6
Minot	4-6
Valley City	4-6

*Responses to Request
for Proposals filed
in separate folders*

- 31 PU-04-97** Pages 78
Response to Request for Proposal
by Larkin & Associates
04/03/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 32 PU-04-97** Pages 53
Response to Request for Proposal
by Snavely King Majoros O'Connor & Lee Inc
04/08/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 33 PU-04-97** Pages 1
Cover letter re Response to Request for
Proposal
by Snavely King Majoros O'Connor & Lee Inc
04/08/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 34 PU-04-97** Pages 43
Response to Request for Proposal
by Business Research Bureau
04/12/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 35 PU-04-97** Pages 1
Cover letter re Response to Request for
Proposal
by Business Research Bureau
04/12/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 36 PU-04-97** Pages 11
Response to Request for Proposal
by Barrington-Wellesley Group Inc
04/12/2004 CC Comm Legal PUD (3) Mike ALJ
-
- 37 PU-04-97** Pages 49
Response to Request for Proposal
by Free State Synergies
04/12/2004 CC Comm Legal PUD (3) Mike ALJ



OFFICE OF ADMINISTRATIVE HEARINGS

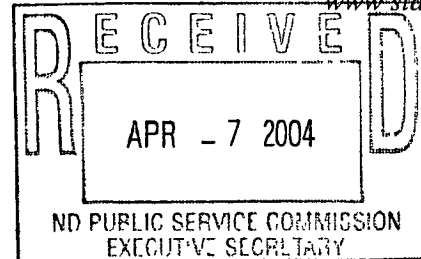
STATE OF NORTH DAKOTA
1707 North 9th Street
Bismarck, North Dakota 58501-1882

Allen C Hoberg
DIRECTOR

April 6, 2004

701-328-3260
Fax 701-328-3254
oah@state.nd.us
www.state.nd.us/oah

Mr. William W. Binek
Hearing Administrator
Public Service Commission
600 E. Boulevard Avenue - Dept. 408
Bismarck, ND 58505



Dear Mr. Binek:

Thank you for your April 2, 2004, request of the designation of an administrative law judge from the Office of Administrative Hearings to conduct a hearing in the matter of Montana-Dakota Utilities Co. (PU-04-97). I hereby designate myself to be assigned as an administrative law judge to conduct the hearing in regard to this matter. Because the administrative law judge will not be making recommended findings of fact and conclusions of law, or issuing a recommended order, the person or persons who will actually be making the final administrative decision in regard to this matter (i.e., commission) must actually be in attendance at the hearing.

Please send all additional relevant documents in regard to this matter (correspondence, and other pleadings and documents) to the designated administrative law judge in care of the Office of Administrative Hearings, 1707 North 9th Street, Bismarck, North Dakota 58501-1882. I understand the hearing has been scheduled for August 31, 2004, beginning at 9:00 a.m., in the Commission's Hearing Room, 12th Floor, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota.

Your request has been assigned OAH File No. 20040118. Please include this number on all future documents and correspondence filed for this matter with the Office of Administrative Hearings.

Sincerely,

Allen C. Hoberg
Director

ACH:ps

cc: Mr. Daniel S. Kuntz



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Ilona A. Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

April 5, 2004

Mr. Allen C. Hoberg
Office of Administrative Hearings
1707 North 9th Street, Lower Level
Bismarck, ND 58501

Re: Case No. PU-04-97
Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

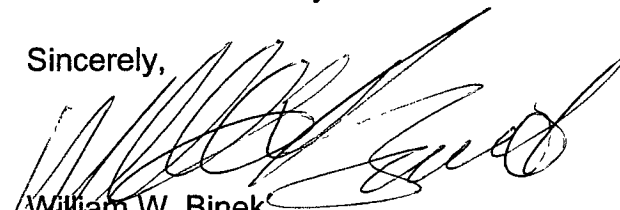
Dear Mr. Hoberg:

Enclosed is a request for an administrative law judge in the above case. The Commission has scheduled a hearing for August 31, 2004, beginning at 9 a.m. (CDT) in the Commission's Hearing Room, 12th Floor, State Capitol, Bismarck. The administrative law judge will serve as a procedural law judge, a court reporter will be present, and the hearing will be tape recorded. A copy of the case is enclosed.

Please provide the Commission with a copy of any filings issued by your office in this matter.

If you have any questions, please contact me. Thank you.

Sincerely,



William W. Binek
Hearing Administrator

/sls
Enclosure

c: Don Ball, MDU
Douglas W. Schulz
Daniel S. Kuntz



REQUEST FOR ADMINISTRATIVE LAW JUDGE--APPEAL, APPLICATION, OR PETITION
 NORTH DAKOTA OFFICE OF ADMINISTRATIVE HEARINGS
 SFN 17819 (Rev 03-2001)

Name of Agency, Board, or Commission
 Public Service Commission

The above named agency, board, or commission requests designation of an administrative law judge from the Office of Administrative Hearings for the Montana-Dakota Utilities Co , Natural Gas Rate Increase Application, Case No PU-04-97 Hearing is set for August 31, 2004, beginning at 9 a. m. in the Commission Hearing Room, State Capitol, Bismarck, ND

(e.g , application of [name], appeal of [name], petition of [name]) Authority for the administrative action is found in Title 49 _____ (North Dakota Century Code and/or North Dakota Administrative Code)

Please attach related documents and correspondence

The administrative action is more fully described as follows

It requests designation of an administrative law judge (please check one):

- To conduct the hearing and issue **recommended** findings of fact, conclusions of law, and order.
- To serve as a **procedural** administrative law judge only (no recommended decision). The agency head **will** be present at the hearing as required by NDCC 54-57-04(6).
- To conduct the hearing, issue findings of fact, conclusions of law, and a **final** order.

PLEASE MAKE A REQUEST FOR AN ADMINISTRATIVE LAW JUDGE AT LEAST ONE MONTH BEFORE THE HEARING.

Please list parties, including the agency if it is a Party, and Representation [attorney (or other)] if known, or Agency Contact. (Attach separate list if necessary)

AGENCY Public Service Commission	Address 600 E Blvd Ave , Dept 408, Bismarck, ND 58505	Telephone Number 328-2400
Representation William W Binek, Chief Counsel	Address Same As Above	Telephone Number 328-4088
PARTY Montana-Dakota Utilities, Co	Address 400 N 4th Street, Bismarck, ND 58501	Telephone Number 222-7900
Representation Daniel S Kuntz, Zuger Kirmis & Smith	Address P O Box 1695, Bismarck, ND 58502-1695	Telephone Number 223-2711
PARTY MDU	Address Same as above MDU address	Telephone Number 222-7900
Representation Douglas W. Schulz, Senior Attorney	Address P. O Box 5650, Bismarck, ND 58506-5650	Telephone Number 222-7900

Additional Comments
 Hearing will be tape recorded and a court reporter will be present

(For agencies required to use OAH, notice of hearing will be issued by the administrative law judge, unless a procedural administrative law judge is requested Other requesting agencies and agencies requesting a procedural administrative law judge should first contact OAH about scheduling a hearing If notice has already been issued, attach a copy of the notice)

Typed or Printed Name and Title of Requesting Person William W Binek, Hearing Administrator	Date 4-2-04
Signature of Requesting Person 	Telephone Number 328-4088

X

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED AND ORDINARY MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **1st day of April, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline

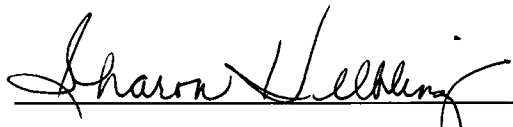
The envelope was addressed as follows:


Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501
Cert. No. 7001 2410 0003 4911 4899

Each address shown is the respective addressee's last reasonably ascertainable post office address

Subscribed and sworn to before me
this **1st day of April, 2004**

SEAL





Notary Public

SANDRA L. SCOTT
Notary Public, STATE OF NORTH DAKOTA
My Commission Expires JUNE 11, 2004

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY ORDINARY MAIL OR E-MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **1st day of April, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, envelopes by first class mail, fully prepaid, securely sealed, each containing a photocopy of:


Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline

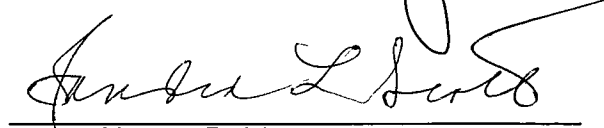
The envelopes were addressed as follows:

See Attached List

Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **1st day of April, 2004**.





Notary Public

SEAL

SANDRA L. SCOTT
Notary Public, STATE OF NORTH DAKOTA
My Commission Expires JUNE 11, 2004

akemp@tminc.com
Ann-Marie Kemp

ccano@mh.com
Craig Cano
Gas Utility Report
1200 G St NW Ste 1100
Washington DC 20005

Mark.Hanson@grandforks.af.mil
Mark Hanson
Grand Forks Air Force Base
319 ARW/JA
460 Steen Blvd Ste 201
Grand Forks ND 58205

jason_gustafson@bobcat.com
Jason Gustafson
Melroe Company
P O Box 128
Gwinner ND 58040-0128

craig_scott@bobcat.com
Craig Scott
Melroe Company
P O Box 128
Gwinner ND 58040-0128

balld@mdu.mdures.com
Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

collinsk@mdu.mdures.com
Karen Collins
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

wpp@pearce-durick.com
William Pearce
Pearce & Durick Attorneys
PO Box 400
Bismarck ND 58502-0400

mdickerson@state.nd.us
Marcy Dickerson
State Tax Department
State Capitol
Bismarck ND 58505

dave.sederquist@xcelenergy.com
Dave Sederquist
Xcel Energy
P O Box 2747
Fargo ND 58108-2747

James Roache
P O Box 564
Crosby ND 58730

F James Moriarty
2333 Plum Grove Dr
O'Fallon MO 63366

Steven Tomac
2498 59th St
St Anthony ND 58566-9640

Will Kaul
Cooperative Power Association
P O Box 800
Elk River MN 55330-0800

Laurie Baranko
Dakota Resource Council
PO Box 1095
Dickinson ND 58602-1095

Frank Morehouse
Great Plains Natural Gas Co
PO Box 176
Fergus Falls MN 56548-0176

Jay Casler
INDEPTH DATA INC
44 S Bdwy 18th Fl
White Plains NY 10601-4425

Karyn Grass
IPAMS
6620 Denver Club Bldg 518 17th St
Denver CO 80202-4167

KBMR AM-KQDY FM
3500 E Rosser Ave
Bismarck ND 58501

KBMW-AM
PO Box 1115
Wahpeton ND 58074-1115

KDAK AM
Box 50
Carrington ND 58421-0050

Rod Kleinjan
KDIX AM Radio
119 2nd Ave W
Dickinson ND 58601-5115

KDLR AM-FM
Box 190
Devils Lake ND 58301-0190

KEYZ-AM
PO Box 2048
Williston ND 58802-2048

KHRT AM
PO Box 1210
Minot ND 58702-1210

KMOT TV
Box 1120
Minot ND 58702-1120

KNDK-AM
HCR 5 Box 9
Langdon ND 58249

Terry Hildestad
Knife River Coal Mining Company
1915 N Kaveney Dr
Bismarck ND 58501

KOVC-AM
PO Box 994
Valley City ND 58072-0994

KSJB AM and KSJZ FM Radio
PO Box 5180
Jamestown ND 58402-5180

KTGO-AM
Box 457
Tioga ND 58852-0457

News Director
KXMA-TV
Drawer B
Dickinson ND 58602

KXMC TV
Box 1686
Minot ND 58701-1686

KXPO AM & FM Radio
856 W 12 St
Grafton ND 58237

Ron Tipton
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dennis Lavallee
Nat'l Assoc Plumbing-Htng-Cooling
PO Box 6808
Falls Church VA 22046-6808

Harlan Fuglesten
ND Association of RECs
PO Box 727
Mandan ND 58554-0727

Public Utilities Reports Inc
Law Dept
8229 Boone Blvd Ste 401
Vienna VA 22182

KUMV-TV
PO Box 1287
Williston ND 58802-1287

KXMB TV
Box 1617
Bismarck ND 58502-1617

KXMD-TV
PO Box 790
Williston ND 58802-0790

Bruce Imsdahl
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mike Foley
NARUC
1101 Vermont Avenue NW Ste 200
Washington DC 20005

Scott Speaker
Natural Gas Week
1401 New York Ave NW Ste 500
Washington DC 20005-2150

Everett Morris
NJ Public Service Electric & Gas
80 Park Pl
Newark NJ 07101

John Kapsner
The Vogel Law Firm
P O Box 2097
Bismarck ND 58502-2097

Helbling, Sharon D.

From: Helbling, Sharon D
Sent: Thursday, April 01, 2004 7 58 AM
To: ndna (ndna)
Subject: MDU Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline, Case No PU-04-97

Colleen Park
North Dakota Newspaper Association

Colleen,

Would you have the attached Notice published as a legal publication and run it as a "News Item Only" article in the following newspapers:

Bismarck Tribune
Minot Daily News
Dickinson Press
Williston Herald
Devils Lake Daily Journal
Valley City Times-Record
Jamestown Sun

Please send the bill to the Public Service Commission along with a tear sheet for billing purposes. If you have any questions, please let me know.

Thank you

Sharon Helbling
Public Utilities Division
328-4076



**3-31-04
of Hearing**

27 PU-04-97 Pages 1

Notice emailed to NDNA requesting
publication
by Public Service Commission

04/01/2004 CC Comm Legal Ilona Pat Jerry Mike

APPROVED

MOTION

DATE: 3-31-04
KMF

March 31, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission issue a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase Application, Case No. PU-04-97.

sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

**NOTICE OF HEARING, NOTICE OF PUBLIC INPUT SESSIONS,
AND NOTICE OF INTERVENTION DEADLINE**

March 31, 2004

On March 3, 2004, Montana Dakota Utilities Co. (MDU) filed an application to increase its rates for natural gas service by an amount sufficient to provide increased total annual revenue of \$3,334,226. MDU proposes to increase distribution delivery charges for residential service by 3.5% and firm general service by 2.3%. MDU proposes no increase in rates for service to interruptible customers or the Minot air force base. MDU estimates the proposed increase for a residential customer would average about \$31.45 per year. MDU's proposed rate changes would not affect the cost of purchased gas, which is separately recovered through the purchased gas adjustment billing provision.

MDU further proposes annual billing adjustments for residential and firm general service customers that would decrease/increase the distribution delivery charge per dekatherm to correct for the over/under collection of revenue due to weather fluctuations during the previous heating season.

A **public hearing** on this matter will be held beginning **August 31, 2004 at 9 a.m. CDT (8 a.m. MDT)** in the Commission hearing room, State Capitol, 12th Floor, Bismarck, North Dakota 58505. You can listen to a broadcast of the hearing on the Commission's website at <http://www.psc.state.nd.us/psc/media/comm-live.html>.

Issues to be considered in this matter include:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?

5. Are MDU's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?
6. Other relevant information or proposals concerning the proceeding.

Anyone wishing to become a party to this proceeding must file a **Petition to Intervene by May 24, 2004.**

A Public Input Session will be held via interactive television on **May 10, 2004 at 7:30 p.m. CDT (6:30 p.m. MDT)** at locations set forth below. Members of the public are invited to appear and participate in the informal discussion. The session is not considered part of the technical hearing and the discussion at the session will not become part of the evidence reviewed by the Commission in making its decision. The discussion will, however, aid the Commission and its staff in identifying areas of concern to the members of the public and help customers better understand MDU's request.

Public Input Session Locations

Bismarck State College Vocational Technical Center Room 228 1200 College Dr Bismarck ND 58501	Lake Region State College Administration Building Room 171 1801 College Dr North Devils Lake ND 58301
Dickinson State University North Campus Room 104 1679 6th Ave W Dickinson, ND 58601	North Dakota State Hospital Learning Resource Center Room 320 2605 Circle Dr Jamestown ND 58401
Minot School District Administration Building 215 2nd Street SE Minot, ND 58701	Williston State College Crighton Building Room 109 1410 University Williston ND 58801


The public will also be able to hear the input session by connecting to the Commission's web site www.psc.state.nd.us and clicking on "Highlighted Issues" and then clicking on the "Broadcast of Public Input Sessions" link. The Commission will receive e-mail questions during the session at ndpsc@psc.state.nd.us.

For more information contact the Public Service Commission, State Capitol, Bismarck, North Dakota 58505, 701-328-2400 or Relay North Dakota 1-800-366-6888 TTY. If you require any auxiliary aids or services, such as readers, signers, or Braille materials, please notify, Illona Jeffcoat-Sacco, Executive Secretary, at least 24 hours prior.

PUBLIC SERVICE COMMISSION



Susan E. Wefald
Commissioner



Tony Clark
President



Kevin Cramer
Commissioner



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Jon H Mielke

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

April 1, 2004

Charles W King
Snavey King Majoros O'Connor & Lee Inc
1220 L St NW Ste 410
Washington D C 20005

Dear Mr. King:

Enclosed is Contract No. PU-480-04 for consulting services in Case No. PU-04-97.
Please sign both copies of the contract, keep one copy for your files and return one
copy to me.

When submitting invoices for payment, **please send them directly to Mike Diller** and
identify the case number for each invoiced amount.

If you have any questions, please call me at 701-328-4076.

Sincerely,

Sharon Helbling
Public Utilities Division

Enclosures

APPROVED

MOTION

DATE: 3-31-04
KMF

March 31, 2004

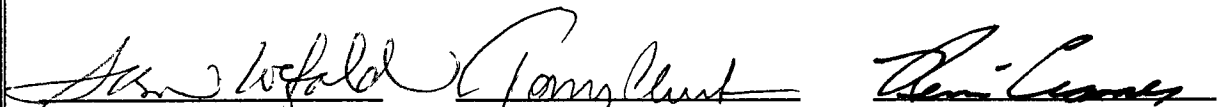
**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission execute a contract with Snavelly King Majoros O'Connor & Lee, Inc. for consulting services in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase Application, Case No. PU-04-97.

sdh

NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADMINISTRATION DIVISION
PERSONAL SERVICE CONTRACT
SFN 53824 (7/2003)

Administrator:	State of North Dakota Public Service Commission	600 E. Boulevard Avenue Bismarck, ND 58505-0480 Phone (701) 328-2400
Date:	March 31, 2004	
		
	Susan E. Wefald Commissioner	Tony Clark President
		Kevin Cramer Commissioner

Contractor		
Snavelly King Majoros O'Connor & Lee, Inc.		
Name		
1220 L St NW Ste 410	Washington D C 20005	202-371-9156
Address	City/State/Zip	Phone
Charles W. King		President
Typed Name		Title
Signature		Date

Agreement Information	
PSC Case No.:	PU-04-97
Contract No.:	PU-480-04
Start Date:	Upon Signing
End Date:	6/30/05
Program Title:	MDU Natural Gas Rate Application
Type of Contract:	<input type="checkbox"/> Fixed Price <input checked="" type="checkbox"/> Cost Reimb. <input type="checkbox"/> Unit Price <input type="checkbox"/> Other

Budget Information	
Cost Center:	7700
Services:	\$22,110
Optional on-site review:	0
Expenses:	\$ 1,504
Not to exceed:	\$23,614
Type of Contractor:	<input type="checkbox"/> Individual <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Public Agency <input type="checkbox"/> Nonprofit Organization <input type="checkbox"/> Other – Joint Venture

This contract is entered into between the State of North Dakota acting through the Public Service Commission (State) and Snavelly King Majoros O'Connor & Lee, Inc. (Contractor). This contract consists of this sheet, general provisions and specific provisions.

GENERAL PROVISIONS

CONTRACTUAL FEATURES

LEGAL AUTHORITY

The Contractor assures that it possesses legal authority to participate in this contract.

ASSIGNMENT/SUBCONTRACTING

The Contractor may not assign this contract or any part thereof, or assign any of the monies to be paid hereunder, nor shall any part of the work done or material furnished under this contract be sublet without the State's express written consent.

The Contractor may not enter into subcontracts for any of the work contemplated under this contract unless included in the specific provisions of this contract. Any such subcontract must acknowledge the bonding nature of the contract and must incorporate this contract, including any attachments. Contractor is solely responsible for the performance of any subcontractor. Contractor shall not have the authority to contract for or incur obligations on behalf of the State.

TERMINATION

The State, by written notice of default listing causes and reasons, may terminate this contract in whole or in part if (1) the Contractor fails to provide services required by this contract within the time specified or any extension agreed to by the State; or (2) the Contractor fails to perform any of the other conditions or provisions of this contract, or so fails to pursue the work so as to endanger performance of this contract in accordance with its terms. The State will be liable only for payment provisions of this contract for services satisfactorily rendered prior to the effective date of termination.

Significant deviation from performance standards in this contract may result in reduced or terminated financial participation of the Contractor, subsequent to negotiations with the State.

This contract may be terminated in whole or in part without cause by mutual consent of the Contractor and the State.

The parties shall agree upon the termination conditions including effective date and in the case of partial terminations, that portion to be terminated.

The State may terminate this contract effective upon delivery of written notice to the Contractor or on any later date stated in the notice in the event (1) funding from federal, state or other sources is not obtained and continued at levels sufficient to allow for purchases of the services or supplies in the indicated quantities or term; (2) federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract; or (3) any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.

Any contract that extends beyond the current biennium may be terminated by the State if sufficient funds are unavailable, if the law regarding the contract is changed, or without cause at any time.

The rights and remedies of the State provided in the termination provisions related to defaults by the Contractor are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

FORCE MAJEURE

Contractor will not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond the Contractor's reasonable control and the Contractor gives notice to the State immediately upon occurrence of the event causing the delay or default or which is reasonably expected to cause a delay or default.

DISPUTES

The Contractor agrees to attempt to resolve disputes arising from this contract by informal administrative process and negotiations in lieu of litigation. Continued

performance by the Contractor during disputes is assured.

The State does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolutions. The parties have the right to enforce their rights and remedies in judicial proceedings. The State does not waive any right to a jury trial.

MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms shall not be affected, and if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

NOTICE

All notices or other communications required under this contract shall be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

State

Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E. Boulevard Ave. Dept 408
Bismarck, ND 58505-0480

Contractor

Charles W King, President
Snively King Majoros O'Connor & Lee, Inc.
1220 L St NW Ste 410
Washington, D.C. 20005

APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be brought in the District Court of Burleigh County, North Dakota.

SPOILIATION – NOTICE OF POTENTIAL CLAIMS

Contractor shall promptly notify State of all potential claims that arise or result from this contract. Contractor shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to the State the opportunity to review and inspect the evidence, including the scene of an accident.

INDEMNITY

Contractor shall defend, indemnify, and hold harmless the State of North Dakota, its agencies, officers and employees, from any and all claims of any nature including all costs, expenses and attorneys' fees, that may in any manner result from or arise out of this agreement, except for claims resulting from or arising out of the State's sole negligence. The legal defense provided by Contractor to the State under this provision must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary. Contractor also agrees to defend, indemnify, and hold the State harmless for all costs, expenses and attorneys' fees incurred in establishing and litigating the indemnification coverage provided herein. This obligation shall continue after the termination of this agreement.

CONFIDENTIALITY

Contractor agrees not to use or disclose any information it receives from the State under this contract that the State has previously identified as confidential or exempt from mandatory public disclosure.

except as necessary to carry out the purposes of this contract or as authorized in advance by the State. The State agrees not to disclose any information it receives from Contractor that the Contractor has previously identified as confidential and which the State determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N.D.C.C. 44-04-18. The duty of the State and Contractor to maintain confidentiality of information under this section continues beyond the term of this contract, or any extensions or renewals of it.

Contractor understands that, except for disclosures prohibited in N.D.C.C. Chapter 47-25.1, the State must disclose to the public upon request any records it receives from Contractor. Contractor further understands that any records that are obtained or generated by the Contractor under this contract, except for records that are confidential under N.D.C.C. Chapter 47-25.1, may, under certain circumstances, be open to the public upon request under North Dakota open records law. Contractor agrees to contact the State immediately upon receiving a request for information under the open records law and to comply with the State's instructions on how to respond to the request.

INSURANCE

a. Required Coverages.

Contractor shall secure and keep in force during the term of this contract, from an insurance company, government self-insurance pool or government self-retention fund authorized to do business in North Dakota, the following insurance coverages covering the Contractor for any and all claims of any nature which may in any manner arise out of or result from this contract:

- (1) Commercial general liability, including products or completed operations coverage (if applicable), with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence.
- (2) Professional errors and omissions, including a three year "tail coverage

endorsement," with minimum liability limits of \$1,000,000 per occurrence and in the aggregate.

- (3) Automobile liability, with minimum liability limits of \$250,000 per person and \$1,000,000 per occurrence
- (4) Workers compensation coverage meeting all North Dakota statutory requirements. The policy shall provide coverage for all states of operation that apply to the performance of this contract.
- (5) Employer's liability or "stop gap" insurance of not less than \$1,000,000 as an endorsement on the workers compensation or commercial general liability insurance if Contractor is domiciled outside the State of North Dakota.

b. General Insurance Requirements.

The insurance coverages listed above must meet the following additional requirements:

- (1) Any deductible or self insured retention amount or similar obligation under the policies shall be the sole responsibility of the Contractor. The amount of any deductible or self-retention is subject to approval by the State.
- (2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A" rating must be approved by the State. The policies shall be in form and terms approved by the State.
- (3) The State will be defended, indemnified, and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement

- shall not be limited by the insurance required in this contract.
- (4) The State of North Dakota and its agencies, officers, and employees (State) shall be endorsed on the commercial general liability policy, including any excess policies (to the extent applicable), as additional insured. The State shall have all the rights and coverages as Contractor under said policies. The additional Insured endorsement for the commercial general liability policy shall be written on a form equivalent to ISO 1985 CG 20 10-form, or such other form as approved by the State, and shall not limit or delete State's coverage in any way based upon State's acts or omissions.
- (5) The insurance required in this agreement, through a policy or endorsement, shall include.
- a. a "Waiver of Subrogation" waiving any right to recovery the insurance company may have against the State;
 - b. a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior notice to the undersigned State representative;
 - c. a provision that any attorney who represents the State under this policy must first qualify as and be appointed by the North Dakota Attorney General as a Special Assistant Attorney General as required under N.D C.C. § 54-12-08;
 - d. a provision that Contractor's insurance coverage shall be primary (i.e , pay first) as respects

- any insurance, self-insurance or self-retention maintained by the State, and that any insurance, self-insurance or self-retention maintained by the State shall be in excess of the Contractor's insurance and shall not contribute with it;
- e. cross liability/severability of interest for all policies and endorsements.
- (6) The legal defense provided to the State under the policy and any endorsements must be free of any conflicts of interest, even if retention of separate legal counsel for the State is necessary.
- (7) The Contractor shall furnish a certificate of insurance and all endorsements to the undersigned State representative prior to commencement of this agreement.
- (8) Failure to provide insurance as required in this agreement is a material breach of contract entitling the State to terminate this agreement immediately.

ATTORNEY FEES

In the event a lawsuit is instituted by the State to obtain performance due of any kind under this contract, and the State is the prevailing party, Contractor shall, except when prohibited by N D C.C. § 28-26-04, pay the State's reasonable attorney fees and costs in connection with the lawsuit.

INDEPENDENT ENTITY

Contractor is an independent entity under this contract and is not a State employee for any purpose, including but not limited to the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. The Contractor retains

sole and absolute discretion in the manner and means of carrying out the Contractor's activities and responsibilities under this contract, except to the extent specified in the contract.

FISCAL RESPONSIBILITIES

RECORDS

All records, regardless of physical form, and the accounting practices and procedures of the Contractor relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. The Contractor shall maintain and retain all books, records, and other documents required by the State and to produce program narrative and statistical data at times prescribed by the State relevant to this agreement for four years after final payment. Records shall be retained beyond four years if audit findings have not been resolved.

NO CLAIM FOR ADDITIONAL WORK

No claim for additional services not specifically herein provided, done, or furnished by the Contractor will be allowed, nor shall the Contractor do any work or furnish any material not covered by the contract, unless such work is ordered in writing by the State.

TIME KEEPING PROCEDURES

The Contractor shall require employees and subcontractors, if applicable, whose positions are funded under this contract or included as match, to maintain adequate documentation for services provided. For positions that are funded from more than one source, an analysis of duties performed by program shall also be prepared.

MONITORING, EVALUATION AND AUDIT

The Contractor agrees to cooperate with any monitoring, evaluating and/or audit conducted by the State, or its designee who shall have full access to and the right to examine all books, records and other relevant documents

The Contractor agrees to take immediate corrective action on deficiencies

disclosed through program monitoring of costs disallowed in the course of an audit, review, or monitoring.

PREPAYMENT

The State will not make any advance payments before performance by the Contractor under this contract.

TAXPAYER ID

Contractor's North Dakota tax ID number is: _____

Contractor's federal employer ID number is: 52-0901220

PROGRAM REQUIREMENTS

COMPLIANCE WITH LAWS

Contractor agrees to comply with all applicable laws, rules, regulations and policies, including but not limited to those relating to nondiscrimination, accessibility and civil rights. Contractor agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including but not limited to sales and use taxes and unemployment compensation and workers' compensation premiums. Contractor shall have and keep current at all times during the term of this contract all licenses and permits required by law.

EQUAL OPPORTUNITY

No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration of or in connection with this contract because of race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, disability, age, sex, political affiliation or belief or citizenship.

NONDISCRIMINATION

This contract and any subcontract hereunder is subject to the Age

Discrimination Act of 1975, Section 504 of the Rehabilitation Act, Title VI of the Civil Rights of 1964 and the Americans with Disabilities Act of 1990.

WORK PRODUCT, EQUIPMENT AND MATERIALS

All work product, equipment or materials created or purchased under this contract belong to the State and must be delivered to the State at the State's request upon termination of this contract. Contractor agrees that all materials prepared under this contract are "works for hire" within the meaning of copyright laws of the United States and assigns to State all

rights and interests Contractor may have in the materials its prepares under this contract, including any right to derivative use of the material Contractor shall execute all necessary documents to enable State to protect its rights under this section. Contractor shall include provisions appropriate to effectuate the purposes of this condition in all subcontracts entered into relating to this project.

EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by both parties.

SPECIFIC PROVISIONS

Purpose

Montana-Dakota Utilities Co. has filed an application to increase its North Dakota natural gas utility service rates. To fully pursue and represent its case, staff requires assistance to analyze MDU's filing and to provide written and oral testimony. The work will include sufficient detail as is necessary to successfully testify under cross-examination.

All work under this contract must be completed prior to the commission's fiscal year ending June 30, 2005. More importantly, the work needs to be sufficiently complete so that the contractor can provide written testimony by a date to be determined and oral testimony at the technical hearing scheduled to begin August 31, 2004.

The specific purpose is to investigate, analyze and provide testimony on issues identified below and in accordance with the contractor's March 25, 2004 proposal in order to provide MDU an opportunity to earn a fair and reasonable return on its electric utility investment in North Dakota. The issues are:

1. Expenses, excluding compensation.
2. Capital expenditures.
3. The cost of capital, including capital structure, the cost of debt, and the cost of equity.
4. Cost allocation among customer classes.
5. Rate design.

The scope of work includes:

1. Professional analysis and review of filing.
2. Prepare and conduct discovery.
3. Periodic progress reports of discovery, conclusions and recommendations to keep staff updated.
4. Prepare written testimony and provide an advanced copy to staff for review prior to submitting as a formal document.
5. Prepare written and oral testimony in rebuttal to testimony of other parties in the proceeding.
6. Testify at the hearing.
7. Assist staff legal counsel in preparation of cross-examination of the witnesses of other parties to the proceedings.
8. After the hearing, assist staff legal counsel in preparation of findings of fact for a proposed commission decision.

Compensation

The Contractor will be compensated based on periodic submittal of progress reports. Final payment will be made upon satisfactory completion of the described project work, as determined by the commission.

In the event the case is settled or this agreement is otherwise terminated prior to completion of project work, then compensation will be awarded for work satisfactorily completed

No part of this contract may be assigned, sublet or subcontracted.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED AND ORDINARY MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **31st day of March, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope with certified postage, return receipt requested, fully prepaid, securely sealed and containing a photocopy of:

Request for Proposal

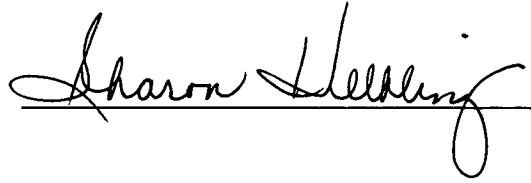
The envelope was addressed as follows

Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501
Cert. No. 7001 2410 0003 4911 4882

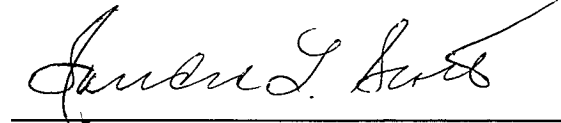
Sharon Helbling further deposes and says that on the **31st day of March, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope by regular mail, with postage fully prepaid, securely sealed, each containing a photocopy of the same.

Bruce Imsdahl
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501

Each address shown is the respective addressee's last reasonably ascertainable post office address.



Subscribed and sworn to before me
this **31st day of March, 2004**.



Notary Public

SEAL

SANDRA L. SCOTT
Notary Public, STATE OF NORTH DAKOTA
My Commission Expires JUNE 11, 2004

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY ORDINARY MAIL OR E-MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **31st day of March, 2004**, she sent by E-Mail or deposited in the United States Mail, Bismarck, North Dakota, envelopes by first class mail, fully prepaid, securely sealed, each containing a photocopy of.

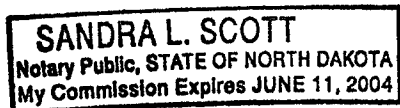
Request for Proposal

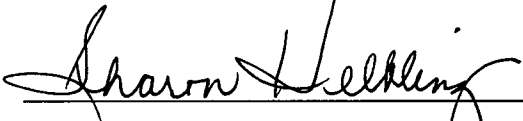
The envelopes were addressed as follows.


See Attached List

Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **31st day of March, 2004**.







Notary Public

SEAL

jjeanson@earthlink.net
Joel F Jeanson
Barrington-Wellesley Group Inc
2479 Lanam Ridge Rd
Nashville IN 47448

laros@bwgi.com
Michael A Laros
Barrington-Wellesley Group Inc
2479 Lanam Ridge Rd
Nashville IN 47448

gchristensen@bgai.net
Gordon Christensen
Burton Gordon & Associates
322 Bdwy
Fargo ND 58102

bmiller@crai.com
Brad Miller
Charles River Associates Inc

tmurray@crai.com
Tom Murray
Charles River Associates Inc

cneil@crai.com
Charlie Neil
Charles River Associates Inc

rcurry@austin.rr.com
Rowland Curry
Curry & Associates
1509 Mearns Meadow Blvd
Austin TX 78758

stgraham@deloitte.com
Stephen Graham
Deloutte & Touche
200 Berkeley St
Boston MA 02116

nbalu@ppluscorp.com
Neal Balu
Dr Neal J Balu
P Plus Corporation
20370 Town Ctr Ln Ste 208
Cupertino CA 95014

jwinter@ema-inc.com
John Winter
EMA Inc
1970 Oakcrest Ave Ste 100
St Paul MN 55113-2624

bill.envision@midconetwork.com
Bill Huether
Envision Energy Management LLC
210 W Century Ave
Bismardk ND 58503

denise@gabelassociates.com
Denise Faust
Gabel Associates Inc
417 Denison St
Highland Park NJ 08904

michaelmedwed@yahoo.com
Michael Medwed
Hayet Power Systems Consulting
P O Box 7131
Athens GA 30604

cah@cahempfling.net
Chuck Hempfling
Hempfling Friddus & Associates Inc
8 Birch Lakes Dr
Hawthorn Woods IL 60047

regeel177@aol.com
Renee Geel
Hudson River Energy Group

fradigan@aol.com
Frank Radigan
Hudson River Energy Group

jproctor7@aol.com
James Proctor
James Proctor Consulting Services
4803 Hallbrook Dr
Lawrence KS 66047

mmcdermott@americaneconomics.com
Michael McDermott
Michael P McDermott
American Economics Group
2100 M St NW Ste 810
Washington DC 20037-1207

melkisetekiank@paceglobal.com
Krikor Melkisetekian
Pace Global Energy Services
4401 Fair Lakes Ct Ste 400
Fairfax VA 22033

epindex.com
Colin High
Resource Systems Group
331 Olcott Dr
White River Junction VT 05001

micronomics.com

Robert A Sinclair
Micronomics Inc
1401 New York Ave NW Ste 1200
Washington DC 20005
mailstop3@vjesposito.com

V J Esposito Associates
P O Box 666
Martinsburg WV 25401

gbrown@mcleanbrown.com
Glenn Brown
McLean & Brown Comm Consultants
9011 E Cedar Waxwing Dr
Chandler AZ 85248

hlubow@overlandconsulting.com
Howard Lubow
Overland Consulting
10801 Mastin Bldg 84 Ste 420
Overland Park KS 66210

rbinz@rbinz.com
Ronald J Binz
Public Policy Consulting
333 Eudora St
Denver CO 80220-5721

bobloube@clark.net
Robert Loube
Rhoads & Sinon Group LLC
10601 Cavalier Dr
Silver Spring MD 20901

thorntonfinancial@msn.com
John S Thornton Jr
Thornton Financial Consulting
7929 E Joshua Tree Ln
Scottsdale AZ 85250-7967

wdrabinski@vantageconsulting.com
Walter Drabinski
Vantage Consulting Inc
22814 Overseas Hwy
Cudjoe Key FL 33042

John Grinager
1454 Simpson St
St Paul MN 55108

John Kundert
2090 Berkeley Ave
St Paul MN 55105

William Lang
2915 Bronson Dr NE
St Paul MN 55112

Barbara Alexander
15 Wedgewood Dr
Winthrop ME 04364

Arturo Abacan
AUS Inc
PO Box 1050
Moorestown NJ 08057-1050

Ben Johnson Associates Inc
2252 Killearn Ctr Blvd Ste 2D
Tallahassee FL 32308-3573

Benjaman Schlesinger & Assoc Inc
The Bethesda Gateway
7201 Wisconsin Ave Ste 740
Bethesda MD 20814
Economics Dept
Black Hills State University
1200 University St
Rapid City SD 57783

David Effron
Berkshire Consulting Service
386 Main St
Ridgefield CT 06877

Jennifer Whitley
Business Discount Plan Inc
1 World Trade Ctr Ste 800
Long Beach CA 90831-0800

Leigh Volkland
Bustin & Co
717 North Harwood Ste 1600
Dallas TX 75201

Ila Feld
Communications Dispute Resolutions
1 SE 3rd Ave Ste 1450
Miami FL 33131

Accounting Dept
Concordia College
Moorhead MN 56562

Finance Dept
Concordia College
Moorhead MN 56562

Engineering Dept
Concordia College
Moorhead MN 56562

Business Dept
Concordia College
Moorhead MN 56562

Economics Dept
Concordia College
Moorhead MN 56562

Engineering Dept
Concordia College
Hamline & Marshall Ave
St Paul MN 55104

Finance Dept
Concordia College
Hamline & Marshall Ave
St Paul MN 55104

Business Dept
Concordia College
Hamline & Marshall Ave
St Paul MN 55104

Accounting Dept
Concordia College
Hamline & Marshall Ave
St Paul MN 55104

Engineering Dept
Dakota State University
Madison SD 57042

Accounting Dept
Dakota State University
Madison SD 57042

Finance Dept
Dakota State University
Madison SD 57042

Business Dept
Dickinson State University
291 Campus Dr
Dickinson ND 58601

Economics Dept
Dickinson State University
291 Campus Dr
Dickinson ND 58601

Doherty & Company Inc
545 S Prospect St #22
Burlington VT 05401-3538

Phil Movish
Energy & Resource Cons Grp LLC
8055 E Tufts Ave Ste 1250
Denver CO 80237

Joe Mettner
Found Lake Consulting
10 E Doty St Ste 500
Madison WI 53703

Scott Norwood
GDS Associates Inc
919 Congress Ave Ste 800
Austin TX 78701-2444

Rod Backman
Covenant Consulting Group
1858 S Granview Ln
Bismarck ND 58503

Business Dept
Dakota State University
Madison SD 57042

Economics Dept
Dakota State University
Madison SD 57042

Accounting Dept
Dickinson State University
291 Campus Dr
Dickinson ND 58601

Engineering Dept
Dickinson State University
291 Campus Dr
Dickinson ND 58601

Finance Dept
Dickinson State University
291 Campus Dr
Dickinson ND 58601

Lee Selwyn
Economics & Technology Inc
2 Center Plz Ste 400
Boston MA 02108-1906

Financial Accounting Institute
PO Box 118
Tenafly NJ 07670-0118

Vic Hurlbert
Frederick & Warinner
10901 W 84th Ter Ste 101
Lenexa KS 66214-1631

Gorhan Gold Greenwich & Associates
P O Box 23626
Overland Park KS 66283-0626

Gregory Roberts
Gregory Roberts
NeuStar Inc
1120 Vermont Ave NW Ste 550
Washington DC 20005
David Hayward
Hayward Consulting Group
1047 Hygeia Ave
Encinitas CA 92024-1709

Frank Radigan
Hudson River Energy Group
1 Steuben Pl Ste 508
Albany NY 12207

Economics Dept
King Publishing Co
PO Box 52210
Knoxville TN 37950-2210

Finance Dept
King Publishing Co
PO Box 52210
Knoxville TN 37950-2210

William Pollard
KLP & Associates
901 15th ST S #520
Arlington VA 22202-5034

Hugh Larkin
Larkin & Associates
15728 Farmington Rd
Livonia MI 48154

Jeff Walter
London Economics
350 Massachusetts Ave Ste 330
Cambridge MA 02139

Carol Smoots
McKenna & Cuneo
1900 K St NW
Washington DC 20006

Ron Choura
Michigan Public Service Commission
Office of Policy
PO Box 30221
Lansing MI 30221-0221

Hayet Power Systems Consulting
215 Huntcliff Terrace
Atlanta GA 30350

Renee Geel
Hudson River Energy Group
1 Steuben Pl Ste 508
Albany NY 12207

F Larry Leistritz
Institute for Bus & Industrial Dev
NDSU
PO Box 5256
Fargo ND 58105-5256
Business Dept
King Publishing Co
PO Box 52210
Knoxville TN 37950-2210

Engineering Dept
King Publishing Co
PO Box 52210
Knoxville TN 37950-2210

La Capra Assoc
333 Washington St Ste 855
Boston MA 02108-5111

Duane Storms
Lockheed Martin Ims
Glenpointe Centre E
Teaneck NJ 07666

Joel Schiffman
Maine PUC
State House Station 18
242 State St
Augusta ME 04333
Michael Gleason
Michael V Gleason CPA
Warinner Gesinger & Associates LLC
10901 W 84th Terrace Ste 101
Lenexa KS 66214-1632
Accounting Dept
Minot State University
500 University Ave W
Minot ND 58707

Economics Dept
Minot State University
500 University Ave W
Minot ND 58707

Finance Dept
Minot State University
500 University Ave W
Minot ND 58707

Engineering Dept
Moorhead State University
11th St S
Moorhead MN 56560

Finance Dept
Moorhead State University
11th St S
Moorhead MN 56560

Economics Dept
Moorhead State University
11th St S
Moorhead MN 56560

Michael Walker
Navigant Consulting Inc
200 Montgomery Ct
Port Ludlow WA 98365-9665

Business Dept
North Dakota State University
Fargo ND 58105

Economics Dept
North Dakota State University
Fargo ND 58105

Accounting Dept
Northern State University
Aberdeen SD 57401

Business Dept
Northern State University
Aberdeen SD 57401

Business Dept
Minot State University
500 University Ave W
Minot ND 58707

Richard Montague
Montague Consulting Serv
3495 17th St
Boulder CO 80304

Business Dept
Moorhead State University
11th St S
Moorhead MN 56560

Accounting Dept
Moorhead State University
11th St S
Moorhead MN 56560

Navigant Consulting Inc
200 Montgomery Ct
Port Ludlow WA 98365

Accounting Dept
North Dakota State University
Fargo ND 58105

Finance Dept
North Dakota State University
Fargo ND 58105

Engineering Dept
North Dakota State University
Fargo ND 58105

Economics Dept
Northern State University
Aberdeen SD 57401

Finance Dept
Northern State University
Aberdeen SD 57401

Engineering Dept
Northern State University
Aberdeen SD 57401

Raymond Lawton
NRRI
1080 Carmack Rd
Columbus OH 43210-7196

Engineering Dept
Otter Tail Power Company
215 S Cascade Street
Fergus Falls MN 56538-0496

Finance Dept
Otter Tail Power Company
215 S Cascade Street
Fergus Falls MN 56538-0496

PMC Management Consultants Inc
PO Box 332
Three Bridges NJ 08887-0332

Tim Gates
QSI Consulting
917 Sage Sparrow Cir
Littleton CO 80124-6236

David Russell
Russell Consulting
25 Storey Ave Ste 235
Newburyport MA 01950-1892

Schumaker & Company
117 N 1st St Ste 60
Ann Arbor MI 48104

Engineering Dept
South Dakota School of Mines
500 E Saint Joseph
Rapid City SD 57701

Economics Dept
South Dakota School of Mines
500 E Saint Joseph
Rapid City SD 57701

Douglas Bennett
NorthStar Consulting Group
900 E Main St Ste 104
Santa Maria CA 93454

Bion Ostrander
Ostrander Consulting
1121 SW Chetopa Trl
Topeka KS 66615-1408

Accounting Dept
Otter Tail Power Company
215 S Cascade Street
Fergus Falls MN 56538-0496

Business Dept
Otter Tail Power Company
215 S Cascade Street
Fergus Falls MN 56538-0496

William Steinmeier
Professional Corporation
PO Box 104595
Jefferson City MO 65110-4595

William Hopkins
Reed Consulting Group
200 Wheeler Rd
Burlington MA 01803

Bob Pressey
Ryan Murphy Inc
420 E 120th Ave Ste B2-502
Northglenn CO 80233-1100

Charles W King
Snavelly King Majoros O'Connor & Lee
Inc
1220 L St NW Ste 410
Washington DC 20005

Accounting Dept
South Dakota School of Mines
500 E Saint Joseph
Rapid City SD 57701

Business Dept
South Dakota School of Mines
500 E Saint Joseph
Rapid City SD 57701

Finance Dept
South Dakota School of Mines
500 E Saint Joseph
Rapid City SD 57701

Accounting Dept
South Dakota State University
Brookings SD 57007

Business Dept
South Dakota State University
Brookings SD 57007

Stone & Webster Managements
Consultants
250 W 34th St
New York NY 10119

Tel Tech Inc
1300 W 57th St Ste G204
Sioux Falls SD 57108-2885

Ajay Sanghi
The Analyst
50 Dover Dr
Delmar NY 12054

Accounting Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Telecomm Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Finance Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Economics Dept
University of South Dakota
414 E Clark
Vermillion SD 57069

Engineering Dept
South Dakota State University
Brookings SD 57007

Economics Dept
South Dakota State University
Brookings SD 57007

Finance Dept
South Dakota State University
Brookings SD 57007

Strategic Energy Services Inc
105 Leblank Ct
Cary NC 27513-3542

Tellus Institute
11 Arlington St
Boston MA 02116

Engineering Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Economics Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Business Dept
University of North Dakota
Box 8193
Grand Forks ND 58202-7141

Accounting Dept
University of South Dakota
414 E Clark
Vermillion SD 57069

Business Dept
University of South Dakota
414 E Clark
Vermillion SD 57069

Finance Dept
University of South Dakota
414 E Clark
Vermillion SD 57069

Gene Griffin
Upper Great Plains Transp Institute
PO Box 5074
Fargo ND 58105-5074

Washington Utility Group
2120 L St NW Ste 520
Washington DC 20037-1527

Watson Consulting
16376 SE Van Zyl Rd
Clackamas OR 97015

Robert Feder
Wold Johnson P C
PO Box 1680
Fargo ND 58107-1680

Wolfe & Associates
1110 College Dr Ste 206
Bismarck ND 58501-1207

Bryce Freeman
Wyoming PSC
700 W 21st St
Cheyenne WY 82002

APPROVED

MOTION

DATE: 3-31-04
KMF

March 31, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission issue a Request for Proposal for consulting services in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application, Case No. PU-04-97.

MRD



Public Service Commission

State of North Dakota

REQUEST FOR PROPOSAL

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

To: Potential Bidders

From: Illona A. Jeffcoat-Sacco, Executive Secretary

Date: March 31, 2004

Re: Request for Proposal, Case No. PU-04-97

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

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. MDU seeks a 2.8% increase in overall natural gas rates. Most of the increase relates to increased costs pertaining to employee wages and benefits. MDU projects increased wages of 6.82% and 5.35%; medical and dental insurance of 23% and 8%; and pension expense of 246% and 85% for the projected years ending 2004 and 2005, respectively.

The commission seeks assistance in evaluating the overall reasonableness of employee compensation and applicable company decisions regarding wages and fringe benefits. The completion date for the investigation and written testimony is July 6, 2004. The technical hearing is scheduled for August 30-September 1, 2004.

The specific purpose is to investigate, analyze and provide testimony regarding the fairness and reasonableness of MDU's proposed labor costs. To accomplish this, the commission is requesting proposals for investigation, analysis and testimony to determine just and reasonable expenses for:

1. Salary Expense
2. Pension Expense
3. Medical Insurance
4. Supplemental Pension Expense for Key Employees
5. Other Labor Costs

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 may 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, 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. While a proposal that encompasses all issues is preferred, the bidders may make proposals on individual issues or combinations of issues. **The proposal should include pricing by issue and 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.

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.

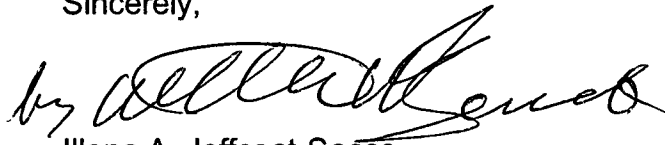
The successful contractor will be required to comply with all applicable Equal Employment Opportunity laws and regulations. All proposals shall include certification that they comply with applicable provisions of the Americans with Disabilities Act of 1991. A signed "Conflict of Interest Disclaimer" 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 April 12, 2004.


Submit an original and five copies of proposals to:

Illona A. Jeffcoat-Sacco, Executive Secretary
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismarck, North Dakota 58505-0480

Sincerely,

A handwritten signature in black ink, appearing to read "Illona A. Jeffcoat-Sacco", written in a cursive style.

Illona A. Jeffcoat-Sacco

 Executive Secretary



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Jon H. Mielke

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

April 1, 2004

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dear Mr. Ball:

On March 31, 2004, the Commission suspended the rates filed by Montana-Dakota Utilities Co. with its Natural Gas Rate Increase application, Case No. PU-04-97.

Sincerely,

A handwritten signature in black ink that reads "Sharon Helbling".

Sharon Helbling
Public Utilities Division

Sdh

Enclosure

APPROVED

DATE: 3-31-04
KMF

MOTION

March 31, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission suspend Montana-Dakota Utilities Co.'s rates filed with its Natural Gas Rate Increase application in Case No. PU-04-97.

Sdh

APPROVED

DATE: 3-31-04
KMF

MOTION

March 31, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

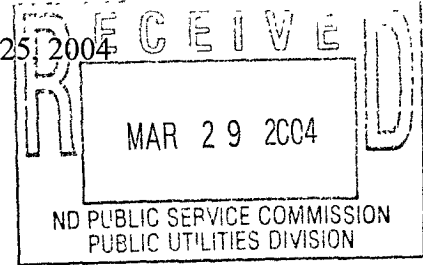
Case No. PU-04-97

I move the Commission appoint Bill Binek and Patrick Fahn as advocacy staff and Mike Diller, Ilona Jeffcoat-Sacco and Jerry Lein as advisory staff in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application in Case No. PU-04-97.

Sdh



March 25, 2004



Jerry Lein
North Dakota Public Service Commission
12th Floor, State Capitol
Bismarck, ND 58050-0480

Dear Mr. Lein:

This is in response to your request for a written proposal to represent the Commission Adversary Staff in the forthcoming rate case involving the gas distribution rates of the Montana-Dakota Utilities Company ("MDU").

I have very briefly reviewed the Company's application. MDU is seeking an increase of \$3,334,226 based on a projected 2005 test year. Although the Company claims that this increase amounts to only 2.8 percent overall and 3.5 percent for residential customers, it represents an increase of approximately 16.7 percent in the distribution portion of the average residential customer's bill.

The principal issue in this case is compensation, specifically MDU's claim that it must increase its wages and salaries closer to those of its competitors. I understand that the Commission is considering a request for proposal for this issue, so that matters of compensation will be covered by a separate contract. This proposal therefore does not encompass a careful examination of the MDU's compensation arrangements.

This proposal does, however, cover the following issues:

- Expenses, excluding compensation,
- Capital expenditures,
- The cost of capital, including capital structure, the cost of debt, and the cost of equity,
- Cost allocation among customer classes, and
- Rate design.

I have attached hereto our proposed workhour and dollar budget for this project. We anticipate a total effort of 190 workhours, 136 of them by myself and possibly Michael Majoros. The remaining 50 workhours would be contributed by our professional staff, which includes David Geissler, Margaret Kenney, Kim Hillenbrand, Edgar Bañuelos, and Trenise Queen.

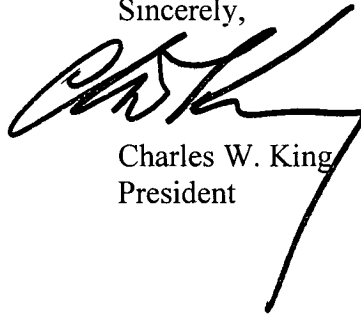
The total not-to-exceed fee budget is \$22,110. Out-of-pocket expenses, mostly associated with a trip to the hearing in Bismarck, come to \$1,504, for a total budget of \$23,614. It is understood, of course, that we will bill the Commission only for actual time spent and expenses incurred up to the contract limit.

Page 2

I should note that this budget would almost certainly be much larger but for the experience we have gained with MDU, its organization, its finances and its management through our participation on behalf of Staff in the last MDU gas case and in the last two MDU electric cases.

I would be happy to respond to any questions or comments you may have concerning this proposal

Sincerely,

A handwritten signature in black ink, appearing to read 'C. King', with a long, sweeping horizontal stroke extending to the right.

Charles W. King
President

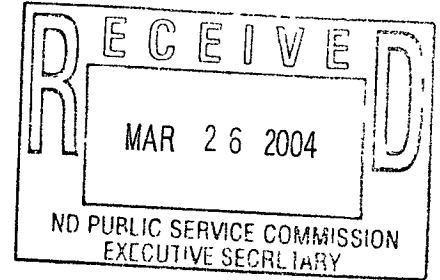
Snavely King Majoros O'Connor & Lee, Inc.
MDU Gas Case
Project Budget

Workhours

Task	Workhours		
	Principals	Staff	Total
1 Review Company Filing	8		8
2 Prepare Initial Data Requests	8		10
3 Evaluate Responses/Data Availability	6		8
4 Conduct Evaluation/Analyses	35	35	70
5 Prepare Direct Testimony	30	15	45
6 Respond to Data Requests	8		8
7 Review/Evaluate Rebuttal	10		10
8 Prepare Data Requests on Rebuttal	3		3
9 Prepare Oral Surrebuttal	5		5
10 Attend Hearing	16		16
11 Assist Counsel on Brief	7		7
Total Workhours	136	50	190
Rate Per Hour	\$ 135	\$ 75	
Fees	\$ 18,360	\$ 3,750	\$ 22,110
Expenses			
Air Fare	\$ 900		
Hotel & Meals	240		
Local Travel	90		
Airport Parking	24		
Reproduction	100		
Delivery and Postage	150		
Total Expenses			\$ 1,504
Total Costs			\$ 23,614

MEMORANDUM

TO: Illona Jeffcoat-Sacco
FROM: Jerry Lein
DATE: March 26, 2004
RE: Sole Source procurement of consultant to assist with MDU's Application for Increased Natural Gas Rates, Case No. PU-04-97



On March 3, 2004, Montana Dakota Utilities Co. (MDU) filed an application to increase its rates for natural gas service by an amount sufficient to provide increased total annual revenue of \$3,334,226. This will be the fourth time MDU revenue and rate requirements have been examined during recent years. In all three of the previous cases, the Commission procured assistance with the consulting firm Snavelly King Majoros O'Connor & Lee, Inc. (Snavelly King).

The first procurement resulted from competitive solicitation for assistance with an investigation of earnings from MDU's electric operations in Case Nos. PU-399-00-177 and PU-399-01-186 initially decided by the Commission on April 24, 2002.

The second procurement resulted from competitive solicitation for assistance with MDU's application to increase natural gas rates in Case No. PU-399-02-183, decided by the Commission on December 10, 2002.

Snavelly King's assistance was again procured for MDU's application to increase electric rates in Case No. PU-399-03-296, decided by the Commission when it accepted a settlement on December 18, 2003. In this case procurement was accomplished by sole source means to take advantage of knowledge gained during the first two engagements. The contract was for a not-to-exceed price of \$36,004, but because the case settled and some of the work was not completed, the state was only billed \$12,701.36.

Because of the knowledge gained from the three recent proceedings, staff recommends hiring this same consultant under the Commission's sole source procurement procedures.

Under the Commission's procedures, the following reasons may be justification for sole source procurement:

1. The proposed item or service is available only from a single source.
2. The person or organization has the unique product or the special skills, knowledge, abilities to provide the required services (at the exclusion of

others) and is considered the preeminent deliverer of that product or service at the time of selection.

3. Emergency or severe time constraints preclude issuing a formal Request for Proposal.

4. The service is available within the existing structure of state or local government.

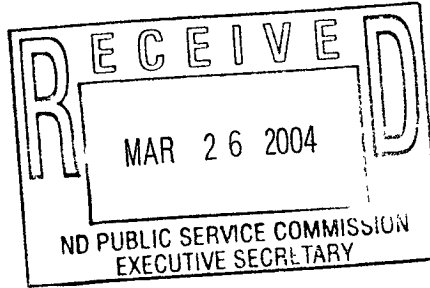
Staff's justification for sole source procurement in this proceeding is that Snavelly King, already has significant experience with MDU's costs and with its financial structure and operations in North Dakota. As a result, Snavelly King is able to do the project in less time and for less cost. This is evident in its proposal to assist with this case for a not-to exceed price of \$23,614. Staff is confident that similar proposals from other contractors would be significantly higher.



CONFIRMATION

Confirmation - do not pay

PO Box 8384
 Grand Forks, ND 58202-8384
 Phone 701-777-6354 Fax 701-777-6353



DATE: 3/24/04

ND Public Service Commission
 600 E Boulevard Avenue, Dept 408
 Bismarck, ND 58505- 0480

Date of Event 5/10/04
 Time 7 30-9 30pm

Reservation # 6972

Attn Sandi Scott

DESCRIPTION	HOURS	RATE	AMOUNT
Telephone Line Charge \$80/hr	2	80 00	\$ 160 00
Technical Charge \$10/hr/site	2	50 00	100 00
Sites Host - BSC 228, LRSC Admin 171, DSU North Campus 104, State Hospital 320, WSC Crighton 109, Minot HS Admin Bldg			
Streaming- Encode & Stream	2	10 00	20 00
Archive		10 00	10 00
CD			20 00
SUBTOTAL			\$ 310 00
OTHER			-
TOTAL			\$ 310 00

Maps of the sites can be found on <http://ndivn.nodak.edu> Click on Directory of Sites tab, the scroll down to Higher Ed Classroom maps

Events cancelled less than 24 hours before the event will be charged the administration and site fee
 Sites dropped less than 24 hours before the event will be charged the technical support fee

THANK YOU FOR USING THE NORTH DAKOTA II 13

PU-04-97

Pages 1

Interactive Video Network Confirmation -
 Reservation #6972
 by North Dakota Interactive Video Network

03/26/2004 CC Comm Legal Ilchna Pat Jerry Mike



Videoconferencing Web Streaming Request

Date of Request:

CUSTOMER INFORMATION

Name of person submitting request:

Phone: e-mail:

Organization:

Dept. Name:

Event Facilitator/Instructor's Name:

Phone: e-mail:

Billing Address:

EVENT AND SERVICE FEE INFORMATION

Reservation Number: Conference Number:

Starbak Port: (for office use only)

If a Course, Name and Number.

If a meeting, Title of meeting:

For recurring events complete the following:

Start Date: Stop Date:
Day of the week: M T W R F S
Start Time: AM/PM End Time AM/PM

For one time event, complete the following:

Date:
Start Time: AM/PM End Time: AM/PM

Total Number of Hours:

TYPE OF EVENT – CHECK ONE

Recurring event - Set-up fee \$50 (scheduled at one time) One time event - Set-up fee \$25

Services: - Check those that apply to your event

- Encode and stream a live event. \$10 per hour with NO archive
- Encode and stream event at \$10 per hour PLUS archive fee of \$10
After 10 business days, the event will be removed from the IVN server
- Provide CD of event for \$20 per copy (Note DVD will be used if event is longer than 3 hours or involves a large number of sites)
- Password needed for viewing/access. (no longer than 6 letters or numbers, case sensitive)

NOTE: Confirmation of streaming will be sent to the requestor. Instructions for viewing a streamed event can be found at www.ndivn.nodak.edu, scroll to Services, click on Streaming, click on Accessing a Streamed Event in the box on the left. Please pass this information on to your participants.

e-mail this form to: scheduling@mail.und.nodak.edu



2004 Meeting Scheduling Form

Parts highlighted in yellow are required information.

Reservation Number (s) 6972

Date Requested: March 18, 2004

Requested by & Address:

ND Public Service Commission
600 E. Blvd. Ave., Dept. 408
Bismarck, ND 58505-0480

Phone: 701-328-4081

E-mail Address: sls@psc.state.nd.us

TITLE OF EVENT: Public Input Session, Montana-Dakota Utilities Co., Natural Gas Rate Increase Application, Case No. PU-04-97

Preferred Date May 10, 2004	Day of the Week Monday	Start Time AM/PM 7:30 PM CDT	End Time AM/PM 9:30 PM CDT
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SITES: Identify host site with an H; identify all receiving sites with an X. Note: Limit of 12 Sites

HIGHER ED SITES

Bismarck- Bismarck State College Rm 228	H	Jamestown State Hospital Rm 320	X
Bottineau – MISU Bottineau		Mayville – Mayville State Univ.	
Devils Lake – Lake Region State Admin 171	X	Minot – Minot State Univ.	
Dickinson – Dickinson State Univ. N Campus 104	X	Valley City – Valley City State Univ.	
Fargo - NDSU		Wahpeton – ND State College of Science	
Grand Forks - UND		Williston – Williston State College Crighton 109	X

TRIBAL COLLEGES

Belcourt-Turtle Mt CC - Admin 209		Fort Yates – Sitting Bull College, Rm 5	
Bismarck-United Tribes Tech IVN Rm 212		McLaughlin, SD – Sitting Bull College	
Fort Totten - CCCC		New Town – Ft. Berthold Community College	

If you wish to use sites other than higher ed, first you need to contact the site to check for its availability. List the site below with name of city first followed by site name. A listing of other sites can be found on the IVN website at www.ndivn.nodak.edu under Site Information, Site Listings.

For other sites list city first then, site name (i.e.building name and room number)

OTHER SITES	ROOM PHONE NUMBER	ROOM FAX NUMBER
Minot HS Admin Bldg		

NOTE: It is the responsibility of the individual requesting the meeting/class to obtain the ROOM PHONE and ROOM FAX numbers of the other sites.

Event Facilitator: Public Service Commission, Attn: Sandi Scott

Phone: 701-328-4081

E-mail Address: sls@psc.state.nd.us

Check Resources Needed – NOTE: not all sites have audio/visual equipment listed below.

VCR : X	DVD:	Document Camera:	Laptop Computer:	Guest Speaker:
---------	------	------------------	------------------	----------------

Billing:

	C: NDUS Users – Classes & Meetings	F: Non-Profit Groups - \$80/hour + 10/hour/site + Admin fee \$50 + \$25/site	
	D: NDUS Grants/Fees/Campus Membership - \$80/hour + \$10/hour/site	G: Tribal Colleges – per agreement	
X	E: State Gov't/Political Subdivisions/K-12 \$80/hour + \$10/hour/site	H: Multi-state Conference - \$80/hour + \$10/hour/site + Admin fee \$50 + \$25/site + interstate phone if required at \$80/hour	

STREAMED EVENT



Public Service Commission
Receipt of Payment

Received 3/4/2004 Check# 1006812 for \$50 00
Subject Natural Gas Rate Increase Application

Receipt# 5757

Docket # PU-04-97

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc
400 N 4th Street
Bismarck ND 58501

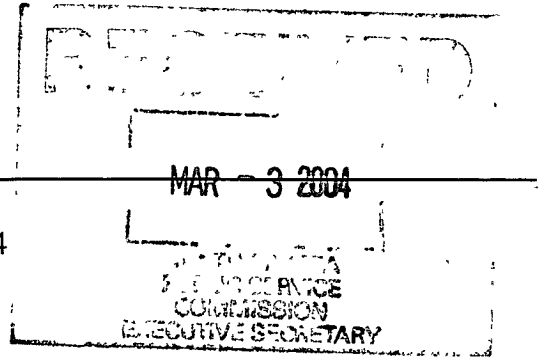


MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900



March 3, 2004

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re Application and Notice of Change in
General Natural Gas Rates
Case No. PU-399-04-_____

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc , herewith submits its Application and Notice to increase its rates for natural gas service in North Dakota. Montana-Dakota submits this Letter of Transmittal and its Application and Notice with Appendices A and B, Testimony and Exhibits and Statements supporting an increase in Montana-Dakota's rates for natural gas service This filing is made in accordance with Title 49 of the North Dakota Century Code and the rules and regulations promulgated by the North Dakota Public Service Commission.

The Company's need for additional revenues results from increases in operating and maintenance expenses driven largely by increases in labor and benefit costs In spite of cost control efforts, increases in operating and maintenance expenses have caused current rates to be inadequate in compensating the company for operating its North Dakota natural gas distribution system Montana-Dakota's last general rate increase in North Dakota was in 2002

Montana-Dakota proposes a total annual increase of \$3,334,226 or 2.8%, based on a 2005 future test year. The proposed change in rates will affect customer classes as follows: Residential 3.5% and Firm General Service 2.3% The proposed increase for a residential customer will average about \$2.62 per month or about \$31.45 per year

The proposed rate changes do not affect the recovery of the cost of purchased gas, which is separately reflected in retail rates (and recovered monthly) through the Purchased Gas Cost Adjustment

Please refer all inquiries regarding this filing to

Mr. Donald R. Ball
Assistant Vice President - Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

Also, please send copies of all written inquiries, correspondence and pleading to:

Mr Douglas W. Schulz
Senior Attorney
P O Box 5650
Bismarck, ND 58506-5650

Mr Daniel S. Kuntz
Zuger Kirmis & Smith
P.O Box 1695
Bismarck, ND 58502-1695

The original and seven (7) copies of this Letter of Transmittal, Application and Notice, Appendices, Testimony and Exhibits, and Statements are hereby filed with the North Dakota Public Service Commission

A report of tariff change reflecting Commission data requirements regarding filings is attached hereto.

Montana-Dakota also herewith submits a check for \$50.00 pursuant to the requirements of Section 49-05-05 of the North Dakota Century Code.

Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission

Montana-Dakota is concurrently submitting an Application and Notice for Interim Increase in Natural Gas Rates in the annual amount of \$1,869,539 to be effective 60 days from filing if the Commission suspends the rate increase sought by Montana-Dakota through its Application and Notice.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Donald R. Ball
Assistant Vice President –
Regulatory Affairs

Attachment

cc D.W Schulz
D. S. Kuntz

North Dakota Report of Tariff Schedule Change

Case No PU-399-04-_____

Name of Utility Montana-Dakota Utilities Co
 Address Main Office 400 North Fourth Street, Bismarck ND 58501

NEW TARIFF DESIGNATION

<u>Table of Contents</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 1
<u>Rate Summary Sheet</u>	P S C	Tariff Volume	7	Sheet No	17th Revised 3
<u>"</u>	P S C	Tariff Volume	7	Sheet No	3rd Revised 3 1
<u>Residential Gas Service Rate 60</u>	P S C	Tariff Volume	7	Sheet No	4th Revised 4
<u>"</u>	P S C	Tariff Volume	7	Sheet No	Original 4 1
<u>Firm General Gas Service Rate 70</u>	P S C	Tariff Volume	7	Sheet No	4th Revised 13
<u>"</u>	P S C	Tariff Volume	7	Sheet No	Original 13 1
<u>Small Interruptible General Gas Service Rate 71</u>	P S C	Tariff Volume	7	Sheet No	3rd Revised 14
<u>"</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 14 1-14 2
<u>Optional Seasonal General Gas Service Rate 72</u>	P S C	Tariff Volume	7	Sheet No	4th Revised 15
<u>"</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 15 1
<u>Transportation Service Rates 81 and 82</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 24, 24 2-24 8
<u>"</u>	P S C	Tariff Volume	7	Sheet No	2nd Revised 24 1
<u>Distribution Delivery Stabilization Mechanism Rate 87</u>	P S C	Tariff Volume	7	Sheet No	Original 29-29 2
<u>Residential Propane Service Rate 90</u>	P S C	Tariff Volume	7	Sheet No	4th Revised 32
<u>"</u>	P S C	Tariff Volume	7	Sheet No	Original 32 1
<u>Firm General Propane Service Rate 92</u>	P S C	Tariff Volume	7	Sheet No	4th Revised 34
<u>"</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 34 1
<u>General Provisions Rate 100</u>	P S C	Tariff Volume	7	Sheet No	1st Revised 42-42 9,42 11,
<u>"</u>	P S C	Tariff Volume	7	Sheet No	42 13-42 14,42 16-42 17
<u>"</u>	P S C	Tariff Volume	7	Sheet No	2nd Revised 42 10,42 12,42 15
<u>New Installation, Replacement, Relocation and</u>	P S C	Tariff Volume		Sheet No	
<u>Repair of Gas Service Lines Rate 124</u>	P S C	Tariff Volume	7	Sheet No	2nd Revised 66

Change Rates
 (State part of tariff affected by change, such as applicability, availability, rates, etc)

Reason for Change Increase in cost of providing natural gas service

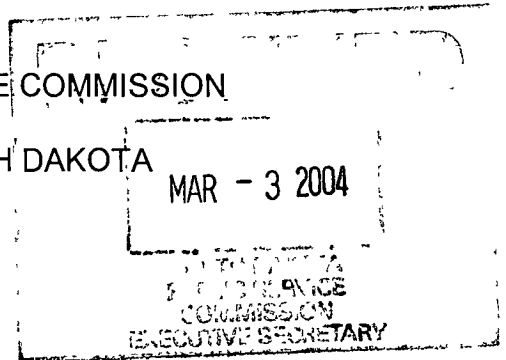
Approximate annual reduction in revenue N/A

Approximate annual increase in revenue \$3,334,226

Points Affected	Estimated number of customers whose cost of service will be		
	Reduced	Increased	Unchanged
All		85,600	

Montana-Dakota Utilities Co
 Donald R Ball
 Assistant Vice President - Regulatory Affairs

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA



In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES CO., a)
Division of MDU Resources Group, Inc.,)
for Authority to Establish Increased)
Rates for Natural Gas Service)

Case No. PU-399-04-_____

* * * *

APPLICATION AND NOTICE

COMES NOW, Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., and respectfully submits the following Application and Notice, tariffs and information in support thereof.

I.

That Montana-Dakota, a Division of MDU Resources Group, Inc., is a Delaware corporation duly authorized to do business in the State of North Dakota as a foreign corporation. Montana-Dakota is doing business in the State of North Dakota as a public utility.

II.

The Company's Certificate of Incorporation and amendments thereto have previously been filed with the North Dakota Public Service Commission. Such Certificate and Amendments are hereby incorporated by reference.

III.

That Applicant's full name and post office address are:

Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.
400 North Fourth Street
Bismarck, North Dakota 58501

IV

That the following described rate schedules presently on file with and approved by the Commission are attached hereto as Appendix A.

Volume No. 7

Original Sheet No. 1	Table of Contents
Original Sheet No. 2	Communities Served
15 th Revised Sheet No. 3	Rate Summary
2 nd Revised Sheet No. 3.1	Rate Summary
2 nd Revised Sheet No. 4	Residential Gas Service Rate 60
Original Sheet No. 7	Air Force Rate 64
1 st Revised Sheet No. 7.1	Air Force Rate 64
2 nd Revised Sheet No. 13	Firm General Service Rate 70
2 nd Revised Sheet No. 14	Small Interruptible General Gas Service Rate 71
Original Sheet Nos. 14.1-14.2	Small Interruptible General Gas Service Rate 71
2 nd Revised Sheet No. 15	Optional Seasonal General Gas Service Rate 72
Original Sheet No. 15.1	Optional Seasonal General Gas Service Rate 72
Original Sheet No. 24	Transportation Service Rates 81 and 82
1 st Revised Sheet No. 24.1	Transportation Service Rates 81 and 82
Original Sheet Nos. 24.2 – 24.9	Transportation Service Rates 81 and 82
1 st Revised Sheet No. 27	Large Interruptible General Gas Service Rate 85
Original Sheet Nos. 27.1 – 27.2	Large Interruptible General Gas Service Rate 85

1st Revised Sheet No. 30	Purchased Gas Cost Adjustment Rate 88
Original Sheet Nos. 30.1 – 30.5	Purchased Gas Cost Adjustment Rate 88
2nd Revised Sheet No. 32	Residential Propane Service Rate 90
2nd Revised Sheet No. 34	Firm General Propane Service Rate 92
Original Sheet No. 34.1	Firm General Propane Service Rate 92
Original Sheet Nos. 41 – 41.2	Purchased Propane Cost Adjustment Rate 99
Original Sheet Nos. 42 – 42.9	General Provisions Rate 100
1 st Revised Sheet No. 42.10	General Provisions Rate 100
Original Sheet No. 42.11	General Provisions Rate 100
1 st Revised Sheet No. 42.12	General Provisions Rate 100
Original Sheet Nos. 42.13 – 42.14	General Provisions Rate 100
1 st Revised Sheet No. 42.15	General Provisions Rate 100
Original Sheet Nos. 42.16 – 42.18	General Provisions Rate 100
Original Sheet No. 44	Residential Gas Service for Regular Employees Rate 102
1 st Revised Sheet No. 61	Interruptible Gas Service Extension Policy Rate 119
Original Sheet No. 61.1	Interruptible Gas Service Extension Policy Rate 119
Original Sheet Nos. 62 – 62.5	Firm Gas Service Extension Policy Rate 120
1 st Revised Sheet No. 66	New Installation, Replacement, Relocation and Repair of Gas Service Lines Rate 124

V.

Montana-Dakota respectfully hereby files the following described proposed rate schedules for gas service, copies attached hereto as Appendix B, which substitute for the rate schedules as noted below. The following described proposed rate schedules are proposed to be effective April 2, 2004.

Volume No. 7

<u>Proposed Tariff Sheet</u>	Replacing	<u>Existing Tariff Sheet</u>
1st Revised Sheet No 1		Original Sheet No. 1
17 th Revised Sheet No. 3		15 th Revised Sheet No. 3
3rd Revised Sheet No 3.1		2 nd Revised Sheet No. 3.1
4 th Revised Sheet No. 4		2 nd Revised Sheet No. 4
Original Sheet No. 4.1		---
4 th Revised Sheet No 13		2 nd Revised Sheet No. 13
Original Sheet No. 13.1		---
3 rd Revised Sheet No. 14		2 nd Revised Sheet No. 14
1 st Revised Sheet Nos. 14.1-14.2		Original Sheet Nos. 14.1-14.2
4 th Revised Sheet No. 15		2 nd Revised Sheet No. 15
1 st Revised Sheet No 15.1		Original Sheet No 15.1
1 st Revised Sheet Nos. 24;24.2-24.8		Original Sheet Nos. 24,24.2-24.9
2 nd Revised Sheet No. 24.1		1 st Revised Sheet No. 24.1
Original Sheet Nos. 29-29.2		---
4 th Revised Sheet No 32		2nd Revised Sheet No. 32
Original Sheet No. 32.1		---
4 th Revised Sheet No. 34		2nd Revised Sheet No. 34
1 st Revised Sheet No. 34.1		Original Sheet No. 34.1
1 st Revised Sheet Nos 42-42.9, 42 11; 42.13-42 14; 42.16-42.17		Original Sheet Nos. 42-42 9; 42.11; 42.13-42.14; 42.16-42.17
2 nd Revised Sheet Nos. 42.10 ; 42.12; 42.15		1st Revised Sheet Nos. 42.10; 42.12; 42.15
2 nd Revised Sheet No. 66		1 st Revised Sheet No. 66

VI.

That the existing rates of Montana-Dakota are unjust, unreasonable and not compensatory. The new rates will allow Montana-Dakota an opportunity to fully recover its costs of providing natural gas service and to earn a just and reasonable rate of return on its natural gas property devoted to providing service to its North Dakota natural gas customers.

VII.

The new rates contained herein will provide additional annual revenues before income taxes of \$3,334,226 based on a 2005 future test year, for natural gas service rendered to customers in the State of North Dakota.

VIII.

Filed concurrently with this Application and Notice and its Appendices are supporting Statements and Direct Testimony and Exhibits of Montana-Dakota's witnesses showing the existing rates are unjust, unreasonable, and not compensatory, and that the new rates are just, reasonable and compensatory.

IX

This Application and Notice is submitted in accordance with the provisions of Section 49-05-05 of the North Dakota Century Code and the rules and regulations promulgated by the Public Service Commission of the State of North Dakota and the filing guideline of the Public Service Commission


X.

That, in accordance with Section 49-05-04.1 of the North Dakota Century Code, Montana-Dakota hereby affirms that its future test year forecast is reasonable, reliable, and made in good faith. All basic assumptions used in making or supporting the forecast are reasonable, evaluated, identified, and justified to allow the Commission to test the appropriateness of the forecast. The accounting treatment that has been applied to anticipated events and

transactions in the forecast is the same as the accounting treatment to be applied in recording the events once they have occurred.

Dated this 3rd day of March, 2004.

MONTANA-DAKOTA UTILITIES CO.,
a Division of MDU Resources Group, Inc.

By: 
Donald R Ball
Assistant Vice President –
Regulatory Affairs



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 1

TABLE OF CONTENTS

<u>Designation</u>	<u>Title</u>	<u>Sheet No.</u>
	Table of Contents	1
	Communities Served	2
	Rate Summary	3
60	Residential Gas Service	4
	Reserved	5-6
64	Air Force	7
	Reserved	8-12
70	Firm General Gas Service	13
71	Small Interruptible General Gas Service	14
72	Optional Seasonal General Gas Service	15
	Reserved	16-23
81 and 82	Transportation Service	24
	Reserved	25-26
85	Large Interruptible General Gas Service	27
	Reserved	28-29
88	Purchased Gas Cost Adjustment	30
	Reserved	31
90	Residential Propane Service	32
	Reserved	33
92	Firm General Propane Service	34
	Reserved	35-40
99	Purchased Propane Cost Adjustment	41
100	General Provisions	42
	Reserved	43
102	Residential Rate for Regular Employees	44
	Reserved	45-60
119	Interruptible Gas Service Extension Policy	61
120	Firm Gas Service Extension Policy	62
	Reserved	63-65
124	New Installation, Replacement, Relocation and Repair of Gas Service Lines	66

Date Filed: December 13, 2002

Effective Date: Service rendered on and after
December 12, 2002

Issued By: Donald R. Ball
Director of Regulatory Affairs

Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 2

COMMUNITIES SERVED

NATURAL GAS SERVICE

Dakota Heartland Region

Apple Valley	Devils Lake	Mandan	Steele
Barlow	Eldridge	Max	Surrey
Berthold	Fort Totten	Medina	Tappen
Bismarck*	Garrison	Minot	Turtle Lake
Burlington	Glen Ullin	New Rockford	Underwood
Carrington	Grafton	New Salem	Valley City
Cavalier	Jamestown	Park River	Walhalla
Cleveland	Langdon	Riverdale	Washburn
Dawson	Lincoln	Sandborn	Wilton
Des Lacs	Linton	Sheyenne	

Badlands Region

Alexander	Golva	Ray	Taylor
Arnegard	Hebron	Regent	Tioga
Beach	Killdeer	Rhame	Trenton
Belfield	Lefor	Richardton	Watford City
Bowman	Lignite	Ross	Wheelock
Dickinson*	Marmarth	Sentinel Butte	White Earth
East Fairview	Mott	Springbrook	Williston
Epping	New England	South Heart	
Gladstone	Palermo	Stanley	

PROPANE SERVICE

Badlands Region

Hettinger

*Designates Region Office

Date Filed: December 13, 2002	Effective Date: Service rendered on and after December 12, 2002
Issued By: Donald R Ball Director of Regulatory Affairs	Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
 15th Revised Sheet No. 3
 Canceling 14th Revised Sheet No. 3

RATE SUMMARY SHEET

Page 1 of 2

Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk
Residential Rate 60	4	\$0 29 per day	\$0 641	\$6 653	\$7 294
Air Force Rate 64	7				
Minot Air Force Base		\$1,000 00 per month			
PAR Site		\$135 00 per month			
Firm Service			\$0 138	\$6 653	\$6 791
Interruptible Service - PAR			\$0 120	\$5 761	\$5 881
Interruptible Service - MAFB			\$0 120	\$5 494	\$5 614
Firm General Service Rate 70	13				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 473	\$6 653	\$7 126
Small Interruptible Gas Rate 71	14	\$100 00 per month	Per Contract	\$5 761	Per Contract
Optional Seasonal Gas Service Rate 72	15				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day			
Winter Gas Usage			\$0 473	\$6 749	\$7 222
Summer Gas Usage			\$0 473	\$5 647	\$6 120
Transportation Service	24				
Small Interruptible Rate 81		\$150 00 per month			
Maximum			\$0 427		
Minimum			\$0 102		
Fuel Charge				\$0 025	
Large Interruptible Rate 82		\$725 00 per month			
Maximum			\$0 298		
Minimum			\$0 061		
Fuel Charge				\$0 025	
Large Interruptible Gas Rate 85	27	\$675 00 per month	Per Contract	\$5 761	Per Contract
Residential Propane Rate 90	32	\$0 29 per day	\$0 641	\$9 335	\$9 976
Firm General Propane Rate 92	34				
Meters rated < 500 cubic feet		\$0 50 per day			
Meters rated > 500 cubic feet		\$1 70 per day	\$0 473	\$9 335	\$9 808

Date Filed: February 9, 2004

Effective Date: Bills rendered on and after
 March 1, 2004

Issued By: Donald R Ball

Asst Vice President - Regulatory Affairs

Case No.: PU-399-04-58



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 3 1
Canceling 1st Revised Sheet No 3 1

RATE SUMMARY SHEET

Page 2 of 2

Miscellaneous Charges	Amount
Late Payment	1% per month
Returned Check	\$10 00 per check
Reconnection charge after termination for nonpayment	
-During normal business hours	\$12 00
-After normal business hours	Current service labor rate per hour
Reconnection charge after termination for causes defined in Rate 100 ¶19	
-During normal business hours	\$30.00
-After normal business hours	Current service labor rate per hour
Reconnection charge applicable to seasonal or temporary customers	Basic Service Charge applicable during the period while service was not being used
-During normal business hours	Minimum- \$30 00
-After normal business hours	Minimum- Current service labor rate per hour
Reconnection charge applicable to transportation customers when remote data acquisition equipment must be reinstalled	\$160 00

Date Filed: December 16, 2002

Effective Date: Service rendered on and after
December 12, 2002

Issued By: Donald R. Ball
Director of Regulatory Affairs

Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 4
Canceling 1st Revised Sheet No. 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge.	\$0.29 per day
Distribution Delivery Charge	\$.641 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed: August 7, 2003	Effective Date: Service rendered on and after September 1, 2003
Issued By: Donald R. Ball Assistant Vice President - Regulatory Affairs	Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 7

AIR FORCE Rate 64

Page 1 of 2

Availability:

Minot Air Force Base near Minot, North Dakota, and the Perimeter Acquisition Radar (PAR) Site, near Concrete, North Dakota. The Air Force shall make an election of its requirements under each available service and such requirements shall be set forth in a service agreement with the Company

Rate:

Basic Service Charge:

Minot Air Force Base	\$1,000.00 per month
Perimeter Acquisition Radar (PAR) Site	\$135.00 per month

Distribution Delivery Charge

Firm Service	\$.138 per dk
Interruptible Service	\$.120 per dk

Cost of Gas.

Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Date Filed:	December 13, 2002	Effective Date:	Service rendered on and after December 12, 2002
Issued By:	Donald R Ball Director of Regulatory Affairs	Case No.:	PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 7.1
Canceling Original Sheet No 7.1

AIR FORCE Rate 64

Page 2 of 2

General Terms and Conditions:

1. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If the customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm Service distribution delivery charge and cost of gas rates set forth above, plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
2. **CONTRACT** – Terms of service other than the rate shall be specified in contracts between Minot Air Force Base, and PAR and the Company
3. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:	December 16, 2002	Effective Date:	Service rendered on and after December 12, 2002
Issued By:	Donald R. Ball Director of Regulatory Affairs	Case No.:	PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 13
Canceling 1st Revised Sheet No. 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 1

Availability:

In all communities served for all purposes except for resale See Rate 100, §3,
for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour \$0.50 per day

For customers with meters rated over
500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge: \$ 473 per dk

Cost of Gas Determined Monthly- See
Rate Summary Sheet for
Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on
the bill. Past due bills are subject to a late payment charge in accordance with
the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the
Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations
thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any
amendments or alterations thereto or additional rules and regulations
promulgated by the Company under the laws of the state.

Date Filed: August 7, 2003

Effective Date: Service rendered on and after
September 1, 2003

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 14
Canceling 1st Sheet No 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge:	\$100.00 per month	
Distribution Delivery Charge:	<u>Maximum</u> \$ 871 per dk	<u>Minimum</u> \$.427 per dk
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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Issued By: Donald R. Ball Director of Regulatory Affairs	Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V 10.
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

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Original Sheet No 14.2

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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4. OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS – Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer's action.
5. METERING REQUIREMENTS – Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder.

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the electronic measurement equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.

6. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

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Canceling 1st Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

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Availability:

In all communities served for all purposes except for resale See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge.

For customers with meters rated
under 500 cubic feet per hour

\$0.50 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.70 per day

Distribution Delivery Charge

\$ 473 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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Assistant Vice President -
Regulatory Affairs

Case No.: PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

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OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

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General Terms and Conditions:

- 1 The customer agrees to contract for service under the Optional Seasonal General Gas Service Rate 72 for a minimum of one year.
- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

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TRANSPORTATION SERVICE Rates 81 and 82

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Availability:

This service is applicable for transportation of natural gas to customer's premise (metered at a single delivery point) through Company's distribution facilities. In order to obtain transportation service, customer must qualify under an applicable gas transportation service rate; meet the general terms and conditions of service provided hereunder, and enter into a gas transportation agreement upon request by the Company.

The transportation services are as follows:

Small Interruptible General Gas Transportation Service Rate 81:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point, whose average use of natural gas will not exceed 100,000 dk annually and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Small Interruptible General Gas Service Rate 71. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

Large Interruptible General Gas Transportation Service Rate 82:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed 100,000 dk annually metered at a single delivery point, and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Large Interruptible General Gas Service Rate 85. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc

400 N 4th Street

Bismarck, ND 58501

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1st Revised Sheet No 24 1

Canceling Original Sheet No 24 1

TRANSPORTATION SERVICE Rates 81 and 82

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Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived

Basic Service Charge:

Rate 81 \$150.00 per month

Rate 82 \$725.00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0 427	\$0 298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300

Fuel Charge

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet t for currently effective charge.

General Terms and Conditions:

1. **CRITERIA FOR SERVICE:** In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s)

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

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Original Sheet No. 24 2

TRANSPORTATION SERVICE Rates 81 and 82

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- 2 REQUEST FOR GAS TRANSPORTATION SERVICE:
 - a. To qualify for gas transportation service a customer must request the service pursuant to the provisions set forth herein. The service shall be provided only to the extent that the Company's existing operating capacity permits.
 - b. Requests for transportation service shall be considered in accordance with the provisions of Rate 100, §V 10.

- 3 MULTIPLE SERVICES THROUGH ONE METER:
 - a. In the event customer desires firm sales service in addition to gas transportation service, customer shall request such firm volume requirements, and upon approval by Company, such firm volume requirements shall be set forth in a firm service agreement. For billing purposes, the level of volumes so specified or the actual volume used, whichever is lower shall be billed at Rate 70. Volumes delivered in excess of such firm volumes shall be billed at the applicable gas transportation rate. Customer has the option to install at their expense, piping necessary for separate measurement of sales and transportation volumes.
 - b. The customer shall pay, in addition to charges specified in the applicable gas transportation rate schedule, charges under all other applicable rate schedules for any service in addition to that provided herein (irrespective of whether the customer receives only gas transportation service in any billing period).

4. PRIORITY OF SERVICE – Company shall have the right to curtail or interrupt deliveries without being required to give previous notice of intention to curtail or interrupt, whenever, in its judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V 10.

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Original Sheet No 24.3

TRANSPORTATION SERVICE Rates 81 and 82

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5. PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken above that received on customer's behalf, shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company
6. NON-DELIVERED VOLUMES/PENALTY:
- a. In the event customer uses more gas than is being delivered to the Company's interconnection with the delivering pipeline(s) (receipt point), customer shall pay an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same receipt point, any payment or overrun penalties the Company is required to make shall be allocated on a pro rata basis among such customers on the basis of each customer's use of gas in excess of available volumes
- b. In the event the customer's gas is not being delivered to the receipt point for any reason and the customer continues to take gas, the customer shall be subject to any applicable penalties or charges set forth in Paragraph 6.a. Gas volumes supplied by Company will be charged at Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The Company is under no obligation to notify customer of non-delivered volumes.

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c. In the event customer's transportation volumes are not available for any reason, customer may take interruptible sales service if such service is available. The availability of interruptible sales service shall be determined at the sole discretion of the Company.

7. **ELECTION OF SERVICE** – Prior to the initiation of service hereunder, the customer shall make an election of its requirements under each applicable rate schedule for the entire term of service. If mutually agreed to by Company and customer, the term of service may be amended. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under the appropriate sales rate schedule for the customer's operations

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a reconnection charge as specified in Rate 100, §V.17.

8. **BALANCING:**

- a. To the extent practicable, customer and Company agree to the daily balancing of volumes of gas received and delivered on a thermal basis. Such balancing is subject to the customer's request and the Company's discretion to vary scheduled receipts and deliveries within existing Company operating limitations

If, at the end of a billing month, the accumulated difference between actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer exceeds 4% of that month's scheduled receipts, resulting in a negative imbalance (i.e , deliveries exceed scheduled receipts), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, the customer shall then be billed, in addition to the applicable transportation rate,

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a penalty for the under nominated volume exceeding 4% at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas) The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume on which a penalty was imposed.

If, at the end of a billing month, the accumulated difference between nominated (scheduled) receipts on behalf of such customer and actual gas deliveries to the customer exceeds 4% of that month's scheduled receipts resulting in a positive imbalance (i.e., scheduled receipts exceed deliveries), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, (1) the Company may adjust the volume of gas received on behalf of the customer so as to eliminate the prior period over nomination exceeding 4% up to 10% and (2) the Company shall retain the over nomination of gas exceeding 10% free and clear of any adverse claims relating thereto when such accumulated difference exceeds 50 dk. The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume retained

- b In the event customer's imbalance causes the Company to incur a balancing penalty from its interconnecting pipeline(s), customer shall pay any penalty payments or overrun charges the Company is required to make under the terms of its contract(s) with interconnecting pipeline(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the

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same interconnection with a delivering pipeline, any payment or overrun penalties the Company is required to make shall be apportioned among such customers on the basis of each customer's contribution toward the imbalance.

- c. Customer's nomination made to clear imbalances will be subject to the priority of service and allocation of capacity provisions set forth in Rate 100, §V 10 and the penalties for failure to curtail or interrupt use of gas set forth in Paragraph 5 of this rate schedule.
 - d. Termination of the gas transportation service shall not relieve Company and customer of the obligation to correct any quantity imbalances hereunder or customer of the obligation to pay money due hereunder to Company.
 - e. The Company may waive any penalty associated with Company adjustments to end-use customer nominations in those instances where the Company, due to operating limitations, is required to adjust end-use transportation customer nominations and such Company adjustments create a penalty situation, or preclude a customer from correcting an imbalance which results in a penalty.
9. **NOMINATION VARIANCE CHARGE** – The customer shall pay any payments the Company must make to its interconnecting pipeline(s), as a result of nomination variance penalties caused by customer's nomination variances. Such penalties will be allocated on the basis of each customer's contribution toward the nomination variance.

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10 METERING REQUIREMENTS:

- a. Remote data acquisition equipment required by the Company for daily measurement will be purchased and installed by the Company prior to the initiation of service hereunder. The cost of the equipment and its installation shall be paid for by the customer. Such contribution in aid, as adjusted for federal and state income taxes, must be paid prior to the installation of such equipment unless otherwise agreed to by the Company. Such equipment will be maintained by the Company and will remain the sole property of the Company. Company may remove such equipment when service hereunder is terminated.
- b. The customer shall provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply or other power source acceptable to the Company and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the electronic measurement equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.
- c. The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.

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11. DAILY NOMINATION REQUIREMENTS:

- a. Customer or customer's shipper or agent shall advise Company's gas nominations center, by 11 30 a m. Central Clock Time, of the dk requirements customer has requested to be delivered at each delivery point the following day Customer's daily nomination shall be its best estimate of the expected utilization for the gas day Unless other arrangements are made, customer will be required to nominate for the non-business days involved prior to weekends and holidays.
- b. All nominations should include shipper and/or agent defined begin and end dates. Shippers and/or agents may nominate for periods longer than 1 day, provided the nomination begin and end dates are within the term of the service agreement
- c. The Company has the sole right to refuse receipt of any volumes which exceed the maximum daily contract quantity and at no time shall the Company be required to accept quantities of gas for a customer in excess of the quantities of gas to be delivered to customer. If total nominated receipts exceed total deliveries at receipt points where more than one customer is receiving service, nominations will be allocated on a pro rata basis
- d. At no time shall Company have the responsibility to deliver gas in excess of customer's nomination.
- e. In the event that more than one customer is receiving gas from the same shipper and/or agent at the same receipt point, any reduction in nominated volumes will be allocated on a pro rata basis, unless Company and shipper(s) and/or agent(s) have agreed to a predetermined allocation procedure.

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12. **WARRANTY** – The customer, customer's agent, or customer's shipper warrants that it will have title to all gas it tenders or causes to be tendered to the Company, and such gas shall be free and clear of all liens and adverse claims and the customer, customer's agent, or customer's shipper shall indemnify the Company against all damages, costs, and expenses of any nature whatsoever arising from every claim against said gas.
13. **FACILITY EXTENSIONS** - If facilities are required in order to furnish gas transportation service, and those facilities are in addition to the facilities required to furnish firm gas service, the customer shall pay for those additional facilities and their installation in accordance with the Company's applicable natural gas extension policy. Company may remove such facilities when service hereunder is terminated
14. **PAYMENT** – Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto
15. **BILLING ERROR** – In the event an error is discovered in any bill that the Company renders to customer, such error shall be adjusted within a period not to exceed 6 months from the date the billing error is first discovered.
16. **AGREEMENT** – Upon request of the Company, customer may be required to enter into an agreement for service hereunder.
17. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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1st Revised Sheet No 27
Canceling Original Sheet No 27

LARGE INTERRUPTIBLE GENERAL GAS SERVICE Rate 85

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Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed 100,000 dk annually as metered at a single delivery point. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruption purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

This rate schedule shall not apply for service to U S. Government installations, which are covered by separate special contracts.

The Company reserves the right to refuse the initiation of service under this rate schedule based on the availability of gas supply.

Rate:

Basic Service Charge	\$675.00 per month	
Distribution Delivery Charge	<u>Maximum</u> \$.719 per dk	<u>Minimum</u> \$.298 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate	

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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LARGE INTERRUPTIBLE GENERAL GAS SERVICE Rate 85

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General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10.
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 90 days prior to the end of the initial term. Absent execution of such termination notice, the agreement shall continue for additional terms of equal length until written notice is given as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

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LARGE INTERRUPTIBLE GENERAL GAS SERVICE Rate 85

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4. **OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS** - Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer's action.
5. **METERING REQUIREMENTS** –Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder.

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the electronic measurement equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.

6. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 30
Canceling Original Sheet No 30

PURCHASED GAS COST ADJUSTMENT Rate 88

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1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Montana-Dakota's rate schedules in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply, (b) amortization of the Unrecovered Purchased Gas Cost Account and (c) market based pricing differential.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first date of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of change in such PGA is at least 10 (ten) cents per dk. The adjustment to be effective May 1 shall be filed each year, regardless of the amount of the change.

3. Purchased Gas Cost:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for general system supply. General system supply is defined as gas available for use by all customers served under retail sales rate schedules. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the system gas supply.
- (b) The PGA shall be computed as follows:
 - (1) Demand costs shall include all annual gathering, transportation and storage demand charges at current rates.
 - (2) Commodity costs shall include all annual gathering, transportation and storage charges at current rates.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

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PURCHASED GAS COST ADJUSTMENT Rate 88

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- (3) The gas commodity cost shall reflect all commodity related gas costs estimated to be in effect for the month the PGA will be in effect and annual dk requirements.
- (4) The return on prepaid demand and commodity balances and storage balances shall be computed on an annual basis at the overall rate of return on rate base.

The cost per dk for the month is the sum of the above divided by annual, weather normalized dk deliveries adjusted to reflect losses.

(c) Monthly gas costs shall be calculated as follows:

- (1) Demand costs for firm customers shall be apportioned to all state jurisdictions served by Montana-Dakota on the basis of the overall ratio of each state's Maximum Daily Delivery Quantity (MDDQ).
- (2) Demand costs for interruptible sales customers shall be stated on a 100% load factor basis.
- (3) All commodity costs and other costs associated with the acquisition of gas for general system supply shall be apportioned to each state on the basis of total dks sold in each state, regardless of the actual points of delivery of such gas.
- (4) The return requirement related to prepaid demand and commodity charges and gas storage balances shall be included on a per dk basis. The prepaid demand and storage balances shall be apportioned to all states on the basis of each state's MDDQ. The prepaid commodity charges shall be apportioned to all states on the basis of annual dks sold in each state. The unit cost shall be calculated using a thirteen-month average balance and the currently authorized return on rate base.
- (5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.

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A Division of MDU Resources Group, Inc.

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PURCHASED GAS COST ADJUSTMENT Rate 88

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- (d) The PGA shall be applied to each of Montana-Dakota's rate schedules recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

- (a) All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on May 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated dk sales for the twelve months following the effective date of the adjustment.

5. Unrecovered Purchased Gas Account:

- (a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:
 - (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
 - (2) Amounts of increased/decreased charges for gas supplies, which were paid during any period after the effective date of the most recent general rate case, but not yet included in sales rates.
 - (3) Refunds received from supplier(s) with respect to gas supply. Such refunds received shall be credited to the Unrecovered Purchased Gas Cost Account.
 - (4) Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.
 - (5) Demand costs recovered from the interruptible sales customers will be credited to the residential and firm general service customers.

(b)

- (1) The amount to be included in the Unrecovered Purchased Gas Cost Account in order to reflect the items specified in Subsections 5(a)(1), (2), and (3) shall be calculated as follows:

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- (i) Montana-Dakota shall first determine each month the unit cost for that month's natural gas supply as adjusted to levelize demand charges.

Such adjustment to levelize supplier(s) demand charges shall be calculated as follows:

The supplier's annual (calendar or fiscal) demand charges, which are payable in equal monthly payments shall be accumulated in a prepaid account (FERC Account 165). Each month a portion of such accumulated prepaid amount shall be amortized to cost of natural gas purchased (FERC Account 804). Such monthly amortization shall be based on a rate calculated by dividing the annual supplier(s) demand charges by projected annual natural gas sales units (calendar or fiscal, as appropriate). The resulting product shall then be multiplied by the projected natural gas unit sales for the current month. Such amount shall constitute the monthly amortization of prepaid supplier(s) demand charges to cost of natural gas supply.

- (ii) Montana-Dakota shall then subtract from each month's unit cost, the unit cost for gas supply which is reflected in the currently effective PGA.
- (iii) The resulting difference (which may be positive or negative) shall be multiplied by the dks sold during that month under each rate schedule. The resulting amounts shall be reflected in an Unrecovered Purchased Gas Cost Account for each rate schedule.

- (1) Montana-Dakota will calculate carrying charges on the amounts in the Unrecovered Purchased Gas Cost Account, Account 191, at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board. The amount to be included in Account 191 for carrying charges shall be determined as follows:

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Each month, Account 191 shall be debited (if the balance in said account is a debit balance) and shall be credited (if the balance in said account is a credit balance) for a carrying charge, which shall be the product of (i) and (ii) below.

- (i) The balance in Account 191 as of the end of the immediately preceding month, exclusive of carrying charges accrued pursuant to this Subsection (b)(2) and net of the related deferred tax amounts in Accounts 283 or 190, as appropriate.
- (ii) One-twelfth of the annual interest rate as set forth in this Subsection (b)(2). The carrying charges shall be accrued in a supplementary Unrecovered Purchased Gas Cost Account for each rate schedule, and carrying charges shall not be computed on the amounts in such supplementary account.

(b) Reduction of Amounts in the Unrecovered Purchased Gas Cost Account:

- (1) The amounts in the Unrecovered Purchased Gas Cost Account shall be decreased each month by an amount determined by multiplying the currently effective surcharge adjustment included in rates for that month (as calculated in Section 4) by the dks sold during that month under each rate schedule. The account shall be increased in the event the adjustment is a negative amount.
- (2) The amount amortized each month shall be applied pro rata between the amounts in the Unrecovered Purchased Gas Cost Account specified in Subsections 5(a)(1), (2), (3) and (5) and the amounts in the supplementary Unrecovered Purchased Gas Cost Account specified in Subsection 5(a)(4).

6. Market-Based Pricing Differential:

- (a) At the time of each surcharge adjustment, the Company will compute a credit to residential and firm general service rates based on 50% of all distribution delivery charge revenues received from small interruptible sales and large interruptible sales customers in excess of the authorized minimum distribution delivery charge rate approved in the most recent general rate case

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- (b) The unit adjustment shall be determined by dividing the balance resulting under Subsection 6(a) by the residential and firm general service sales volumes estimated to be sold during the 12 months following the effective date of each adjustment.

7. Time and Manner of Filing:

- (a) Montana-Dakota shall file each PGA at least 20 days prior to the proposed effective date. Each filing by Montana-Dakota shall be made by means of revised PGA sheets identifying the amounts of the adjustments and the resulting currently effective PGA rates.
- (b) Each filing shall be accompanied by detailed computations, which clearly show the derivation of the relevant amounts, a concise statement of the reasons for any change and copies of any relevant pipeline tariff sheets supporting costs claimed

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2nd Revised Sheet No 32
Canceling 1st Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

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Availability:

For the community of Hettinger for all domestic purposes See Rate 100, §V.3,
for definition on class of service.

Rate:

Basic Service Charge.	\$0.29 per day
Distribution Delivery Charge.	\$ 641 per dk
Cost of Propane.	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on
the bill Past due bills are subject to a late payment charge in accordance with
the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate
99 or any amendments or alterations thereto. The cost of propane component is
subject to change on a monthly basis.

General Terms and Conditions:

- 1 The Company may at its discretion and upon thirty days notice, disconnect
service to a customer utilizing a second source of propane. Any customer so
disconnected shall not be eligible for service hereunder for one year from
date of disconnection and shall be subject to reconnection charges to restore
service after the one-year period.
- 2 The foregoing schedule is subject to Rates 100 through 124 and any
amendments or alterations thereto or additional rules and regulations
promulgated by the Company under the laws of the state.

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FIRM GENERAL PROPANE SERVICE Rate 92

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Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V.3, for definition on class of service

Rate:

Basic Service Charge

For customers with meters rated
under 500 cubic feet per hour \$0.50 per day

For customers with meters rated
over 500 cubic feet per hour \$1.70 per day

Distribution Delivery Charge. \$.473 per dk

Cost of Propane: Determined Monthly- See Rate
Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

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FIRM GENERAL PROPANE SERVICE Rate 92

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General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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Original Sheet No 41

PURCHASED PROPANE COST ADJUSTMENT Rate 99

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1. Availability:

This rate schedule constitutes a purchased propane cost adjustment (PCA) provision and specifies the procedure to be utilized to adjust the rates for propane gas sold under Montana-Dakota's rate schedules in order to reflect: (a) changes in Montana-Dakota's average cost of propane supply and (b) amortization of the Unrecovered Purchased Propane Cost Account.

2. Effective Date and Limitation on Adjustments:

(a) The effective dates of the PCA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.

(b) Montana-Dakota shall file a PCA to reflect changes in its average cost of propane supply only when the amount of such change in PCA is at least 10 (ten) cents per dk. The adjustment to be effective May 1 shall be filed each year, regardless of the amount of the change.

3. Purchased Propane Cost:

(a) The monthly PCA shall reflect changes in Montana-Dakota's cost of propane supply as compared to the cost of propane supply approved in its most recent PCA. The cost of propane supply shall include, but not be limited to, all commodity and transportation charges incurred by Montana-Dakota for such propane supply.

(b) The propane commodity cost shall reflect all commodity related propane costs estimated to be incurred for the month the PCA will be in effect and estimated dk purchases.

The unit cost per dk for the month shall be the commodity costs divided by estimated dk purchases for the month.

4. Surcharge Adjustment:

All propane sales schedules shall be subject to a Surcharge Adjustment to be effective on May 1 each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Propane Cost Account calculated by dividing the applicable balance by the estimated dk sales for the twelve months following the effective date of the adjustment.

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PURCHASED PROPANE COST ADJUSTMENT Rate 99

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5. Unrecovered Purchased Propane Cost Account:

(a) Items to be included in the Unrecovered Purchased Propane Cost Account, as calculated in accordance with Subsection 5(b) are.

- (1) Charges for propane supply which Montana-Dakota is unable to reflect in a Purchased Propane Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
- (2) Amounts of increased/decreased charges for propane supplies that were paid during any period after the effective date of the most recent approved rates, but not yet included in propane sales rates.
- (3) Carrying charges or credits.

(b)

(1) The amount to be included in the Unrecovered Purchased Propane Cost Account in order to reflect the items specified in Subsections 5(a)(1) and (2) shall be calculated as follows:

- (i) Montana-Dakota shall first determine each month the unit cost for that month's propane supply.
- (ii) Montana-Dakota shall then subtract from each month's unit cost, the unit cost for propane supply, which is reflected in the currently effective PCA
- (iii) The resulting difference (which may be positive or negative) shall be multiplied by the dks sold during that month under each propane rate schedule. The resulting amounts shall be reflected in an Unrecovered Purchased Propane Cost Account for each rate schedule.

(2) Montana-Dakota will calculate carrying charges on the amounts in the Unrecovered Purchased Propane Cost Account, Account 191, as follows:

Each month, Account 191 shall be debited (on a debit balance) or credited (on a credit balance) for a carrying charge, which shall be the product of (i) and (ii) below:

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- (i) The balance on Account 191 as of the end of the immediately preceding month, exclusive of carrying charges accrued pursuant to this Subsection (b)(2) and net of the related deferred tax amounts in Accounts 283 or 190, as appropriate.
 - (ii) One-twelfth of the three-month Treasury Bill rate as published monthly by the Federal Reserve Board. The carrying charges shall be accrued in a supplementary Unrecovered Purchased Propane Cost Account for each rate schedule, and carrying charges shall not be computed on the amounts in such supplementary account.
- (c) Reduction of Amounts in the Unrecovered Purchased Propane Cost Account:
- (1) The amounts in the Unrecovered Purchased Propane Cost Account shall be decreased each month by an amount determined by multiplying the currently effective surcharge adjustment included in rates for that month (as calculated in Section 4) by the dks sold during that month under each rate schedule. The account shall be increased in the event the adjustment is a negative amount.
 - (2) The amount amortized each month shall be applied pro rata between the amounts in the Unrecovered Purchased Propane Cost Account specified in Subsections 5(a)(1) and (2) and the amounts in the supplementary Unrecovered Purchased Propane Cost Account specified in Subsection 5(b)(2)(ii).
- 6. Time and Manner of Filing:**
- (a) Montana-Dakota shall file each PCA at least 10 days prior to the proposed effective date. Each filing by Montana-Dakota shall be made by means of revised PCA sheets identifying the amounts of the adjustments and the resulting currently effective PCA rates.
 - (b) Each filing shall be accompanied by detailed computations, which clearly show the derivation of the relevant amounts, a concise statement of the reasons for any change and copies of any relevant material supporting costs claimed.

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I. **PURPOSE:**

These rules are intended to define good practice which can normally be expected, but are not intended to exclude other accepted standards and practices not covered herein. They are intended to ensure adequate service to the public and protect the Company from unreasonable demands.

The Company undertakes to furnish service subject to the rules and regulations of the Public Service Commission of North Dakota and as supplemented by these general provisions, as now in effect or as may hereafter be lawfully established, and in accepting service from the Company, each customer agrees to comply with and be bound by said rules and regulations and the applicable rate schedules.

II **DEFINITIONS:**

The following terms used in this tariff shall have the following meanings, unless otherwise indicated.

AGENT – The party authorized by the transportation service customer to act on that customer's behalf.

APPLICANT – A customer requesting Company to provide service

COMMISSION – Public Service Commission of the State of North Dakota.

COMPANY – Montana-Dakota Utilities Co.

COMPANY'S OPERATING CONVENIENCE – The utilization, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of Company's operations. This does not refer to the customer's convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules or regulations, or similar requirements of public authorities

CURTAILMENT – A reduction of transportation or retail natural gas service deemed necessary by the Company. Also includes any reduction of transportation natural gas service deemed necessary by the pipeline

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CUSTOMER – Any individual, partnership, corporation, firm, other organization or government agency supplied with service by Company at one location and at one point of delivery unless otherwise expressly in these rules or in a rate schedule.

DELIVERY POINT – The point at which customer assumes custody of the gas being transported. This point will normally be at the outlet of Company's meter(s) located on customer's premises.

GAS DAY – Means a period of twenty-four consecutive hours, beginning and ending at 9:00 a.m. Central Clock Time

INTERRUPTION – A cessation of transportation or retail natural gas service deemed necessary by Company.

NOMINATION – The daily dk volume of natural gas requested by customer for transportation and delivery to customer at the delivery point during a gas day.

PIPELINE – The transmission company(s) delivering natural gas into company's system.

RATE – Shall mean and include every compensation, charge, fare, toll, rental and classification, or any of them, demanded, observed, charged or collected by the Company for any service, product, or commodity, offered by the Company to the public, and any rules, regulations, practices or contracts affecting any such compensation, charge, fare, toll, rental or classification

RECEIPT POINT – The intertie between Company and the interconnecting pipeline(s) at which point Company assumes custody of the gas being transported.

SHIPPER – The party with whom the Pipeline has entered into a service agreement for transportation services

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III. CUSTOMER OBLIGATION:

1. APPLICATION FOR SERVICE – A customer desiring gas service must make application to the Company before commencing the use of the Company's service. The Company reserves the right to require a signed application or written contract for service to be furnished. All applications and contracts for service must be made in the legal name of the customer desiring the service. The Company may refuse a customer or terminate service to a customer who fails or refuses to furnish reasonable information requested by the Company for the establishment of a service account. Any customer who uses gas service in the absence of application or contract shall be subject to the Company's rates, rules, and regulations and shall be responsible for payment of all service used.

Subject to rates, rules, and regulations, the Company will continue to supply gas service until notified by customer to discontinue the service. The customer will be responsible for payment of all service furnished through the date of discontinuance.

Any customer may be required to make a deposit as required.

2. INPUT RATING – All new customers whose consumption of gas for any purpose will exceed an input of 2,500,000 Btu per hour, metered at a single delivery point, shall consult with the Company and furnish details of estimated hourly input rates for all gas utilization equipment. Where system design capacity permits, such customers may be served on a firm basis. Where system design capacity is limited, and at Company's sole discretion, Company will serve all such new customers on an interruptible basis only. Architects, contractors, heating engineers and installers, and all others should consult with the Company before proceeding to design, erect or redesign such installations for the use of natural gas. This will ensure that such equipment will conform to the Company's ability to adequately serve such installations with gas.

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3. ACCESS TO CUSTOMER'S PREMISES – Company representatives, when properly identified, shall have access to customer's premises at all reasonable times for the purpose of reading meters, making repairs, making inspections, removing the Company's property, or for any other purpose incidental to the service.
4. COMPANY PROPERTY – The customers shall exercise reasonable diligence in protecting the Company's property on their premises, and shall be liable to the Company in case of loss or damage caused by their negligence or that of their employees
5. INTERFERENCE WITH COMPANY PROPERTY – The customer shall not disconnect, change connections, make connections or otherwise interfere with Company's meters or other property or permit same to be done by other than the Company's authorized employees.
6. RELOCATED LINES - Where Company facilities are located on a public or private utility easement and there is a building encroachment(s), over gas facilities (Company-owned main, Company-owned service line or customer-owned service line) the customer shall be charged for line relocation on the basis of actual costs incurred by the Company including any required easements
7. NOTIFICATION OF LEAKS – The customer shall immediately notify the Company at its office of any escape of gas in or about the customer's premises
8. TERMINATION OF SERVICE – All customers are required to notify the Company, to prevent their liability for service used by succeeding tenants, when vacating their premises Upon receipt of such notice, the Company will read the meter and further liability for service used on the part of the vacating customer will cease.
9. REPORTING REQUIREMENTS – Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein.

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IV LIABILITY

- 1 CONTINUITY OF SERVICE – The Company will use all reasonable care to provide continuous service but does not assume responsibility for a regular and uninterrupted supply of gas service and will not be liable for any loss, injury, death, or damage resulting from the use of service, or arising from or caused by the interruption or curtailment of the same.
- 2 CUSTOMER'S EQUIPMENT – Neither by inspection or non-rejection, nor in any other way does the Company give any warranty, express or implied, as to the adequacy, safety or other characteristics of any structures, equipment, lines, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties.
3. COMPANY EQUIPMENT AND USE OF SERVICE – The Company will not be liable for any loss, injury, death or damage resulting in any way from the supply or use of gas or from the presence or operation of the Company's structures, equipment, lines, appliances or devices on the customer's premises, except loss, injuries, death, or damages resulting from the negligence of the Company
- 4 INDEMNIFICATION – Customer agrees to indemnify and hold Company harmless from any and all injury, death, loss or damage resulting from customer's negligent or wrongful acts under and during the term of service Company agrees to indemnify and hold customer harmless from any and all injury, death, loss or damage resulting from Company's negligent or wrongful acts under and during the term of service
5. FORCE MAJEURE – In the event of either party being rendered wholly or in part by force majeure unable to carry out its obligations, then the obligations of the parties hereto, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused. Such causes or contingencies affecting the performance by either party, however, shall not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance relieve either party from its obligations to make payments of amounts then due hereunder, nor

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shall such causes or contingencies relieve either party of liability unless such party shall give notice and full particulars of the same in writing or by telephone to the other party as soon as possible after the occurrence relied on. If volumes of customer's gas are destroyed while in Company's possession by an event of force majeure, the obligations of the parties shall terminate with respect to the volumes lost.

The term "force majeure" as employed herein shall include, but shall not be limited to, acts of God, strikes, lockouts or other industrial disturbances, failure to perform by any third party, which performance is necessary to the performance by either customer or Company, acts of the public enemy or terrorists, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrest and restraint of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, line freeze-ups, sudden partial or sudden entire failure of gas supply, failure to obtain materials and supplies due to governmental regulations, and causes of like or similar kind, whether herein enumerated or not, and not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to overcome; provided that the exercise of due diligence shall not require settlement of labor disputes against the better judgment of the party having the dispute.

The term "force majeure" as employed herein shall also include, but shall not be limited to, inability to obtain or acquire, at reasonable cost, grants, servitudes, rights-of-way, permits, licenses, or any other authorization from third parties or agencies (private or governmental) or inability to obtain or acquire at reasonable cost necessary materials or supplies to construct, maintain, and operate any facilities required for the performance of any obligations under this agreement, when any such inability directly or indirectly contributes to or results in either party's inability to perform its obligations.

V GENERAL TERMS AND CONDITIONS:

1. AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for any service.

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2. RATE OPTIONS – Where more than one rate schedule is available for the same class of service, the Company will assist the customer in selecting the applicable rate schedule(s). The Company is not required to change a customer from one rate schedule to another more often than once in twelve months unless there is a material change in the customer's load which alters the availability and/or applicability of such rate(s), or unless a change becomes necessary as a result of an order issued by the Commission or a court having jurisdiction. The Company will not be required to make any change in a fixed term contract except as provided therein

3. RULES FOR APPLICATION OF GAS SERVICE
 - (a) Residential gas service is available to any residential customer for domestic purposes only Residential gas service is defined as service for general domestic household purposes in space occupied as living quarters, designed for occupancy by one family. Typical service would include the following. separately metered units, such as single private residences, single apartments, mobile homes and sorority and fraternity houses (this is not an all-inclusive list). In addition, auxiliary buildings on the same premise as the living quarters, used for residential purposes, may be served on the residential rate

 - (b) Nonresidential service is defined as service provided to a business enterprise in space occupied and operated for nonresidential purposes. Typical service would include stores, offices, shops, restaurants, boarding houses, hotels, service garages, wholesale houses, filling stations, barber shops, beauty parlors, master metered apartment houses, common areas of shopping malls or apartments (such as halls or basements), churches, elevators, schools and facilities located away from the home site (this is not an all-inclusive list)

 - (c) The definitions above are based upon the supply of service to an entire premise through a single delivery and metering point Separate supply for the same customer at other points of consumption may be separately metered and billed

 - (d) If separate metering is not practical for a single unit (one premise) that is using gas for both domestic purposes and for conducting business (or for

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- (e) nonresidential purposes as defined herein), the customer will be billed under the predominate use policy. Under this policy, the customer's combined service is billed under the rate (Residential or Nonresidential) applicable to the type of service which constitutes 50% or more of the customer's total connected load.
- e Other classes of service furnished by the Company shall be defined in applicable rate schedules or in rules and regulations pertaining thereto. Service to customers for which no specific rate schedule is applicable shall be billed on the Nonresidential rates.
- 4 DISPATCHING – Transportation customers will adhere to gas dispatching policies and procedures established by Company to facilitate transportation service. Company will inform customer of any changes in dispatching policies that may affect transportation services as they occur.
- 5. RULES COVERING GAS SERVICE TO MANUFACTURED HOMES – The rules and regulation for providing gas service to manufactured homes are in accordance with the Code of Federal Regulations (24CFR Part 3280 – Manufactured Homes Construction and Safety Standards) Subpart G and H which pertain to gas piping and appliance installation. In addition to the above rules, the Company also follows the regulations set forth in the NFPA 501A, Fire Safety Criteria for Manufactured Home Installations, Sites, and Communities
- 6 CONSUMER DEPOSITS – The Company will determine whether or not a deposit shall be required of an applicant for gas service in accordance with Commission rules.
 - (a) The amount of such deposit shall not exceed one and one-half times the estimated amount of one month's average bill.
 - (b) The Company may accept in lieu of a cash deposit a contract signed by a guarantor, satisfactory to the Company, whereby the payment of a specified sum not to exceed the required cash deposit is guaranteed. The term of such contract shall be indeterminate, but it shall automatically terminate when the customer gives notice of service discontinuance to

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the Company or a change in location covered by the guarantee agreement of thirty days after written request for termination is made to the utility by the guarantor. However, no agreement shall be terminated without the customer having made satisfactory settlement for any balance, which the customer owes the Company. Upon termination of a guarantee contract, a new contract or a cash deposit may be required by the Company.

A deposit shall earn interest at the rate paid by the Bank of North Dakota on a six-month certificate of deposit as of the first business day of each year. Interest shall be credited to the customer's account annually during the month of December

Deposits with interest shall be refunded to customers at termination of service provided all billings for service have been paid. Deposits with interest will be refunded to all active customers, after the deposit has been held for twelve months, provided prompt payment record has been established.

7 METERING AND MEASUREMENT.

(a) Company will meter the volume of natural gas delivered to customer at the delivery point. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate, in which case the quantity supplied to customer shall be determined by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations.

(b) Transportation customers agree to provide the cost of the installation of remote data acquisition equipment to Company before transportation service is implemented

8 MEASUREMENT UNIT FOR BILLING PURPOSES – The measurement unit for billing purposes shall be one (1) decatherm (dk), unless otherwise specified Billing will be calculated to the nearest one-tenth (1/10) dk. One dk equals 10 therms or 1,000,000 Btu's. Dk's shall be calculated by the

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application of a thermal factor to the volumes metered. This thermal factor consists of:

- (a) An altitude adjustment factor used to convert metered volumes at local sales base pressure to a standard pressure base of 14.73 psia, and
- (b) A Btu adjustment factor used to reflect the heating value of the gas delivered.

9. UNIT OF VOLUME FOR MEASUREMENT – The unit of volume for purpose of measurement shall be one (1) cubic foot of gas at either local sales base pressure or 14.73 psia, as appropriate, and at a temperature base of sixty degrees Fahrenheit (60°F). All measurement of natural gas by orifice meter shall be reduced to this standard by computation methods, in accordance with procedures contained in ANSI-API Standard 2530, First Edition, as amended. Where natural gas is measured with positive displacement or turbine meters, correction to local sales base pressure shall be made for actual pressure and temperature with factors calculated from Boyle's and Charles' Laws. Where gas is delivered at 20 psig or more, the deviation of the natural gas from Boyle's Law shall be determined by application of Supercompressibility Factors for Natural Gas published by the American Gas Association, Inc., copyright 1955, as amended or superseded. Where gas is measured with electronic correcting instruments at pressures greater than local sales base, supercompressibility will be calculated in the corrector using AGA-3/NX-19, as amended, supercompressibility calculation. For handbilled accounts, application of supercompressibility factors will be waived on monthly-billed volumes of 250 dk or less.

10. PRIORITY OF SERVICE AND ALLOCATION OF CAPACITY – Priority of Service from Highest to Lowest:
- (a) Priority 1 – Firm sales services.
 - (b) Priority 2 – Small interruptible sales and small interruptible transportation services at the maximum rate on a pro rata basis.
 - (c) Priority 3 – Large interruptible sales and large interruptible transportation services at the maximum rate on a pro rata basis.

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- (d) Priority 4 – Small interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
- (e) Priority 5 – Large interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
- (f) Priority 6 – Gas scheduled to clear imbalances.

Montana-Dakota shall have the right, in its sole discretion, to deviate from the above schedule when necessary for system operational reasons and if following the above schedule would cause an interruption in service to a customer who is not contributing to an operational problem on Montana-Dakota's system.

Montana-Dakota reserves the right to provide service to customers with lower priority while service to higher priority customers is being curtailed due to restrictions at a given delivery or receipt point. When such restrictions are eliminated, Montana-Dakota will reinstate sales and/or transportation of gas according to each customer's original priority

- 11. LATE PAYMENT – Amounts billed will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing at the immediate subsequent billing date, provided however, that such amount shall not apply where a bill is in dispute or a formal complaint is being processed. All payments received will apply to the customer's account prior to calculating the late payment charge. Those payments applied shall satisfy the oldest portion of the bill first.
- 12. RETURNED CHECK CHARGE – A charge of \$10.00 will be collected by the Company for each check charged back to the Company by a bank
- 13. TAX CLAUSE – In addition to the charges provided for in the gas tariffs of the Company, there shall be charged pro rata amounts which, on an annual basis, shall be sufficient to yield to the Company the full amount of any sales,

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use or excise taxes, whether they be denominated as license taxes, occupation taxes, business taxes, privilege taxes, or otherwise, levied against or imposed upon the Company by any municipality, political subdivision, or other entity, for the privilege of conducting its utility operations therein.

The charges to be added to the customer's service bills under this clause shall be limited to the customers within the corporate limits of the municipality, political subdivision or other entity imposing the tax.

14. UTILITY CUSTOMER SERVICES:

(a) The following services will be performed at no charge regardless of the time of performance:

- (1) Fire and explosions calls.
- (2) Investigate hazardous condition on customer premises, such as gas leaks, odor complaints, combustion gas fumes.
- (3) Maintenance or repair of Company-owned facilities on the customer's premises.

(b) The following service calls will be performed at no charge during the Company's normal business hours:

- (1) Cut-ins and cut-outs.
- (2) Disconnecting of gas appliances permanently removed from service or in connection with cut-outs
- (3) Lighting pilots, inspecting, and adjusting gas equipment in connection with establishing service when working cut-in orders.
- (4) Initial burner adjustment on residential gas burning appliances.

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- (5) High bills or inadequate service complaints.
- (6) Location of underground Company facilities and customer-owned gas service lines for contractors, builders, plumbers, etc.
- (7) Pilot relighting, testing thermocouple for proper operation and any pilot cleaning that can be done without removing pilot assembly.
- (8) Service calls for routine cut-ins, when the order is received prior to 12.00 p.m. on a regular work day, requiring service on the date the order is received, will be considered as non-chargeable regardless if work is performed outside of normal working hours.

- 15 UTILITY SERVICES PERFORMED AFTER NORMAL BUSINESS HOURS –** For service requested by customers after the Company's normal business hours and on Saturday, Sunday, or legal holidays, a charge will be made for labor at standard overtime service rates and materials at retail prices.

Customers requesting service after the Company's normal business hours will be informed of the after hour service rate and encouraged to have the service performed during normal business hours.

- 16 NOTICE TO DISCONTINUE GAS SERVICE –** Customers desiring to have their gas service disconnected shall notify the Company during regular business hours, one business day before service is to be disconnected. Such notice shall be by letter, personal visit or telephone call to the Company's local business office, in communities which an office is maintained. In other communities such notice shall be given to the Company's representative who services the community or to the nearest business office. Saturdays, Sundays and legal holidays are not considered business days.

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17. RECONNECTION FEE FOR SEASONAL OR TEMPORARY CUSTOMER –A customer who requests reconnection of service, during normal working hours, at a location where same customer discontinued the same service during the preceding 12-month period will be charged the Basic Service Charge applicable during the period while service was not being used or a minimum of \$30.00. The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a reconnection charge of \$160.00 whenever reinstallation of the required electronic measurement equipment is necessary.

18 DISCONNECTION OF SERVICE FOR NONPAYMENT OF BILLS – All amounts billed for service are due when rendered and will be considered delinquent if not paid by due date shown on the bill. If any customer shall become delinquent in the payment of amounts billed, such service may be discontinued by the Company under the applicable rules of the Commission. The Company may collect a fee of \$12.00 before restoring gas service, which has been disconnected for nonpayment of service bills during normal business hours. Standard overtime rates will apply for services performed after normal business hours.

19 DISCONNECTION OF SERVICE FOR CAUSES OTHER THAN NONPAYMENT OF BILLS – The Company reserves the right to discontinue service for any of the following reasons:

- (a) In the event of customer use of equipment in such a manner as to adversely affect the Company's equipment or service to others.
- (b) In the event of tampering with the equipment furnished and owned by the Company
- (c) For violation of or noncompliance with the Company's rules on file with the Commission.

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(d) For failure of the customer to fulfill the contractual obligations imposed as conditions of obtaining service

(e) For refusal of reasonable access to property to the agent or employee of the Company for the purpose of inspecting the facilities or for testing, reading, maintaining or removing meters.

The right to discontinue service for any of the above reasons may be exercised whenever and as often as such reasons may occur, and any delay on the part of the Company in exercising such rights, or omission of any action permissible hereunder, shall not be deemed a waiver of its rights to exercise same

Nothing in these regulations shall be construed to prevent discontinuing service without advance notice for reasons of safety, health, cooperation with civil authorities, or fraudulent use, tampering with or destroying Company facilities.

The Company may collect a reconnect fee of \$12.00 before restoring gas service, which has been disconnected for the above causes.

20 UNAUTHORIZED USE OF SERVICE – Unauthorized use of service is defined as any deliberate interference such as tampering with a Company meter, pressure regulator, registration, connections, equipment, seals, procedures or records that result in a loss of revenue to the Company. Unauthorized service is also defined as reconnection of service that has been terminated, without the Company's consent

(a) Examples of unauthorized use of service include the following, but are not limited to:

- (1) Bypass piping around meter.
- (2) Bypass piping installed in place of meter.

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- (3) Meter reversed.
 - (4) Meter index disengaged or removed
 - (5) Service or equipment tampered with or piping connected ahead of meter.
 - (6) Tampering with meter or pressure regulator that affects the accurate registration of gas usage.
 - (7) Gas being used after service has been discontinued by the Company
 - (8) Gas being used after service has been discontinued by the Company as a result of a new customer turning gas on without the proper connect request.
- (b) In the Event that there has been unauthorized use of service, customer shall be charged for:
- (1) Time, material and transportation costs used in investigation
 - (2) Estimated charge for non-metered gas.
 - (3) On-premise time to correct situation.
 - (4) Any damage to Company property.
- (c) Customer service so disconnected shall be reconnected after a customer has furnished satisfactory evidence of compliance with Company's rules and conditions of service, and paid all charges as hereinafter set forth in this procedure.
- (1) All delinquent bills, if any.
 - (2) The amount of any Company revenue loss attributable to said tampering.
 - (3) Expenses incurred by the Company in replacing or repairing the meter or other appliance costs incurred in preparation of the bill, plus costs as outlined in number 20.b above.
 - (4) Reconnection fee applicable.
 - (5) A cash deposit, the amount of which will not exceed the maximum amount determined in accordance with Commission Rules.

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21 SEE ALSO THE FOLLOWING RATES FOR SPECIAL PROVISIONS.

- Rate 102 – Residential Rate for Regular Employees
- Rate 119 – Interruptible Gas Service Extension Policy
- Rate 120 – Firm Gas Service Extension Policy
- Rate 124 – Service Lines

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RESIDENTIAL GAS SERVICE FOR REGULAR EMPLOYEES Rate 102

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The bill for residential gas service for regular employees of Montana-Dakota Utilities Co , MDU Resources Group, Inc., and all wholly owned subsidiaries of MDU Resources Group, Inc., shall be computed at the applicable rates and the amount reduced by 33-1/3%. This is available only for residential use, in a single family unit, served by the Company to a regular employee who has been continuously employed at least six months and is the principal support of the household in which employee resides, or is the spouse of the principal support.

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INTERRUPTIBLE GAS SERVICE EXTENSION POLICY Rate 119

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The policy of Montana-Dakota Utilities Co. for gas extensions necessary to provide interruptible sales or interruptible transportation service to customers is as follows:

1. Contribution

- (a) Prior to construction, the customer shall contribute an amount equal to the total cost of construction including all gas main extensions, valves, service line(s), regulators, meters (excluding remote data acquisition equipment), any required payments made by the Company to the transmission pipeline to accommodate the extensions, and other costs as adjusted for federal and state income taxes.
- (b) The contribution shall be made by:
 - i. A one-time payment prior to construction or,
 - ii. The customer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the total contribution required prior to construction. Such bond, issued by a bonding company authorized to do business in the state, letter of credit, or written guarantee commitment, shall be effective for a five-year period commencing at the plant in service date, and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists for the subject project, the surety or guarantor shall pay the Company for such contribution requirement, or
 - iii. Customer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.
- (c) Upon Completion of construction, the contribution amount will be adjusted to reflect actual costs, and an additional charge may be levied or a refund may be made.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street

Bismarck, ND 58501

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INTERRUPTIBLE GAS SERVICE EXTENSION POLICY Rate 119

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(d) Remote data acquisition equipment costs shall be subject to the terms and conditions specified in Transportation Service Rates 81 and 82.

2. Refund

(a) If within the five-year period from the extension(s) in service date, the total of the customer's contribution and actual margin paid to the Company equals or exceeds the total present value of the revenue requirement associated with the extension, Company shall refund the amount exceeding the revenue requirement on the following basis:

- i. Annually, beginning at the 2nd anniversary of the extension(s) in service date, the Company will refund to the customer, the amount exceeding the total present value of the revenue requirement at a rate of 50% of the current year margin associated with the customer's actual throughput.
- ii. Customers who have posted a bond, letter of credit, or a written guarantee commitment will be notified of any reduction in surety or guarantee requirements based on the above calculation.
- iii. No refunds will be made for amounts less than \$25

(b) Interest will be calculated annually by the Company on any refund amounts and shall be equal to the average commercial paper interest rate (A1/P1), not to exceed 12 percent per annum.

(c) No refund shall be made by the Company after the five-year refund period has expired, and in no case shall the refund, excluding interest, exceed the amount of contribution made by the customer.

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FIRM GAS SERVICE EXTENSION POLICY Rate 120

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The policy of Montana-Dakota Utilities Co. for gas extensions necessary to provide firm sales service to customers is as follows:

(A) General Rules and Regulations Applicable to all Firm Service Extensions

1. An extension will be constructed without a contribution if the estimated capital expenditure is cost justified as defined in ¶A.3.
2. The Company may require customer or developer cost participation if the estimated capital expenditure is not cost justified.
3. The extension will be considered cost justified if the calculated maximum allowable investment equals or exceeds the estimated capital expenditure using the following formula:

Maximum Allowable Investment =

Annual Basic Service Charge + (Project Estimated 3rd Year Annual Dk x
Distribution Delivery Charge)/LARR

where LARR = Levelized Annual Revenue Requirement Factor of 19.954%

4. Cost of the extension shall include the gas main extension(s), valves, service line(s), any required payments made by the Company to the transmission pipeline company to accommodate the extension(s), and other costs excluding the distribution meter and regulator.

The service line is that portion of the gas service extending from the gas main to the connection at the house regulator and/or meter.

5. Where cost participation is required, such extension is subject to execution of the Company's standard agreement for extensions by the customer or the developer and Company.

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6. A refund will be made only when there is a reduction in the amount of contribution required within a five-year period from the extension(s) in service date. Interest will be calculated annually by the Company on any refund amounts and shall be equal to the average commercial paper interest rate (A1/P1), not to exceed 12 percent per annum

No refund shall be made by Company after the five-year refund period and in no case shall the refund excluding interest, exceed the amount of the contribution.

7. The Company reserves the right to charge customer the cost associated with providing service to customer if service is not initiated within 12 months of such installation.

(B) Customer Extensions

Cost participation for extensions where customers will be immediately available for service is as follows:

1. Contribution

- (a) When a contribution is required, the customer(s) shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with ¶ A.3.

- (b) The contribution shall be made by

- i. A one-time payment prior to construction, or
- ii. Payment of 25% of the contribution prior to construction and the balance in no more than twenty-four equal monthly installments. If customer discontinues service within the twenty-four month period, the balance will be due and payable upon discontinuance of service, or
- iii. Customer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized

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FIRM GAS SERVICE EXTENSION POLICY Rate 120

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to do business in the state, letter of credit, or written guarantee commitment, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety or guarantor shall reimburse the Company for such recalculated contribution requirement, or

iv. Customer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.

(c) Upon completion of construction, the contribution amount will be adjusted to reflect actual costs, and an additional charge may be levied or a refund may be made.

(d) If within the five-year period from the extension(s) in service date, the number of active customers and related volumes exceeds the third-year projections, the Company shall recompute the contribution requirement by recalculating the maximum allowable investment.

(e) The recalculated contribution requirement shall be collected from the new applicant(s)

2. Refund

(a) The Company will refund to the original contributor(s) the amount required to reduce their contribution to the recalculated contribution requirement. No refunds will be made for amounts less than \$25. Customers who have posted a bond, letter of credit, or written guarantee commitment will be notified of any reduction in surety or guarantee requirements

(b) No refunds will be made until the new applicants begin taking service from the Company

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- (c) If the addition of new customers will increase the contribution required from existing customer(s), the extension will be considered a new extension and treated separately.

3 Incremental Expansion Surcharge

- (a) The Company, in its sole discretion, may offer an Incremental Expansion Surcharge (Surcharge) to a project consisting of 10 or more customers requesting service when the total estimated cost would otherwise have been prohibitive under the Company's present rates and gas service extension policy. If the Company and customers mutually agree that the project will be funded through a Surcharge, the project will be designated an expansion area and the Surcharge will be applicable to all connections within the expansion area. The contribution requirement to be collected under the Surcharge shall be the amount of the capital expenditure in excess of the Maximum Allowable Investment determined in accordance with ¶A.3.
- i. A minimum up-front payment of \$100.00 will be collected from each customer who signs an agreement to participate in the expansion.
 - ii. For projects that are expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge of \$5 00 per month plus \$1.50 per dk.
 - iii. For projects that are not expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge of \$5.00 per month plus a commodity charge designed to provide recovery of the contribution requirement in a five-year period.
- (b) The Surcharge shall remain in effect until the net present value of the contribution requirement, calculated using a discount rate equal to the overall rate of return authorized in the last rate case, is collected
- (c) The Surcharge shall apply to all customers connecting to natural gas service within the expansion area until the contribution requirement is satisfied.

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(d) The net present value of the Surcharge will be treated as a contribution-in-aid of construction for accounting purposes.

(C) Developer Extensions

Cost participation may be required for extensions such as a subdivision or a mobile home court, in which a developer is installing roads, utilizes, etc., before housing is built

1. Contribution

(a) When a contribution is required, the developer shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with ¶A 3.

(b) The contribution shall be made by:

- i. A one-time payment prior to construction, or
- ii. Developer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, letter of credit, or a written guarantee commitment, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety shall reimburse the Company for such recalculated contribution requirement, or
- iii. Customer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.

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- (c) Upon completion of construction, the contribution amount will be adjusted to reflect actual costs, and an additional charge may be levied or a refund may be made.

2. Refund

- (a) If within the five-year period from the extension(s) in service date, the number of active customers and related volumes exceeds the third-year projections, the Company shall recompute the contribution requirement by recalculating the maximum allowable investment. Such recalculation shall be done annually based upon the anniversary of the extension(s) in service date.
- (b) The Company will refund to the developer the amount required to reduce their contribution to the recalculated contribution requirement. No refunds will be made for amounts less than \$25. Developers who have posted a bond, letter of credit, or written guarantee commitment will be notified of any reduction in surety or guaranty requirements.
- (c) If the addition of new customer(s) will increase the contribution required from the developer, the extension will be considered a new extension and treated separately.

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NEW INSTALLATION, REPLACEMENT, RELOCATION AND REPAIR OF GAS SERVICE LINES Rate 124

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1. The Company will install, at its expense, a service line extending from the main to the connection at the premise regulator and/or meter for all customers connected on and after (effective date of tariff) and all replacement service lines installed on and after (effective date of tariff). The service line installed by the Company will remain the Company's property.
2. A non-refundable contribution may be required for that portion of the service line cost not supported by the expected or actual connected load. The contribution requirement will be determined based on minimum footage allowances determined annually taking into account the maximum allowable investment defined in Rate 120 and the average installed per foot cost. The Company reserves the right to charge customer the total cost of the installed service line if service is not initiated within 12 months of such installation.
3. The portion of the service line not cost justified shall be charged to the customer on the basis of direct costs to the Company. The Company may, at its option, calculate a statewide average cost per foot for such work based on its experience and may use such calculated amount for billing purposes. No minimum amount shall apply.
4. Where service line location changes are made due to building encroachments (a building is being constructed or is already located over a service line, etc), the customer shall be charged for on the basis of direct costs incurred by the Company.
5. Whenever a service line is damaged by the customer or someone under the employ of the customer necessitating the service line to be either repaired or replaced in whole or in substantial part, such work shall be charged on a direct cost basis. If the damage was caused by independent contractors, not in the employ of the customer, the charges shall be billed directly to such contractor.
6. Service line changes necessary to increase the size and capacity of an existing service line because of increased demand shall be treated in accordance with ¶2 above.

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RATE SUMMARY SHEET

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Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk
Residential Rate 60	4	\$0 30 per day	\$0 894	\$6 653	\$7.547
Air Force Rate 64	7				
Minot Air Force Base		\$1,000 00 per month			
PAR Site		\$135 00 per month			
Firm Service			\$0 138	\$6 653	\$6.791
Interruptible Service - PAR			\$0 120	\$5 761	\$5 881
Interruptible Service - MAFB			\$0 120	\$5 494	\$5 614
Firm General Service Rate 70	13				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day	\$0 626	\$6 653	\$7 279
Small Interruptible Gas Rate 71	14	\$100 00 per month	(Maximum) \$0 871	\$5 761	(Maximum) \$6 632
Optional Seasonal Gas Service Rate 72	15				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day			
Winter Gas Usage			\$0 626	\$6 749	\$7 375
Summer Gas Usage			\$0 626	\$5 647	\$6 273
Transportation Service	24				
Small Interruptible Rate 81		\$150 00 per month			
Maximum			\$0 427		
Minimum			\$0 102		
Fuel Charge				\$0 025	
Large Interruptible Rate 82		\$725 00 per month			
Maximum			\$0 298		
Minimum			\$0 061		
Fuel Charge				\$0 025	
Large Interruptible Gas Rate 85	27	\$675 00 per month	(Maximum) \$0 719	\$5 761	(Maximum) \$6 480
Residential Propane Rate 90	32	\$0 30 per day	\$0 894	\$9 335	\$10.229
Firm General Propane Rate 92	34				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day	\$0 626	\$9 335	\$9 961

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3rd Revised Sheet No 3.1

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RATE SUMMARY SHEET

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Miscellaneous Charges	Amount
Late Payment	1% per month
Returned Check	\$10 00 per check
Reconnection charge after termination for nonpayment	
-During normal business hours	\$12 00
-After normal business hours	Current service labor rate per hour
Reconnection charge after termination for causes defined in Rate 100 ¶19	
-During normal business hours	\$30 00
-After normal business hours	Current service labor rate per hour
Reconnection charge applicable to seasonal or temporary customers	Basic Service Charge applicable during the period while service was not being used
-During normal business hours	Minimum- \$30 00
-After normal business hours	Minimum- Current service labor rate per hour
Maximum reconnection charge applicable to transportation customers when remote data acquisition equipment must be reinstalled	\$160 00

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4th Revised Sheet No 4
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RESIDENTIAL GAS SERVICE Rate 60

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Availability:

In all communities served for all domestic uses See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge	\$0.30 per day
Distribution Delivery Charge:	\$.894 per dk
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

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Original Sheet No 4 1

RESIDENTIAL GAS SERVICE Rate 60

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General Terms and Conditions:

1. Standby Service Gas supplied under this rate schedule is not to be used as a standby or backup fuel source by purchaser. However, if it is determined that gas service is being supplied for use as a standby or backup energy source, there shall be an additional charge of \$8.00 per month in addition to all other charges applicable under this rate schedule.
- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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4th Revised Sheet No 13
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FIRM GENERAL GAS SERVICE Rate 70

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Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour \$0.52 per day

For customers with meters rated over
500 cubic feet per hour \$1.75 per day

Distribution Delivery Charge: \$.626 per dk

Cost of Gas. Determined Monthly- See
Rate Summary Sheet for
Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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Original Sheet No 13.1

FIRM GENERAL GAS SERVICE Rate 70

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General Terms and Conditions:

- 1 Standby Service: Gas supplied under this rate schedule is not to be used as a standby or backup fuel source by purchaser. However, if it is determined that gas service is being supplied for use as a standby or backup energy source, there shall be an additional charge in addition to all other charges applicable under this rate schedule:

For customers with meters
rated under 500 cubic feet per hour: \$15.00 per month

For customers with meters
rated over 500 cubic feet per hour: \$15.00 per month plus applicable
pipeline demand and storage costs

- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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3rd Revised Sheet No 14

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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge.	\$100.00 per month	
Distribution Delivery Charge	<u>Maximum</u> \$.871 per dk	<u>Minimum</u> \$.427 per dk
Cost of Gas.	Determined Monthly- See Rate Summary Sheet for Current Rate	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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1st Revised Sheet No 14 1
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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations

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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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4. **OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS** – Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer's action.
5. **METERING REQUIREMENTS** – Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder.

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the remote data acquisition equipment. And any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.

6. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
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State of North Dakota Gas Rate Schedule

NDPSC Volume 7
4th Revised Sheet No 15
Canceling 3rd Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale See Rate 100, §V.3,
for definition on class of service

Rate:

Basic Service Charge.

For customers with meters rated
under 500 cubic feet per hour

\$0.52 per day

For customers with meters rated
over 500 cubic feet per hour

\$1 75 per day

Distribution Delivery Charge.

\$ 626 per dk

Cost of Gas

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on
the bill. Past due bills are subject to a late payment charge in accordance with
the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the
Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations
thereto. The cost of gas component is subject to change on a monthly basis.

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1st Revised Sheet No 15 1

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OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

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Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

General Terms and Conditions:

1. The customer agrees to contract for service under the Optional Seasonal General Gas Service Rate 72 for a minimum of one year.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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State of North Dakota Gas Rate Schedule

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Canceling Original Sheet No 24

TRANSPORTATION SERVICE Rates 81 and 82

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Availability:

This service is applicable for transportation of natural gas to customer's premise (metered at a single delivery point) through Company's distribution facilities. In order to obtain transportation service, customer must qualify under an applicable gas transportation service rate; meet the general terms and conditions of service provided hereunder, and enter into a gas transportation agreement upon request by the Company.

The transportation services are as follows.

Small Interruptible General Gas Transportation Service Rate 81:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point, whose average use of natural gas will not exceed 100,000 dk annually and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Small Interruptible General Gas Service Rate 71. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

Large Interruptible General Gas Transportation Service Rate 82:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed 100,000 dk annually metered at a single delivery point, and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Large Interruptible General Gas Service Rate 85. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

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State of North Dakota Gas Rate Schedule

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Canceling 1st Revised Sheet No 24 1

TRANSPORTATION SERVICE Rates 81 and 82

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Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge

Rate 81 \$150.00 per month

Rate 82 \$725.00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0.427	\$0.298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300

Fuel Charge:

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet for currently effective charge.

General Terms and Conditions:

1. **CRITERIA FOR SERVICE:** In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).
2. **REQUEST FOR GAS TRANSPORTATION SERVICE:**
 - a. To qualify for gas transportation service a customer must request the service pursuant to the provisions set forth herein. The service shall be provided only to the extent that the Company's existing operating capacity permits.

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State of North Dakota Gas Rate Schedule

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TRANSPORTATION SERVICE Rates 81 and 82

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- b. Requests for transportation service shall be considered in accordance with the provisions of Rate 100, §V 10.
3. MULTIPLE SERVICES THROUGH ONE METER:
 - a. In the event customer desires firm sales service in addition to gas transportation service, customer shall request such firm volume requirements, and upon approval by Company, such firm volume requirements shall be set forth in a firm service agreement. For billing purposes, the level of volumes so specified or the actual volume used, whichever is lower shall be billed at Rate 70. Volumes delivered in excess of such firm volumes shall be billed at the applicable gas transportation rate. Customer has the option to install at their expense, piping necessary for separate measurement of sales and transportation volumes.
 - b. The customer shall pay, in addition to charges specified in the applicable gas transportation rate schedule, charges under all other applicable rate schedules for any service in addition to that provided herein (irrespective of whether the customer receives only gas transportation service in any billing period).
4. PRIORITY OF SERVICE – Company shall have the right to curtail or interrupt deliveries without being required to give previous notice of intention to curtail or interrupt, whenever, in its judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10

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- 5 PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken above that received on customer's behalf, shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company

6. NON-DELIVERED VOLUMES/PENALTY:
 - a In the event customer uses more gas than is being delivered to the Company's interconnection with the delivering pipeline(s) (receipt point), customer shall pay an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same receipt point, any payment or overrun penalties the Company is required to make shall be allocated on a pro rata basis among such customers on the basis of each customer's use of gas in excess of available volumes.

 - b. In the event the customer's gas is not being delivered to the receipt point for any reason and the customer continues to take gas, the customer shall be subject to any applicable penalties or charges set forth in Paragraph 6.a. Gas volumes supplied by Company will be charged at Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The Company is under no obligation to notify customer of non-delivered volumes.

 - c In the event customer's transportation volumes are not available for any reason, customer may take interruptible sales service if such service is available. The availability of interruptible sales service shall be determined at the sole discretion of the Company

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- 7 ELECTION OF SERVICE – Prior to the initiation of service hereunder, the customer shall make an election of its requirements under each applicable rate schedule for the entire term of service. If mutually agreed to by Company and customer, the term of service may be amended. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under the appropriate sales rate schedule for the customer's operations.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a reconnection charge as specified in Rate 100, §V.17.

8 BALANCING:

- a. To the extent practicable, customer and Company agree to the daily balancing of volumes of gas received and delivered on a thermal basis. Such balancing is subject to the customer's request and the Company's discretion to vary scheduled receipts and deliveries within existing Company operating limitations.

If, at the end of a billing month, the accumulated difference between actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer exceeds 4% of that month's scheduled receipts, resulting in a negative imbalance (i.e., deliveries exceed scheduled receipts), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, the customer shall then be billed, in addition to the applicable transportation rate, a penalty for the under nominated volume exceeding 4% at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume on which a penalty was imposed.

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If, at the end of a billing month, the accumulated difference between nominated (scheduled) receipts on behalf of such customer and actual gas deliveries to the customer exceeds 4% of that month's scheduled receipts resulting in a positive imbalance (i.e , scheduled receipts exceed deliveries), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, (1) the Company may adjust the volume of gas received on behalf of the customer so as to eliminate the prior period over nomination exceeding 4% up to 10% and (2) the Company shall retain the over nomination of gas exceeding 10% free and clear of any adverse claims relating thereto when such accumulated difference exceeds 50 dk. The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume retained.

- b In the event customer's imbalance causes the Company to incur a balancing penalty from its interconnecting pipeline(s), customer shall pay any penalty payments or overrun charges the Company is required to make under the terms of its contract(s) with interconnecting pipeline(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same interconnection with a delivering pipeline, any payment or overrun penalties the Company is required to make shall be apportioned among such customers on the basis of each customer's contribution toward the imbalance.
- c Customer's nomination made to clear imbalances will be subject to the priority of service and allocation of capacity provisions set forth in Rate 100, §V.10 and the penalties for failure to curtail or interrupt use of gas set forth in Paragraph 5 of this rate schedule.
- d Termination of the gas transportation service shall not relieve Company and customer of the obligation to correct any quantity imbalances hereunder or customer of the obligation to pay money due hereunder to Company

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- e The Company may waive any penalty associated with Company adjustments to end-use customer nominations in those instances where the Company, due to operating limitations, is required to adjust end-use transportation customer nominations and such Company adjustments create a penalty situation, or preclude a customer from correcting an imbalance which results in a penalty.

- 9 **NOMINATION VARIANCE CHARGE** – The customer shall pay any payments the Company must make to its interconnecting pipeline(s), as a result of nomination variance penalties caused by customer's nomination variances. Such penalties will be allocated on the basis of each customer's contribution toward the nomination variance.

- 10 **METERING REQUIREMENTS:**
 - a Remote data acquisition equipment required by the Company for daily measurement will be purchased and installed by the Company prior to the initiation of service hereunder. The cost of the equipment and its installation shall be paid for by the customer. Such contribution in aid, as adjusted for federal and state income taxes, must be paid prior to the installation of such equipment unless otherwise agreed to by the Company. Such equipment will be maintained by the Company and will remain the sole property of the Company. Company may remove such equipment when service hereunder is terminated.

 - b. The customer shall provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply or other power source acceptable to the Company and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the remote data acquisition equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

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TRANSPORTATION SERVICE Rates 81 and 82

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- c. The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.
- 11 DAILY NOMINATION REQUIREMENTS:
- a. Customer or customer's shipper or agent shall advise Company's gas nominations center, by 11:30 a m. Central Clock Time, of the dk requirements customer has requested to be delivered at each delivery point the following day. Customer's daily nomination shall be its best estimate of the expected utilization for the gas day Unless other arrangements are made, customer will be required to nominate for the non-business days involved prior to weekends and holidays.
 - b. All nominations should include shipper and/or agent defined begin and end dates Shippers and/or agents may nominate for periods longer than 1 day, provided the nomination begin and end dates are within the term of the service agreement.
 - c. The Company has the sole right to refuse receipt of any volumes which exceed the maximum daily contract quantity and at no time shall the Company be required to accept quantities of gas for a customer in excess of the quantities of gas to be delivered to customer. If total nominated receipts exceed total deliveries at receipt points where more than one customer is receiving service, nominations will be allocated on a pro rata basis.
 - d. At no time shall Company have the responsibility to deliver gas in excess of customer's nomination.
 - e. In the event that more than one customer is receiving gas from the same shipper and/or agent at the same receipt point, any reduction in nominated volumes will be allocated on a pro rata basis, unless Company and shipper(s) and/or agent(s) have agreed to a predetermined allocation procedure.

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1st Revised Sheet No 24.8
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TRANSPORTATION SERVICE Rates 81 and 82

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12. **WARRANTY** – The customer, customer's agent, or customer's shipper warrants that it will have title to all gas it tenders or causes to be tendered to the Company, and such gas shall be free and clear of all liens and adverse claims and the customer, customer's agent, or customer's shipper shall indemnify the Company against all damages, costs, and expenses of any nature whatsoever arising from every claim against said gas
13. **FACILITY EXTENSIONS** – If facilities are required in order to furnish gas transportation service, and those facilities are in addition to the facilities required to furnish firm gas service, the customer shall pay for those additional facilities and their installation in accordance with the Company's applicable natural gas extension policy. Company may remove such facilities when service hereunder is terminated.
14. **PAYMENT** – Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto
15. **BILLING ERROR** – In the event an error is discovered in any bill that the Company renders to customer, such error shall be adjusted within a period not to exceed 6 months from the date the billing error is first discovered.
16. **AGREEMENT** – Upon request of the Company, customer may be required to enter into an agreement for service hereunder.
17. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 29

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

Page 1 of 3

APPLICABILITY:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the heating season defined as November 1 through March 31. Service provided under the Company's Residential Rates 60 and 90 and Firm General Service Rates 70 and 92 shall be subject to decreases or increases under the DDSM

EFFECTIVE DATE:

Adjustments under this DDSM will commence in May 2005 and continue through April 2006. The DDSM will be recalculated on an annual basis and a new DDSM will be filed to be effective May 1 each year thereafter.

DISTRIBUTION DELIVERY STABILIZATION MECHANISM:

A DDSM will be determined for each rate schedule subject to the DDSM and shall be expressed as rate per dk. Monthly bills beginning with the first billing cycle following May 1, 2005 and each May 1 thereafter, will be adjusted (decreased or increased) by the application of a DDSM rate computed in accordance with the procedures based on temperature conditions for the winter heating season beginning November 1, 2004 ending March 31, 2005, and each heating season thereafter, compared to normal temperature levels established in the most recent general rate case. The DDSM rate will be stated as a surcharge or credit on all rate schedules to which the DDSM is applicable. A DDSM rate will be computed for each applicable rate schedule to be effective for a period of one year. Following the initial one-year term, and annually thereafter, the DDSM rate calculation shall include any over or under collection of DDSM revenue from the preceding twelve month recovery period.

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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DDSM RATE CALCULATION:

A DDSM shall be determined for each rate schedule subject to the DDSM and shall be expressed as a rate per dk. In order to calculate the respective DDSM rates, the winter season HDD variation from the normal HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD, as determined in the most recent general rate case. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate and then divided by the average annual use per customer to determine a dollar amount per dk.

$$DDSM_i = \frac{R_i (DDF_i (NDD - ADD)) + (PDDSM_i - ADDSM_i)}{ANU_i}$$

Where:

DDSM_i = Distribution Delivery Stabilization dollar amount per dk

i = Applicable rate class subject to the DDSM

R_i = Applicable Distribution Delivery Charge per dk

DDF_i = Temperature sensitive use per customer per degree day

NDD = Normal degree days for the winter service period

ADD = Actual degree days for the winter service period

ANU_i = Average normal use per customer for the prospective twelve month period

PDDSM_i = Projected DDSM revenue from the preceding twelve month period

ADDSM_i = Actual DDSM revenue recovered from the preceding twelve month period

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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DEFINITIONS:

- Heating Degree Days - The difference between the average of the daily high and low temperature subtracted from 60 degrees Fahrenheit.
- Normal Degree Days - The heating degree days that are based on the 30 year average ending June 30, 2001.
- Actual Degree Days - The actual degree days reported by National Weather Service Stations for applicable service areas in North Dakota weighted by customers.

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State of North Dakota Gas Rate Schedule

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RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 2

Availability:

For the community of Hettinger for all domestic purposes. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge	\$0.30 per day
Distribution Delivery Charge	\$ 894 per dk
Cost of Propane:	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.

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RESIDENTIAL PROPANE SERVICE Rate 90

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2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale See Rate 100, §V 3, for definition on class of service

Rate:**Basic Service Charge**

For customers with meters rated
under 500 cubic feet per hour \$0.52 per day

For customers with meters rated
over 500 cubic feet per hour \$1.75 per day

Distribution Delivery Charge: \$.626 per dk

Cost of Propane: Determined Monthly- See Rate
Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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FIRM GENERAL PROPANE SERVICE Rate 92

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General Terms and Conditions:

- 1 The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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Case No :



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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I **PURPOSE:**

These rules are intended to define good practice which can normally be expected, but are not intended to exclude other accepted standards and practices not covered herein. They are intended to ensure adequate service to the public and protect the Company from unreasonable demands.

The Company undertakes to furnish service subject to the rules and regulations of the Public Service Commission of North Dakota and as supplemented by these general provisions, as now in effect or as may hereafter be lawfully established, and in accepting service from the Company, each customer agrees to comply with and be bound by said rules and regulations and the applicable rate schedules.

II **DEFINITIONS:**

The following terms used in this tariff shall have the following meanings, unless otherwise indicated:

AGENT – The party authorized by the transportation service customer to act on that customer's behalf.

APPLICANT – A customer requesting Company to provide service.

COMMISSION – Public Service Commission of the State of North Dakota

COMPANY – Montana-Dakota Utilities Co.

COMPANY'S OPERATING CONVENIENCE – The utilization, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of Company's operations. This does not refer to the customer's convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules or regulations, or similar requirements of public authorities.

CURTAILMENT – A reduction of transportation or retail natural gas service deemed necessary by the Company. Also includes any reduction of transportation natural gas service deemed necessary by the pipeline.

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CUSTOMER – Any individual, partnership, corporation, firm, other organization or government agency supplied with service by Company at one location and at one point of delivery unless otherwise expressly provided in these rules or in a rate schedule.

DELIVERY POINT – The point at which customer assumes custody of the gas being transported. This point will normally be at the outlet of Company's meter(s) located on customer's premises.

GAS DAY – Means a period of twenty-four consecutive hours, beginning and ending at 9 00 a.m. Central Clock Time.

INTERRUPTION – A cessation of transportation or retail natural gas service deemed necessary by Company.

NOMINATION – The daily dk volume of natural gas requested by customer for transportation and delivery to customer at the delivery point during a gas day

PIPELINE – The transmission company(s) delivering natural gas into company's system.

RATE – Shall mean and include every compensation, charge, fare, toll, rental and classification, or any of them, demanded, observed, charged or collected by the Company for any service, product, or commodity, offered by the Company to the public, and any rules, regulations, practices or contracts affecting any such compensation, charge, fare, toll, rental or classification.

RECEIPT POINT – The intertie between Company and the interconnecting pipeline(s) at which point Company assumes custody of the gas being transported.

SHIPPER – The party with whom the Pipeline has entered into a service agreement for transportation services

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III. CUSTOMER OBLIGATION:

1. APPLICATION FOR SERVICE – A customer desiring gas service must make application to the Company before commencing the use of the Company's service. The Company reserves the right to require a signed application or written contract for service to be furnished. All applications and contracts for service must be made in the legal name of the customer desiring the service. The Company may refuse a customer or terminate service to a customer who fails or refuses to furnish reasonable information requested by the Company for the establishment of a service account. Any customer who uses gas service in the absence of application or contract shall be subject to the Company's rates, rules, and regulations and shall be responsible for payment of all service used.

Subject to rates, rules, and regulations, the Company will continue to supply gas service until notified by customer to discontinue the service. The customer will be responsible for payment of all service furnished through the date of discontinuance.

Any customer may be required to make a deposit as required

2. INPUT RATING – All new customers whose consumption of gas for any purpose will exceed an input of 2,500,000 Btu per hour, metered at a single delivery point, shall consult with the Company and furnish details of estimated hourly input rates for all gas utilization equipment. Where system design capacity permits, such customers may be served on a firm basis. Where system design capacity is limited, and at Company's sole discretion, Company will serve all such new customers on an interruptible basis only. Architects, contractors, heating engineers and installers, and all others should consult with the Company before proceeding to design, erect or redesign such installations for the use of natural gas. This will ensure that such equipment will conform to the Company's ability to adequately serve such installations with gas.

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3. ACCESS TO CUSTOMER'S PREMISES – Company representatives, when properly identified, shall have access to customer's premises at all reasonable times for the purpose of reading meters, making repairs, making inspections, removing the Company's property, or for any other purpose incidental to the service.
4. COMPANY PROPERTY – The customers shall exercise reasonable diligence in protecting the Company's property on their premises, and shall be liable to the Company in case of loss or damage caused by their negligence or that of their employees.
5. INTERFERENCE WITH COMPANY PROPERTY – The customer shall not disconnect, change connections, make connections or otherwise interfere with Company's meters or other property or permit same to be done by other than the Company's authorized employees
6. RELOCATED LINES – Where Company facilities are located on a public or private utility easement and there is a building encroachment(s), over gas facilities (Company-owned main, Company-owned service line or customer-owned service line) the customer shall be charged for line relocation on the basis of actual costs incurred by the Company including any required easements
7. NOTIFICATION OF LEAKS – The customer shall immediately notify the Company at its office of any escape of gas in or about the customer's premises
8. TERMINATION OF SERVICE – All customers are required to notify the Company, to prevent their liability for service used by succeeding tenants, when vacating their premises. Upon receipt of such notice, the Company will read the meter and further liability for service used on the part of the vacating customer will cease
9. REPORTING REQUIREMENTS – Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein.

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IV LIABILITY

1. CONTINUITY OF SERVICE – The Company will use all reasonable care to provide continuous service but does not assume responsibility for a regular and uninterrupted supply of gas service and will not be liable for any loss, injury, death, or damage resulting from the use of service, or arising from or caused by the interruption or curtailment of the same
2. CUSTOMER'S EQUIPMENT – Neither by inspection or non-rejection, nor in any other way does the Company give any warranty, express or implied, as to the adequacy, safety or other characteristics of any structures, equipment, lines, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties
3. COMPANY EQUIPMENT AND USE OF SERVICE – The Company will not be liable for any loss, injury, death or damage resulting in any way from the supply or use of gas or from the presence or operation of the Company's structures, equipment, lines, appliances or devices on the customer's premises, except loss, injuries, death, or damages resulting from the negligence of the Company.
4. INDEMNIFICATION – Customer agrees to indemnify and hold Company harmless from any and all injury, death, loss or damage resulting from customer's negligent or wrongful acts under and during the term of service. Company agrees to indemnify and hold customer harmless from any and all injury, death, loss or damage resulting from Company's negligent or wrongful acts under and during the term of service.
5. FORCE MAJEURE – In the event of either party being rendered wholly or in part by force majeure unable to carry out its obligations, then the obligations of the parties hereto, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused. Such causes or contingencies affecting the performance by either party, however, shall not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance relieve either party

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from its obligations to make payments of amounts then due hereunder, nor shall such causes or contingencies relieve either party of liability unless such party shall give notice and full particulars of the same in writing or by telephone to the other party as soon as possible after the occurrence relied on. If volumes of customer's gas are destroyed while in Company's possession by an event of force majeure, the obligations of the parties shall terminate with respect to the volumes lost.

The term "force majeure" as employed herein shall include, but shall not be limited to, acts of God, strikes, lockouts or other industrial disturbances, failure to perform by any third party, which performance is necessary to the performance by either customer or Company, acts of the public enemy or terrorists, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrest and restraint of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, line freeze-ups, sudden partial or sudden entire failure of gas supply, failure to obtain materials and supplies due to governmental regulations, and causes of like or similar kind, whether herein enumerated or not, and not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to overcome; provided that the exercise of due diligence shall not require settlement of labor disputes against the better judgment of the party having the dispute

The term "force majeure" as employed herein shall also include, but shall not be limited to, inability to obtain or acquire, at reasonable cost, grants, servitudes, rights-of-way, permits, licenses, or any other authorization from third parties or agencies (private or governmental) or inability to obtain or acquire at reasonable cost necessary materials or supplies to construct, maintain, and operate any facilities required for the performance of any obligations under this agreement, when any such inability directly or indirectly contributes to or results in either party's inability to perform its obligations.

V. GENERAL TERMS AND CONDITIONS:

1. AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for any service.

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2. **RATE OPTIONS** – Where more than one rate schedule is available for the same class of service, the Company will assist the customer in selecting the applicable rate schedule(s). The Company is not required to change a customer from one rate schedule to another more often than once in twelve months unless there is a material change in the customer's load which alters the availability and/or applicability of such rate(s), or unless a change becomes necessary as a result of an order issued by the Commission or a court having jurisdiction. The Company will not be required to make any change in a fixed term contract except as provided therein.
3. **RULES FOR APPLICATION OF GAS SERVICE:**
 - (a) Residential gas service is available to any residential customer for domestic purposes only. Residential gas service is defined as service for general domestic household purposes in space occupied as living quarters, designed for occupancy by one family. Typical service would include the following. separately metered units, such as single private residences, single apartments, mobile homes and sorority and fraternity houses (this is not an all-inclusive list). In addition, auxiliary buildings on the same premise as the living quarters, used for residential purposes, may be served on the residential rate.
 - (b) Nonresidential service is defined as service provided to a business enterprise in space occupied and operated for nonresidential purposes. Typical service would include stores, offices, shops, restaurants, boarding houses, hotels, service garages, wholesale houses, filling stations, barber shops, beauty parlors, master metered apartment houses, common areas of shopping malls or apartments (such as halls or basements), churches, elevators, schools and facilities located away from the home site (this is not an all-inclusive list).
 - (c) The definitions above are based upon the supply of service to an entire premise through a single delivery and metering point. Separate supply for the same customer at other points of consumption may be separately metered and billed.

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- (d) If separate metering is not practical for a single unit (one premise) that is using gas for both domestic purposes and for conducting business (or for nonresidential purposes as defined herein), the customer will be billed under the predominate use policy. Under this policy, the customer's combined service is billed under the rate (Residential or Nonresidential) applicable to the type of service which constitutes 50% or more of the customer's total connected load.
- (e) Other classes of service furnished by the Company shall be defined in applicable rate schedules or in rules and regulations pertaining thereto. Service to customers for which no specific rate schedule is applicable shall be billed on the Nonresidential rates.
4. DISPATCHING – Transportation customers will adhere to gas dispatching policies and procedures established by Company to facilitate transportation service. Company will inform customer of any changes in dispatching policies that may affect transportation services as they occur.
5. RULES COVERING GAS SERVICE TO MANUFACTURED HOMES – The rules and regulation for providing gas service to manufactured homes are in accordance with the Code of Federal Regulations (24CFR Part 3280 – Manufactured Homes Construction and Safety Standards) Subpart G and H which pertain to gas piping and appliance installation. In addition to the above rules, the Company also follows the regulations set forth in the NFPA 501A, Fire Safety Criteria for Manufactured Home Installations, Sites, and Communities
6. CONSUMER DEPOSITS – The Company will determine whether or not a deposit shall be required of an applicant for gas service in accordance with Commission rules
- (a) The amount of such deposit shall not exceed one and one-half times the estimated amount of one month's average bill.

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- (b) The Company may accept in lieu of a cash deposit a contract signed by a guarantor, satisfactory to the Company, whereby the payment of a specified sum not to exceed the required cash deposit is guaranteed. The term of such contract shall be indeterminate, but it shall automatically terminate when the customer gives notice of service discontinuance to the Company or a change in location covered by the guarantee agreement of thirty days after written request for termination is made to the utility by the guarantor. However, no agreement shall be terminated without the customer having made satisfactory settlement for any balance, which the customer owes the Company. Upon termination of a guarantee contract, a new contract or a cash deposit may be required by the Company.

A deposit shall earn interest at the rate paid by the Bank of North Dakota on a six-month certificate of deposit as of the first business day of each year. Interest shall be credited to the customer's account annually during the month of December.

Deposits with interest shall be refunded to customers at termination of service provided all billings for service have been paid. Deposits with interest will be refunded to all active customers, after the deposit has been held for twelve months, provided prompt payment record has been established.

7 METERING AND MEASUREMENT:

- (a) Company will meter the volume of natural gas delivered to customer at the delivery point. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate, in which case the quantity supplied to customer shall be determined by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations.

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- (b) Transportation customers agree to provide the cost of the installation of remote data acquisition equipment to Company before transportation service is implemented.
- 8 MEASUREMENT UNIT FOR BILLING PURPOSES – The measurement unit for billing purposes shall be one (1) decatherm (dk), unless otherwise specified. Billing will be calculated to the nearest one-tenth (1/10) dk. One dk equals 10 therms or 1,000,000 Btu's. Dk's shall be calculated by the application of a thermal factor to the volumes metered. This thermal factor consists of:
- (a) An altitude adjustment factor used to convert metered volumes at local sales base pressure to a standard pressure base of 14.73 psia, and
- (b) A Btu adjustment factor used to reflect the heating value of the gas delivered.
9. UNIT OF VOLUME FOR MEASUREMENT – The unit of volume for purpose of measurement shall be one (1) cubic foot of gas at either local sales base pressure or 14.73 psia, as appropriate, and at a temperature base of sixty degrees Fahrenheit (60°F). All measurement of natural gas by orifice meter shall be reduced to this standard by computation methods, in accordance with procedures contained in ANSI-API Standard 2530, First Edition, as amended. Where natural gas is measured with positive displacement or turbine meters, correction to local sales base pressure shall be made for actual pressure and temperature with factors calculated from Boyle's and Charles' Laws. Where gas is delivered at 20 psig or more, the deviation of the natural gas from Boyle's Law shall be determined by application of Supercompressibility Factors for Natural Gas published by the American Gas Association, Inc, copyright 1955, as amended or superseded. Where gas is measured with electronic correcting instruments at pressures greater than local sales base, supercompressibility will be calculated in the corrector using AGA-3/NX-19, as amended, supercompressibility calculation. For handbilled accounts, application of supercompressibility factors will be waived on monthly-billed volumes of 250 dk or less.

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10. PRIORITY OF SERVICE AND ALLOCATION OF CAPACITY – Priority of Service from Highest to Lowest:
- (a) Priority 1 – Firm sales services
 - (b) Priority 2 – Small interruptible sales at the maximum rate on a pro rata basis.
 - (c) Priority 3 – Small interruptible sales at less than the maximum rate from the highest rate to the lowest rate on the pro rata basis where equal rates are applicable among customers.
 - (d) Priority 4 – Large interruptible sales at the maximum rate on a pro rata basis.
 - (e) Priority 5 – Small interruptible transportation services from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
 - (f) Priority 6 – Large interruptible transportation services from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
 - (g) Priority 7 – Gas scheduled to clear imbalances.

Montana-Dakota shall have the right, in its sole discretion, to deviate from the above schedule when necessary for system operational reasons and if following the above schedule would cause an interruption in service to a customer who is not contributing to an operational problem on Montana-Dakota's system

Montana-Dakota reserves the right to provide service to customers with lower priority while service to higher priority customers is being curtailed due to restrictions at a given delivery or receipt point. When such restrictions are eliminated, Montana-Dakota will reinstate sales and/or transportation of gas according to each customer's original priority.

11. LATE PAYMENT – Amounts billed will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing at the immediate subsequent billing date, provided however, that such amount shall not apply where a bill is in dispute or a formal complaint is being processed. All payments received will apply to the customer's account prior to calculating the late payment charge. Those payments applied shall satisfy the oldest portion of the bill first.

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- 12 RETURNED CHECK CHARGE – A charge of \$10.00 will be collected by the Company for each check charged back to the Company by a bank.
- 13 TAX CLAUSE – In addition to the charges provided for in the gas tariffs of the Company, there shall be charged pro rata amounts which, on an annual basis, shall be sufficient to yield to the Company the full amount of any sales, use or excise taxes, whether they be denominated as license taxes, occupation taxes, business taxes, privilege taxes, or otherwise, levied against or imposed upon the Company by any municipality, political subdivision, or other entity, for the privilege of conducting its utility operations therein.

The charges to be added to the customer's service bills under this clause shall be limited to the customers within the corporate limits of the municipality, political subdivision or other entity imposing the tax.

- 14 UTILITY CUSTOMER SERVICES.
- (a) The following services will be performed at no charge regardless of the time of performance
- (1) Fire and explosions calls.
 - (2) Investigate hazardous condition on customer premises, such as gas leaks, odor complaints, combustion gas fumes.
 - (3) Maintenance or repair of Company-owned facilities on the customer's premises.
- (b) The following service calls will be performed at no charge during the Company's normal business hours:
- (1) Cut-ins and cut-outs.
 - (2) Lighting pilots, inspecting, and adjusting gas equipment in connection with establishing service when working cut-in orders.
 - (3) High bills or inadequate service complaints.

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(4) Location of underground Company facilities and customer-owned gas service lines for contractors, builders, plumbers, etc

15. UTILITY SERVICES PERFORMED AFTER NORMAL BUSINESS HOURS – For service requested by customers after the Company's normal business hours and on Saturday, Sunday, or legal holidays, a charge will be made for labor at standard overtime service rates and materials at retail prices

Customers requesting service after the Company's normal business hours will be informed of the after hour service rate and encouraged to have the service performed during normal business hours

- 16 NOTICE TO DISCONTINUE GAS SERVICE – Customers desiring to have their gas service disconnected shall notify the Company during regular business hours, one business day before service is to be disconnected. Such notice shall be by letter, personal visit or telephone call to the Company's local business office, in communities which an office is maintained. In other communities such notice shall be given to the Company's representative who services the community or to the nearest business office. Saturdays, Sundays and legal holidays are not considered business days
17. RECONNECTION FEE FOR SEASONAL OR TEMPORARY CUSTOMER – A customer who requests reconnection of service, during normal working hours, at a location where same customer discontinued the same service during the preceding 12-month period will be charged a reconnection fee as follows:

Residential - The Basic Service Charge applicable during the period while service was not being used or a minimum of \$30.00. The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Non-Residential – The Basic Service Charge applicable during the period while service was not being used, however, seasonal business concerns such as irrigation, grain drying and asphalt processing shall be given credit for distribution revenues contributed during the prior in-service

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period. A minimum of \$30.00 will apply. The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a minimum reconnection charge of \$160.00 whenever reinstallation of the required remote data acquisition equipment is necessary.

- 18 DISCONNECTION OF SERVICE FOR NONPAYMENT OF BILLS – All amounts billed for service are due when rendered and will be considered delinquent if not paid by due date shown on the bill. If any customer shall become delinquent in the payment of amounts billed, such service may be discontinued by the Company under the applicable rules of the Commission. The Company may collect a fee of \$12.00 before restoring gas service, which has been disconnected for nonpayment of service bills during normal business hours. Standard overtime rates will apply for services performed after normal business hours.
- 19 DISCONNECTION OF SERVICE FOR CAUSES OTHER THAN NONPAYMENT OF BILLS – The Company reserves the right to discontinue service for any of the following reasons:
- (a) In the event of customer use of equipment in such a manner as to adversely affect the Company's equipment or service to others.
 - (b) In the event of tampering with the equipment furnished and owned by the Company.
 - (c) For violation of or noncompliance with the Company's rules on file with the Commission.
 - (d) For failure of the customer to fulfill the contractual obligations imposed as conditions of obtaining service.

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Canceling Original Sheet No 42 16

GENERAL PROVISIONS Rate 100

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- (e) For refusal of reasonable access to property to the agent or employee of the Company for the purpose of inspecting the facilities or for testing, reading, maintaining or removing meters

The right to discontinue service for any of the above reasons may be exercised whenever and as often as such reasons may occur, and any delay on the part of the Company in exercising such rights, or omission of any action permissible hereunder, shall not be deemed a waiver of its rights to exercise same.

Nothing in these regulations shall be construed to prevent discontinuing service without advance notice for reasons of safety, health, cooperation with civil authorities, or fraudulent use, tampering with or destroying Company facilities.

The Company may collect a reconnect fee of \$12.00 before restoring gas service, which has been disconnected for the above causes.

20. UNAUTHORIZED USE OF SERVICE – Unauthorized use of service is defined as any deliberate interference such as tampering with a Company meter, pressure regulator, registration, connections, equipment, seals, procedures or records that result in a loss of revenue to the Company. Unauthorized service is also defined as reconnection of service that has been terminated, without the Company's consent.

- (a) Examples of unauthorized use of service include the following, but are not limited to:
- (1) Bypass piping around meter.
 - (2) Bypass piping installed in place of meter.
 - (3) Meter reversed.
 - (4) Meter index disengaged or removed.
 - (5) Service or equipment tampered with or piping connected ahead of meter
 - (6) Tampering with meter or pressure regulator that affects the accurate registration of gas usage.

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Effective Date:

Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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Canceling Original Sheet No 42 17

GENERAL PROVISIONS Rate 100

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- (7) Gas being used after service has been discontinued by the Company
- (8) Gas being used after service has been discontinued by the Company as a result of a new customer turning gas on without the proper connect request.

(b) In the event that there has been unauthorized use of service, customer shall be charged for

- (1) Time, material and transportation costs used in investigation.
- (2) Estimated charge for non-metered gas.
- (3) On-premise time to correct situation.
- (4) Any damage to Company property.

(c) Customer service so disconnected shall be reconnected after a customer has furnished satisfactory evidence of compliance with Company's rules and conditions of service, and paid all charges as hereinafter set forth in this procedure

- (1) All delinquent bills, if any.
- (2) The amount of any Company revenue loss attributable to said tampering.
- (3) Expenses incurred by the Company in replacing or repairing the meter or other appliance costs incurred in preparation of the bill, plus costs as outlined in number 20.b above
- (4) Reconnection fee applicable.
- (5) A cash deposit, the amount of which will not exceed the maximum amount determined in accordance with Commission Rules.

21 SEE ALSO THE FOLLOWING RATES FOR SPECIAL PROVISIONS:

Rate 102 – Residential Rate for Regular Employees
Rate 119 – Interruptible Gas Service Extension Policy
Rate 120 – Firm Gas Service Extension Policy
Rate 124 – Service Lines

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Bismarck, ND 58501

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2nd Revised Sheet No 66

Canceling 1st Revised Sheet No 66

NEW INSTALLATION, REPLACEMENT, RELOCATION AND REPAIR OF GAS SERVICE LINES Rate 124

Page 1 of 1

1. The Company will install, at its expense, a service line extending from the main to the connection at the premise regulator and/or meter for all customers. The service line installed by the Company will remain the Company's property
2. A non-refundable contribution may be required for that portion of the service line cost not supported by the expected or actual connected load. The contribution requirement will be determined based on minimum footage allowances determined annually taking into account the maximum allowable investment defined in Rate 120 and the average installed per foot cost. The Company reserves the right to charge customer the total cost of the installed service line if service is not initiated within 12 months of such installation.
3. The portion of the service line not cost justified shall be charged to the customer on the basis of direct costs to the Company. The Company may, at its option, calculate a statewide average cost per foot for such work based on its experience and may use such calculated amount for billing purposes. No minimum amount shall apply
4. Where service line location changes are made due to building encroachments (a building is being constructed or is already located over a service line, etc.), the customer shall be charged for on the basis of direct costs incurred by the Company.
5. Whenever a service line is damaged by the customer or someone under the employ of the customer necessitating the service line to be either repaired or replaced in whole or in substantial part, such work shall be charged on a direct cost basis. If the damage was caused by independent contractors, not in the employ of the customer, the charges shall be billed directly to such contractor.
6. Service line changes necessary to increase the size and capacity of an existing service line because of increased demand shall be treated in accordance with ¶2 above.

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TARIFFS REFLECTING PROPOSED CHANGES



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

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 Canceling 14th Revised Sheet No 3

RATE SUMMARY SHEET

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Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk
Residential Rate 60	4	\$0 30 per day	\$0 894	\$6 653	\$7 547
Air Force Rate 64	7				
Minot Air Force Base		\$1,000 00 per month			
PAR Site		\$135 00 per month			
Firm Service			\$0 138	\$6 653	\$6 791
Interruptible Service - PAR			\$0 120	\$5 761	\$5 881
Interruptible Service - MAFB			\$0 120	\$5 494	\$5 614
Firm General Service Rate 70	13				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day	\$0 626	\$6 653	\$7 279
Small Interruptible Gas Rate 71	14	\$100 00 per month	(Maximum) \$0 871	\$5 761	(Maximum) \$6 632
Optional Seasonal Gas Service Rate 72	15				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day			
Winter Gas Usage			\$0 626	\$6 749	\$7 375
Summer Gas Usage			\$0 626	\$5 647	\$6 273
Transportation Service	24				
Small Interruptible Rate 81		\$150.00 per month			
Maximum			\$0 427		
Minimum			\$0 102		
Fuel Charge				\$0 025	
Large Interruptible Rate 82		\$725 00 per month			
Maximum			\$0 298		
Minimum			\$0 061		
Fuel Charge				\$0 025	
Large Interruptible Gas Rate 85	27	\$675 00 per month	(Maximum) \$0 719	\$5 761	(Maximum) \$6.480
Residential Propane Rate 90	32	\$0 30 per day	\$0 894	\$9 335	\$10 229
Firm General Propane Rate 92	34				
Meters rated < 500 cubic feet		\$0 52 per day			
Meters rated > 500 cubic feet		\$1 75 per day	\$0 626	\$9 335	\$9 961

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State of North Dakota Gas Rate Schedule

NDPSC Volume 7
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Canceling 1st Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 2

Availability:

In all communities served for all domestic uses. See Rate 100, §V 3, for definition on class of service

Rate:

Basic Service Charge:	\$0.29-30 per day	C
Distribution Delivery Charge.	\$ 641-894 per dk	C
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate	

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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State of North Dakota Gas Rate Schedule

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RESIDENTIAL GAS SERVICE Rate 60

Page 2 of 2

General Terms and Conditions:

1 Standby Service Gas supplied under this rate schedule is not to be used as a standby or backup fuel source by purchaser. However, if it is determined that gas service is being supplied for use as a standby or backup energy source, there shall be an additional charge of \$8.00 per month in addition to all other charges applicable under this rate schedule.

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2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 13
Canceling 1st Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated under
500 cubic feet per hour

~~\$0.50~~ 52 per day

For customers with meters rated over
500 cubic feet per hour

~~\$1.70~~ 1.75 per day

Distribution Delivery Charge

~~\$ 473~~ 626 per dk

Cost of Gas.

Determined Monthly- See
Rate Summary Sheet for
Current Rate

C
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C

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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State of North Dakota Gas Rate Schedule

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Original Sheet No 13 1

FIRM GENERAL GAS SERVICE Rate 70

Page 2 of 2

General Terms and Conditions:

1 Standby Service Gas supplied under this rate schedule is not to be used as a standby or backup fuel source by purchaser. However, if it is determined that gas service is being supplied for use as a standby or backup energy source, there shall be an additional charge in addition to all other charges applicable under this rate schedule

For customers with meters
rated under 500 cubic feet per hour \$15 00 per month

For customers with meters
rated over 500 cubic feet per hour \$15 00 per month plus applicable
pipeline demand and storage costs

2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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State of North Dakota Gas Rate Schedule

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2nd Revised Sheet No 14
Canceling 1st Sheet No 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge	\$100.00 per month	
Distribution Delivery Charge.	<u>Maximum</u> \$ 871 per dk	<u>Minimum</u> \$ 427 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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State of North Dakota Gas Rate Schedule

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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 2 of 3

General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10.
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

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Montana-Dakota Utilities Co.

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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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- 4 OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS – Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer’s action.
- 5 METERING REQUIREMENTS – Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder.

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer’s meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company’s connection of the ~~electronic~~ remote data acquisition equipment. ~~And any interruption in~~ And any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

T

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company’s remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company’s equipment.

- 6. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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State of North Dakota Gas Rate Schedule

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Canceling 1st Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §V 3, for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0 ~~50~~-52 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.~~70~~-75 per day

Distribution Delivery Charge

\$.~~473~~-626 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See -Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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State of North Dakota Gas Rate Schedule

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Original Sheet No 15 1

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 2 of 2

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

N
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N

General Terms and Conditions:

1. The customer agrees to contract for service under the Optional Seasonal General Gas Service Rate 72 for a minimum of one year.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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State of North Dakota Gas Rate Schedule

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Original Sheet No 24

TRANSPORTATION SERVICE Rates 81 and 82

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Availability:

This service is applicable for transportation of natural gas to customer's premise (metered at a single delivery point) through Company's distribution facilities. In order to obtain transportation service, customer must qualify under an applicable gas transportation service rate, meet the general terms and conditions of service provided hereunder, and enter into a gas transportation agreement upon request by the Company.

The transportation services are as follows.

Small Interruptible General Gas Transportation Service Rate 81:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point, whose average use of natural gas will not exceed 100,000 dk annually and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Small Interruptible General Gas Service Rate 71. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

Large Interruptible General Gas Transportation Service Rate 82:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed 100,000 dk annually metered at a single delivery point, and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Large Interruptible General Gas Service Rate 85. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

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State of North Dakota Gas Rate Schedule

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1st Revised Sheet No 24 1
Canceling Original Sheet No 24 1

TRANSPORTATION SERVICE Rates 81 and 82

Page 2 of 9

Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge

Rate 81 \$150.00 per month

Rate 82 \$725 00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0.427	\$0.298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300

Fuel Charge.

Applicable to all dk transported to customers located within the distribution system Charge does not apply to transmission level customers See Rate Summary Sheet t-for currently effective charge.

General Terms and Conditions:

1. **CRITERIA FOR SERVICE:** In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).
2. **REQUEST FOR GAS TRANSPORTATION SERVICE.**
 - a. To qualify for gas transportation service a customer must request the service pursuant to the provisions set forth herein. The service shall be provided only to the extent that the Company's existing operating capacity permits

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

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NDPSC Volume 7
Original Sheet No 24.2

TRANSPORTATION SERVICE Rates 81 and 82

Page 3 of 9

- b. Requests for transportation service shall be considered in accordance with the provisions of Rate 100, §V.10.
- 3 MULTIPLE SERVICES THROUGH ONE METER.
- a In the event customer desires firm sales service in addition to gas transportation service, customer shall request such firm volume requirements, and upon approval by Company, such firm volume requirements shall be set forth in a firm service agreement. For billing purposes, the level of volumes so specified or the actual volume used, whichever is lower shall be billed at Rate 70. Volumes delivered in excess of such firm volumes shall be billed at the applicable gas transportation rate. Customer has the option to install at their expense, piping necessary for separate measurement of sales and transportation volumes.
 - b. The customer shall pay, in addition to charges specified in the applicable gas transportation rate schedule, charges under all other applicable rate schedules for any service in addition to that provided herein (irrespective of whether the customer receives only gas transportation service in any billing period)
4. PRIORITY OF SERVICE – Company shall have the right to curtail or interrupt deliveries without being required to give previous notice of intention to curtail or interrupt, whenever, in its judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V.10.

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Original Sheet No 24 3

TRANSPORTATION SERVICE Rates 81 and 82

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5. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken above that received on customer's behalf, shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 -per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company
6. **NON-DELIVERED VOLUMES/PENALTY:**
 - a. In the event customer uses more gas than is being delivered to the Company's interconnection with the delivering pipeline(s) (receipt point), customer shall pay an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same receipt point, any payment or overrun penalties the Company is required to make shall be allocated on a pro rata basis among such customers on the basis of each customer's use of gas in excess of available volumes.
 - b. In the event the customer's gas is not being delivered to the receipt point for any reason and the customer continues to take gas, the customer shall be subject to any applicable penalties or charges set forth in Paragraph 6.a. Gas volumes supplied by Company will be charged at Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The Company is under no obligation to notify customer of non-delivered volumes.
 - c. In the event customer's transportation volumes are not available for any reason, customer may take interruptible sales service if such service is available. The availability of interruptible sales service shall be determined at the sole discretion of the Company

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TRANSPORTATION SERVICE Rates 81 and 82

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- 7 ELECTION OF SERVICE – Prior to the initiation of service hereunder, the customer shall make an election of its requirements under each applicable rate schedule for the entire term of service. If mutually agreed to by Company and customer, the term of service may be amended. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under the appropriate sales rate schedule for the customer's operations.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a reconnection charge as specified in Rate 100, §V.17.

8 BALANCING

- a To the extent practicable, customer and Company agree to the daily balancing of volumes of gas received and delivered on a thermal basis. Such balancing is subject to the customer's request and the Company's discretion to vary scheduled receipts and deliveries within existing Company operating limitations.

If, at the end of a billing month, the accumulated difference between actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer exceeds 4% of that month's scheduled receipts, resulting in a negative imbalance (i.e., deliveries exceed scheduled receipts), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, the customer shall then be billed, in addition to the applicable transportation rate, a penalty for the under nominated volume exceeding 4% at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume on which a penalty was imposed.

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If, at the end of a billing month, the accumulated difference between nominated (scheduled) receipts on behalf of such customer and actual gas deliveries to the customer exceeds 4% of that month's scheduled receipts resulting in a positive imbalance (i.e., scheduled receipts exceed deliveries), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, (1) the Company may adjust the volume of gas received on behalf of the customer so as to eliminate the prior period over nomination exceeding 4% up to 10% and (2) the Company shall retain the over nomination of gas exceeding 10% free and clear of any adverse claims relating thereto when such accumulated difference exceeds 50 dk. The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume retained.

- b. In the event customer's imbalance causes the Company to incur a balancing penalty from its interconnecting pipeline(s), customer shall pay any penalty payments or overrun charges the Company is required to make under the terms of its contract(s) with interconnecting pipeline(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same interconnection with a delivering pipeline, any payment or overrun penalties the Company is required to make shall be apportioned among such customers on the basis of each customer's contribution toward the imbalance.
- c. Customer's nomination made to clear imbalances will be subject to the priority of service and allocation of capacity provisions set forth in Rate 100, §V.10 and the penalties for failure to curtail or interrupt use of gas set forth in Paragraph 5 of this rate schedule.
- d. Termination of the gas transportation service shall not relieve Company and customer of the obligation to correct any quantity imbalances hereunder or customer of the obligation to pay money due hereunder to Company.

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- e. The Company may waive any penalty associated with Company adjustments to end-use customer nominations in those instances where the Company, due to operating limitations, is required to adjust end-use transportation customer nominations and such Company adjustments create a penalty situation, or preclude a customer from correcting an imbalance which results in a penalty.
9. **NOMINATION VARIANCE CHARGE** – The customer shall pay any payments the Company must make to its interconnecting pipeline(s), as a result of nomination variance penalties caused by customer's nomination variances. Such penalties will be allocated on the basis of each customer's contribution toward the nomination variance.
10. **METERING REQUIREMENTS**
- a. Remote data acquisition equipment required by the Company for daily measurement will be purchased and installed by the Company prior to the initiation of service hereunder. The cost of the equipment and its installation shall be paid for by the customer. Such contribution in aid, as adjusted for federal and state income taxes, must be paid prior to the installation of such equipment unless otherwise agreed to by the Company. Such equipment will be maintained by the Company and will remain the sole property of the Company. Company may remove such equipment when service hereunder is terminated.
- b. The customer shall provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply or other power source acceptable to the Company and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the ~~electronic measurement~~ remote data acquisition equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made

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- c. The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment
11. DAILY NOMINATION REQUIREMENTS.
- a. Customer or customer's shipper or agent shall advise Company's gas nominations center, by 11:30 a.m. Central Clock Time, of the dk requirements customer has requested to be delivered at each delivery point the following day. Customer's daily nomination shall be its best estimate of the expected utilization for the gas day. Unless other arrangements are made, customer will be required to nominate for the non-business days involved prior to weekends and holidays.
 - b. All nominations should include shipper and/or agent defined begin and end dates. Shippers and/or agents may nominate for periods longer than 1 day, provided the nomination begin and end dates are within the term of the service agreement.
 - c. The Company has the sole right to refuse receipt of any volumes which exceed the maximum daily contract quantity and at no time shall the Company be required to accept quantities of gas for a customer in excess of the quantities of gas to be delivered to customer. If total nominated receipts exceed total deliveries at receipt points where more than one customer is receiving service, nominations will be allocated on a pro rata basis.
 - d. At no time shall Company have the responsibility to deliver gas in excess of customer's nomination.
 - e. In the event that more than one customer is receiving gas from the same shipper and/or agent at the same receipt point, any reduction in nominated volumes will be allocated on a pro rata basis, unless Company and shipper(s) and/or agent(s) have agreed to a predetermined allocation procedure

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- 12 WARRANTY – The customer, customer's agent, or customer's shipper warrants that it will have title to all gas it tenders or causes to be tendered to the Company, and such gas shall be free and clear of all liens and adverse claims and the customer, customer's agent, or customer's shipper shall indemnify the Company against all damages, costs, and expenses of any nature whatsoever arising from every claim against said gas.
- 13 FACILITY EXTENSIONS – If facilities are required in order to furnish gas transportation service, and those facilities are in addition to the facilities required to furnish firm gas service, the customer shall pay for those additional facilities and their installation in accordance with the Company's applicable natural gas extension policy. Company may remove such facilities when service hereunder is terminated
14. PAYMENT – Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.
- 15 BILLING ERROR – In the event an error is discovered in any bill that the Company renders to customer, such error shall be adjusted within a period not to exceed 6 months from the date the billing error is first discovered.
- 16 AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for service hereunder.
- 17 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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APPLICABILITY:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the heating season defined as November 1 through March 31. Service provided under the Company's Residential Rates 60 and 90 and Firm General Service Rates 70 and 92 shall be subject to decreases or increases under the DDSM.

EFFECTIVE DATE

Adjustments under this DDSM will commence in May 2005 and continue through April 2006. The DDSM will be recalculated on an annual basis and a new DDSM will be filed to be effective May 1 each year thereafter.

DISTRIBUTION DELIVERY STABILIZATION MECHANISM:

A DDSM will be determined for each rate schedule subject to the DDSM and shall be expressed as rate per dk. Monthly bills beginning with the first billing cycle following May 1, 2005 and each May 1 thereafter, will be adjusted (decreased or increased) by the application of a DDSM rate computed in accordance with the procedures based on temperature conditions for the winter heating season beginning November 1, 2004 ending March 31, 2005, and each heating season thereafter, compared to normal temperature levels established in the most recent general rate case. The DDSM rate will be stated as a surcharge or credit on all rate schedules to which the DDSM is applicable. A DDSM rate will be computed for each applicable rate schedule to be effective for a period of one year. Following the initial one-year term, and annually thereafter, the DDSM rate calculation shall include any over or under collection of DDSM revenue from the preceding twelve month recovery period.

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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DDSM RATE CALCULATION:

A DDSM shall be determined for each rate schedule subject to the DDSM and shall be expressed as a rate per dk. In order to calculate the respective DDSM rates, the winter season HDD variation from the normal HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD, as determined in the most recent general rate case. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate and then divided by the average annual use per customer to determine a dollar amount per dk.

$$\text{DDSM}_i = \frac{R_i (\text{DDF}_i (\text{NDD} - \text{ADD})) + (\text{PDDSM}_i - \text{ADDSM}_i)}{\text{ANU}_i}$$

Where

DDSM_i = Distribution Delivery Stabilization dollar amount per dk

i = Applicable rate class subject to the DDSM

R_i = Applicable Distribution Delivery Charge per dk

DDF_i = Temperature sensitive use per customer per degree day

NDD = Normal degree days for the winter service period

ADD = Actual degree days for the winter service period

ANU_i = Average normal use per customer for the prospective twelve month period

PDDSM_i = Projected DDSM revenue from the preceding twelve month period

ADDSM_i = Actual DDSM revenue recovered from the preceding twelve month period

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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DEFINITIONS:

- Heating Degree Days - The difference between the average of the daily high and low temperature subtracted from 60 degrees Fahrenheit
- Normal Degree Days - The heating degree days that are based on the 30 year average ending June 30, 2001
- Actual Degree Days - The actual degree days reported by National Weather Service Stations for applicable service areas in North Dakota weighted by customers

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Canceling 1st Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

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Availability:

For the community of Hettinger for all domestic purposes See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge	\$0 29 -30 per day	C
Distribution Delivery Charge.	\$.641-894 per dk	C
Cost of Propane	Determined Monthly- See Rate Summary -Sheet for Current Rate	

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto The cost of propane component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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General Terms and Conditions:

- The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period

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RESIDENTIAL PROPANE SERVICE Rate 90

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2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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2nd Revised Sheet No 34
Canceling 1st Revised Sheet No 34

FIRM GENERAL PROPANE SERVICE Rate 92

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Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge.

For customers with meters rated
under 500 cubic feet per hour

~~\$0.50~~52 per day

For customers with meters rated
over 500 cubic feet per hour

~~\$1.70~~1.75 per day

Distribution Delivery Charge

~~\$.473~~626 per dk

Cost of Propane.

Determined Monthly- See Rate
Summary Sheet for Current Rate

C
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C

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

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FIRM GENERAL PROPANE SERVICE Rate 92

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General Terms and Conditions:

- 1 The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period
- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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I. **PURPOSE:**

These rules are intended to define good practice which can normally be expected, but are not intended to exclude other accepted standards and practices not covered herein. They are intended to ensure adequate service to the public and protect the Company from unreasonable demands.

The Company undertakes to furnish service subject to the rules and regulations of the Public Service Commission of North Dakota and as supplemented by these general provisions, as now in effect or as may hereafter be lawfully established, and in accepting service from the Company, each customer agrees to comply with and be bound by said rules and regulations and the applicable rate schedules.

II **DEFINITIONS:**

The following terms used in this tariff shall have the following meanings, unless otherwise indicated:

AGENT – The party authorized by the transportation service customer to act on that customer's behalf.

APPLICANT – A customer requesting Company to provide service.

COMMISSION – Public Service Commission of the State of North Dakota

COMPANY – Montana-Dakota Utilities Co

COMPANY'S OPERATING CONVENIENCE – The utilization, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of Company's operations. This does not refer to the customer's convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules or regulations, or similar requirements of public authorities.

CURTAILMENT – A reduction of transportation or retail natural gas service deemed necessary by the Company. Also includes any reduction of transportation natural gas service deemed necessary by the pipeline

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CUSTOMER – Any individual, partnership, corporation, firm, other organization or government agency supplied with service by Company at one location and at one point of delivery unless otherwise expressly provided in these rules or in a rate schedule

DELIVERY POINT – The point at which customer assumes custody of the gas being transported. This point will normally be at the outlet of Company's meter(s) located on customer's premises.

GAS DAY – Means a period of twenty-four consecutive hours, beginning and ending at 9.00 a m Central Clock Time.

INTERRUPTION – A cessation of transportation or retail natural gas service deemed necessary by Company.

NOMINATION – The daily dk volume of natural gas requested by customer for transportation and delivery to customer at the delivery point during a gas day.

PIPELINE – The transmission company(s) delivering natural gas into company's system.

RATE – Shall mean and include every compensation, charge, fare, toll, rental and classification, or any of them, demanded, observed, charged or collected by the Company for any service, product, or commodity, offered by the Company to the public, and any rules, regulations, practices or contracts affecting any such compensation, charge, fare, toll, rental or classification.

RECEIPT POINT – The intertie between Company and the interconnecting pipeline(s) at which point Company assumes custody of the gas being transported

SHIPPER – The party with whom the Pipeline has entered into a service agreement for transportation services

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III. CUSTOMER OBLIGATION:

- 1 APPLICATION FOR SERVICE – A customer desiring gas service must make application to the Company before commencing the use of the Company's service. The Company reserves the right to require a signed application or written contract for service to be furnished. All applications and contracts for service must be made in the legal name of the customer desiring the service. The Company may refuse a customer or terminate service to a customer who fails or refuses to furnish reasonable information requested by the Company for the establishment of a service account. Any customer who uses gas service in the absence of application or contract shall be subject to the Company's rates, rules, and regulations and shall be responsible for payment of all service used.

Subject to rates, rules, and regulations, the Company will continue to supply gas service until notified by customer to discontinue the service. The customer will be responsible for payment of all service furnished through the date of discontinuance.

Any customer may be required to make a deposit as required.

- 2 INPUT RATING – All new customers whose consumption of gas for any purpose will exceed an input of 2,500,000 Btu per hour, metered at a single delivery point, shall consult with the Company and furnish details of estimated hourly input rates for all gas utilization equipment. Where system design capacity permits, such customers may be served on a firm basis. Where system design capacity is limited, and at Company's sole discretion, Company will serve all such new customers on an interruptible basis only. Architects, contractors, heating engineers and installers, and all others should consult with the Company before proceeding to design, erect or redesign such installations for the use of natural gas. This will ensure that such equipment will conform to the Company's ability to adequately serve such installations with gas.

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- 3 ACCESS TO CUSTOMER'S PREMISES – Company representatives, when properly identified, shall have access to customer's premises at all reasonable times for the purpose of reading meters, making repairs, making inspections, removing the Company's property, or for any other purpose incidental to the service
- 4 COMPANY PROPERTY – The customers shall exercise reasonable diligence in protecting the Company's property on their premises, and shall be liable to the Company in case of loss or damage caused by their negligence or that of their employees
5. INTERFERENCE WITH COMPANY PROPERTY – The customer shall not disconnect, change connections, make connections or otherwise interfere with Company's meters or other property or permit same to be done by other than the Company's authorized employees.
- 6 RELOCATED LINES – Where Company facilities are located on a public or private utility easement and there is a building encroachment(s), over gas facilities (Company-owned main, Company-owned service line or customer-owned service line) the customer shall be charged for line relocation on the basis of actual costs incurred by the Company including any required easements.
- 7 NOTIFICATION OF LEAKS – The customer shall immediately notify the Company at its office of any escape of gas in or about the customer's premises
- 8 TERMINATION OF SERVICE – All customers are required to notify the Company, to prevent their liability for service used by succeeding tenants, when vacating their premises. Upon receipt of such notice, the Company will read the meter and further liability for service used on the part of the vacating customer will cease.
- 9 REPORTING REQUIREMENTS – Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein

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IV LIABILITY

1. CONTINUITY OF SERVICE – The Company will use all reasonable care to provide continuous service but does not assume responsibility for a regular and uninterrupted supply of gas service and will not be liable for any loss, injury, death, or damage resulting from the use of service, or arising from or caused by the interruption or curtailment of the same.
2. CUSTOMER'S EQUIPMENT – Neither by inspection or non-rejection, nor in any other way does the Company give any warranty, express or implied, as to the adequacy, safety or other characteristics of any structures, equipment, lines, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties.
3. COMPANY EQUIPMENT AND USE OF SERVICE – The Company will not be liable for any loss, injury, death or damage resulting in any way from the supply or use of gas or from the presence or operation of the Company's structures, equipment, lines, appliances or devices on the customer's premises, except loss, injuries, death, or damages resulting from the negligence of the Company
4. INDEMNIFICATION – Customer agrees to indemnify and hold Company harmless from any and all injury, death, loss or damage resulting from customer's negligent or wrongful acts under and during the term of service. Company agrees to indemnify and hold customer harmless from any and all injury, death, loss or damage resulting from Company's negligent or wrongful acts under and during the term of service.
5. FORCE MAJEURE – In the event of either party being rendered wholly or in part by force majeure unable to carry out its obligations, then the obligations of the parties hereto, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused. Such causes or contingencies affecting the performance by either party, however, shall not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance relieve either party from its obligations to make payments of amounts then due hereunder, nor

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shall such causes or contingencies relieve either party of liability unless such party shall give notice and full particulars of the same in writing or by telephone to the other party as soon as possible after the occurrence relied on. If volumes of customer's gas are destroyed while in Company's possession by an event of force majeure, the obligations of the parties shall terminate with respect to the volumes lost.

The term "force majeure" as employed herein shall include, but shall not be limited to, acts of God, strikes, lockouts or other industrial disturbances, failure to perform by any third party, which performance is necessary to the performance by either customer or Company, acts of the public enemy or terrorists, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrest and restraint of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, line freeze-ups, sudden partial or sudden entire failure of gas supply, failure to obtain materials and supplies due to governmental regulations, and causes of like or similar kind, whether herein enumerated or not, and not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to overcome, provided that the exercise of due diligence shall not require settlement of labor disputes against the better judgment of the party having the dispute.

The term "force majeure" as employed herein shall also include, but shall not be limited to, inability to obtain or acquire, at reasonable cost, grants, servitudes, rights-of-way, permits, licenses, or any other authorization from third parties or agencies (private or governmental) or inability to obtain or acquire at reasonable cost necessary materials or supplies to construct, maintain, and operate any facilities required for the performance of any obligations under this agreement, when any such inability directly or indirectly contributes to or results in either party's inability to perform its obligations.

V. GENERAL TERMS AND CONDITIONS:

1. AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for any service.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

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2. RATE OPTIONS – Where more than one rate schedule is available for the same class of service, the Company will assist the customer in selecting the applicable rate schedule(s) The Company is not required to change a customer from one rate schedule to another more often than once in twelve months unless there is a material change in the customer's load which alters the availability and/or applicability of such rate(s), or unless a change becomes necessary as a result of an order issued by the Commission or a court having jurisdiction. The Company will not be required to make any change in a fixed term contract except as provided therein.
3. RULES FOR APPLICATION OF GAS SERVICE.
 - (a) Residential gas service is available to any residential customer for domestic purposes only Residential gas service is defined as service for general domestic household purposes in space occupied as living quarters, designed for occupancy by one family. Typical service would include the following: separately metered units, such as single private residences, single apartments, mobile homes and sorority and fraternity houses (this is not an all-inclusive list) In addition, auxiliary buildings on the same premise as the living quarters, used for residential purposes, may be served on the residential rate.
 - (b) Nonresidential service is defined as service provided to a business enterprise in space occupied and operated for nonresidential purposes. Typical service would include stores, offices, shops, restaurants, boarding houses, hotels, service garages, wholesale houses, filling stations, barber shops, beauty parlors, master metered apartment houses, common areas of shopping malls or apartments (such as halls or basements), churches, elevators, schools and facilities located away from the home site (this is not an all-inclusive list).
 - (c) The definitions above are based upon the supply of service to an entire premise through a single delivery and metering point. Separate supply for the same customer at other points of consumption may be separately metered and billed
 - (d) If separate metering is not practical for a single unit (one premise) that is using gas for both domestic purposes and for conducting business (or for

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-nonresidential purposes as defined herein), the customer will be billed under the predominate use policy Under this policy, the customer's combined service is billed under the rate (Residential or Nonresidential) applicable to the type of service which constitutes 50% or more of the customer's total connected load

e-(e) Other classes of service furnished by the Company shall be defined in applicable rate schedules or in rules and regulations pertaining thereto. Service to customers for which no specific rate schedule is applicable shall be billed on the Nonresidential rates.

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4. DISPATCHING – Transportation customers will adhere to gas dispatching policies and procedures established by Company to facilitate transportation service. Company will inform customer of any changes in dispatching policies that may affect transportation services as they occur.
5. RULES COVERING GAS SERVICE TO MANUFACTURED HOMES – The rules and regulation for providing gas service to manufactured homes are in accordance with the Code of Federal Regulations (24CFR Part 3280 – Manufactured Homes Construction and Safety Standards) Subpart G and H which pertain to gas piping and appliance installation. In addition to the above rules, the Company also follows the regulations set forth in the NFPA 501A, Fire Safety Criteria for Manufactured Home Installations, Sites, and Communities.
6. CONSUMER DEPOSITS – The Company will determine whether or not a deposit shall be required of an applicant for gas service in accordance with Commission rules.
 - (a) The amount of such deposit shall not exceed one and one-half times the estimated amount of one month's average bill
 - (b) The Company may accept in lieu of a cash deposit a contract signed by a guarantor, satisfactory to the Company, whereby the payment of a specified sum not to exceed the required cash deposit is guaranteed. The term of such contract shall be indeterminate, but it shall automatically terminate when the customer gives notice of service discontinuance to

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the Company or a change in location covered by the guarantee agreement of thirty days after written request for termination is made to the utility by the guarantor. However, no agreement shall be terminated without the customer having made satisfactory settlement for any balance, which the customer owes the Company. Upon termination of a guarantee contract, a new contract or a cash deposit may be required by the Company

A deposit shall earn interest at the rate paid by the Bank of North Dakota on a six-month certificate of deposit as of the first business day of each year. Interest shall be credited to the customer's account annually during the month of December.

Deposits with interest shall be refunded to customers at termination of service provided all billings for service have been paid. Deposits with interest will be refunded to all active customers, after the deposit has been held for twelve months, provided prompt payment record has been established.

7. METERING AND MEASUREMENT

(a) Company will meter the volume of natural gas delivered to customer at the delivery point. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate, in which case the quantity supplied to customer shall be determined by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations

(b) Transportation customers agree to provide the cost of the installation of remote data acquisition equipment to Company before transportation service is implemented.

8 MEASUREMENT UNIT FOR BILLING PURPOSES – The measurement unit for billing purposes shall be one (1) decatherm (dk), unless otherwise specified. Billing will be calculated to the nearest one-tenth (1/10) dk One dk equals 10 therms or 1,000,000 Btu's. Dk's shall be calculated by the

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application of a thermal factor to the volumes metered. This thermal factor consists of:

- (a) An altitude adjustment factor used to convert metered volumes at local sales base pressure to a standard pressure base of 14.73 psia, and
- (b) A Btu adjustment factor used to reflect the heating value of the gas delivered

9. UNIT OF VOLUME FOR MEASUREMENT – The unit of volume for purpose of measurement shall be one (1) cubic foot of gas at either local sales base pressure or 14.73 psia, as appropriate, and at a temperature base of sixty degrees Fahrenheit (60°F). All measurement of natural gas by orifice meter shall be reduced to this standard by computation methods, in accordance with procedures contained in ANSI-API Standard 2530, First Edition, as amended. Where natural gas is measured with positive displacement or turbine meters, correction to local sales base pressure shall be made for actual pressure and temperature with factors calculated from Boyle's and Charles' Laws. Where gas is delivered at 20 psig or more, the deviation of the natural gas from Boyle's Law shall be determined by application of Supercompressibility Factors for Natural Gas published by the American Gas Association, Inc., copyright 1955, as amended or superseded. Where gas is measured with electronic correcting instruments at pressures greater than local sales base, supercompressibility will be calculated in the corrector using AGA-3/NX-19, as amended, supercompressibility calculation. For handbilled accounts, application of supercompressibility factors will be waived on monthly-billed volumes of 250 dk or less.

10. PRIORITY OF SERVICE AND ALLOCATION OF CAPACITY – Priority of Service from Highest to Lowest:
- (a) Priority 1 – Firm sales services.
 - (b) Priority 2 – Small interruptible sales and ~~small interruptible transportation services~~ at the maximum rate on a pro rata basis.
 - (c) Priority 3 – Small interruptible sales at less than the maximum rate from the highest rate to the lowest rate on the pro rata basis where equal rates are applicable among customers.

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- ~~(e)~~(d) Priority 34 – Large interruptible sales and large interruptible transportation services at the maximum rate on a pro rata basis.
- ~~(d)~~(e) Priority 45 – Small interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers
- ~~(e)~~(f) Priority 56 – Large interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
- ~~(f)~~(g) Priority 67 – Gas scheduled to clear imbalances

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Montana-Dakota shall have the right, in its sole discretion, to deviate from the above schedule when necessary for system operational reasons and if following the above schedule would cause an interruption in service to a customer who is not contributing to an operational problem on Montana-Dakota's system

Montana-Dakota reserves the right to provide service to customers with lower priority while service to higher priority customers is being curtailed due to restrictions at a given delivery or receipt point. When such restrictions are eliminated, Montana-Dakota will reinstate sales and/or transportation of gas according to each customer's original priority

- 11 LATE PAYMENT – Amounts billed will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing at the immediate subsequent billing date, provided however, that such amount shall not apply where a bill is in dispute or a formal complaint is being processed. All payments received will apply to the customer's account prior to calculating the late payment charge. Those payments applied shall satisfy the oldest portion of the bill first.
- 12 RETURNED CHECK CHARGE – A charge of \$10 00 will be collected by the Company for each check charged back to the Company by a bank
- 13. TAX CLAUSE – In addition to the charges provided for in the gas tariffs of the Company, there shall be charged pro rata amounts which, on an annual basis, shall be sufficient to yield to the Company the full amount of any sales,

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use or excise taxes, whether they be denominated as license taxes, occupation taxes, business taxes, privilege taxes, or otherwise, levied against or imposed upon the Company by any municipality, political subdivision, or other entity, for the privilege of conducting its utility operations therein.

The charges to be added to the customer's service bills under this clause shall be limited to the customers within the corporate limits of the municipality, political subdivision or other entity imposing the tax

14 UTILITY CUSTOMER SERVICES:

(a) The following services will be performed at no charge regardless of the time of performance.

- (1) Fire and explosions calls.
- (2) Investigate hazardous condition on customer premises, such as gas leaks, odor complaints, combustion gas fumes.
- (3) Maintenance or repair of Company-owned facilities on the customer's premises.

(b) The following service calls will be performed at no charge during the Company's normal business hours:

- (1) Cut-ins and cut-outs.
- ~~(2) Disconnecting of gas appliances permanently removed from service or in connection with cut-outs~~ D
- (3)(2) Lighting pilots, inspecting, and adjusting gas equipment in connection with establishing service when working cut-in orders.
- ~~(4) Initial burner adjustment on residential gas burning appliances~~ D

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~~(5)(3)~~ High bills or inadequate service complaints.

~~(6)(4)~~ Location of underground Company facilities and customer-owned gas service lines for contractors, builders, plumbers, etc.

~~(7)~~ Pilot relighting, testing thermocouple for proper operation and any pilot cleaning that can be done without removing pilot assembly

~~(8)~~ Service calls for routine cut-ins, when the order is received prior to 12:00 p.m. on a regular work day, requiring service on the date the order is received, will be considered as non-chargeable regardless if work is performed outside of normal working hours

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15 UTILITY SERVICES PERFORMED AFTER NORMAL BUSINESS HOURS – For service requested by customers after the Company’s normal business hours and on Saturday, Sunday, or legal holidays, a charge will be made for labor at standard overtime service rates and materials at retail prices.

Customers requesting service after the Company’s normal business hours will be informed of the after hour service rate and encouraged to have the service performed during normal business hours.

16. NOTICE TO DISCONTINUE GAS SERVICE – Customers desiring to have their gas service disconnected shall notify the Company during regular business hours, one business day before service is to be disconnected. Such notice shall be by letter, personal visit or telephone call to the Company’s local business office, in communities which an office is maintained. In other communities such notice shall be given to the Company’s representative who services the community or to the nearest business office. Saturdays, Sundays and legal holidays are not considered business days.

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17 RECONNECTION FEE FOR SEASONAL OR TEMPORARY CUSTOMER –
A customer who requests reconnection of service, during normal working hours, at a location where same customer discontinued the same service during the preceding 12-month period will be charged a reconnection fee as follows

Residential - †The Basic Service Charge applicable during the period _____ while service was not being used or a minimum of \$30 00. The minimum _____ will be based on standard overtime rates for reconnection of service after _____ normal business hours.

Non-Residential – The Basic Service Charge applicable during the period _____ while service was not being used, however, seasonal business concerns such as irrigation, grain drying and asphalt processing shall be given _____ credit for distribution revenues contributed during the prior in-service _____ period. A minimum of \$30 00 will apply. The minimum will be based on _____ standard overtime rates for reconnection of service after normal business _____ hours.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a minimum reconnection charge of \$160 00 whenever reinstallation of the required electronic measurementremote data acquisition equipment is necessary.

18 DISCONNECTION OF SERVICE FOR NONPAYMENT OF BILLS – All amounts billed for service are due when rendered and will be considered delinquent if not paid by due date shown on the bill. If any customer shall become delinquent in the payment of amounts billed, such service may be discontinued by the Company under the applicable rules of the Commission. The Company may collect a fee of \$12.00 before restoring gas service, which has been disconnected for nonpayment of service bills during normal business hours. Standard overtime rates will apply for services performed after normal business hours

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- 19 DISCONNECTION OF SERVICE FOR CAUSES OTHER THAN NONPAYMENT OF BILLS – The Company reserves the right to discontinue service for any of the following reasons:
- (a) In the event of customer use of equipment in such a manner as to adversely affect the Company's equipment or service to others.
 - (b) In the event of tampering with the equipment furnished and owned by the Company.
 - (c) For violation of or noncompliance with the Company's rules on file with the Commission.
 - (d) For failure of the customer to fulfill the contractual obligations imposed as conditions of obtaining service.
 - ~~(d)~~(e) For refusal of reasonable access to property to the agent or employee of the Company for the purpose of inspecting the facilities or for testing, reading, maintaining or removing meters.

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The right to discontinue service for any of the above reasons may be exercised whenever and as often as such reasons may occur, and any delay on the part of the Company in exercising such rights, or omission of any action permissible hereunder, shall not be deemed a waiver of its rights to exercise same.

Nothing in these regulations shall be construed to prevent discontinuing service without advance notice for reasons of safety, health, cooperation with civil authorities, or fraudulent use, tampering with or destroying Company facilities.

The Company may collect a reconnect fee of \$12.00 before restoring gas service, which has been disconnected for the above causes

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20 UNAUTHORIZED USE OF SERVICE – Unauthorized use of service is defined as any deliberate interference such as tampering with a Company meter, pressure regulator, registration, connections, equipment, seals, procedures or records that result in a loss of revenue to the Company. Unauthorized service is also defined as reconnection of service that has been terminated, without the Company's consent.

(a) Examples of unauthorized use of service include the following, but are not limited to:

- (1) Bypass piping around meter.
- (2) Bypass piping installed in place of meter.
- (3) Meter reversed.
- (4) Meter index disengaged or removed.
- (5) Service or equipment tampered with or piping connected ahead of meter.
- (6) Tampering with meter or pressure regulator that affects the accurate registration of gas usage.
- (7) Gas being used after service has been discontinued by the Company
- (8) Gas being used after service has been discontinued by the Company as a result of a new customer turning gas on without the proper connect request.

(b) In the event that there has been unauthorized use of service, customer shall be charged for:

- (1) Time, material and transportation costs used in investigation
- (2) Estimated charge for non-metered gas.
- (3) On-premise time to correct situation
- (4) Any damage to Company property

(c) Customer service so disconnected shall be reconnected after a customer has furnished satisfactory evidence of compliance with Company's rules and conditions of service, and paid all charges as hereinafter set forth in this procedure.

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- (1) All delinquent bills, if any
- (2) The amount of any Company revenue loss attributable to said tampering.
- (3) Expenses incurred by the Company in replacing or repairing the meter or other appliance costs incurred in preparation of the bill, plus costs as outlined in number 20.b above.
- (4) Reconnection fee applicable
- (5) A cash deposit, the amount of which will not exceed the maximum amount determined in accordance with Commission Rules

21 SEE ALSO THE FOLLOWING RATES FOR SPECIAL PROVISIONS

- Rate 102 – Residential Rate for Regular Employees
- Rate 119 – Interruptible Gas Service Extension Policy
- Rate 120 – Firm Gas Service Extension Policy
- Rate 124 – Service Lines

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NEW INSTALLATION, REPLACEMENT, RELOCATION AND REPAIR OF GAS SERVICE LINES Rate 124

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1. The Company will install, at its expense, a service line extending from the main to the connection at the premise regulator and/or meter for all customers ~~connected on and after (effective date of tariff) and all replacement service lines installed on and after (effective date of tariff)~~. The service line installed by the Company will remain the Company's property. D
2. A non-refundable contribution may be required for that portion of the service line cost not supported by the expected or actual connected load. The contribution requirement will be determined based on minimum footage allowances determined annually taking into account the maximum allowable investment defined in Rate 120 and the average installed per foot cost. The Company reserves the right to charge customer the total cost of the installed service line if service is not initiated within 12 months of such installation D
3. The portion of the service line not cost justified shall be charged to the customer on the basis of direct costs to the Company. The Company may, at its option, calculate a statewide average cost per foot for such work based on its experience and may use such calculated amount for billing purposes. No minimum amount shall apply
4. Where service line location changes are made due to building encroachments (a building is being constructed or is already located over a service line, etc.), the customer shall be charged for on the basis of direct costs incurred by the Company
5. Whenever a service line is damaged by the customer or someone under the employ of the customer necessitating the service line to be either repaired or replaced in whole or in substantial part, such work shall be charged on a direct cost basis. If the damage was caused by independent contractors, not in the employ of the customer, the charges shall be billed directly to such contractor
6. Service line changes necessary to increase the size and capacity of an existing service line because of increased demand shall be treated in accordance with ¶2 above

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PU-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to

Don Ball
 Montana-Pokela Utilities Co
 400 N 4th St
 Bismarck ND 58501

2 Article Number

(Transfer from service label)

7002 2410 0003 4911 4882

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

COMPLETE THIS SECTION ON DELIVERY

A Signature

X *Al Soy*

Agent

Addressee

B Received by (Printed Name)

Al Soy

C Date of Delivery

4/1/04

D Is delivery address different from item 1? Yes
If YES, enter delivery address below No

3 Service Type

Certified Mail Express Mail

Registered Return Receipt for Merchandise

Insured Mail C O D

4 Restricted Delivery? (Extra Fee)

Yes

PU-04-97

SENDER: COMPLETE THIS SECTION

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- Print your name and address on the reverse so that we can return the card to you
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1 Article Addressed to

Don Ball
 MAD
 400 N 4th St
 Bismarck ND 58501

2 Article Number

(Transfer from service label)

7002 2410 0003 4911 4899

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

COMPLETE THIS SECTION ON DELIVERY

A Signature

X *Al Soy*

Agent

Addressee

B Received by (Printed Name)

Al Soy

C Date of Delivery

4/2/04

D Is delivery address different from item 1? Yes
If YES, enter delivery address below No

3 Service Type

Certified Mail Express Mail

Registered Return Receipt for Merchandise

Insured Mail C O D

4 Restricted Delivery? (Extra Fee)

Yes

PU-04-97

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1 Article Addressed to

Dan Kuntz
 PO Box 1695
 Bismarck ND 58502-1695

COMPLETE THIS SECTION ON DELIVERY

A Signature

X *Al Soy*

Agent

Addressee

B Received by (Printed Name)

Al Soy

C Date of Delivery

4/9/04

D Is delivery address different from item 1? Yes
if YES, enter delivery address below No

3 Service Type

Certified Mail Express Mail

Registered Return Receipt for Merchandise

Insured Mail C O D

4 Restricted Delivery? (Extra Fee)

Yes

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1 Article Addressed to

*Douglas Schulz
 Montana-Dakota Utilities Co.
 400 N 4th St
 Bismarck ND 58301*

2 Article Number
(Transfer from service label)

7002 2410 0003 4912 5673

PS Form 3811, August 2001

Domestic Return Receipt

2ACPRI-03-Z-0985

COMPLETE THIS SECTION ON DELIVERY

A Signature

X *[Signature]*

- Agent
- Addressee

B Received by (Printed Name)

ATL SOUX

C Date of Delivery

4/29/04

D Is delivery address different from item 1? if YES, enter delivery address below

- Yes
- No

3 Service Type

- Certified Mail
- Express Mail
- Registered
- Return Receipt for Merchandise
- Insured Mail
- C O D

4 Restricted Delivery? (Extra Fee)

- Yes

PU-04-97

SENDER: COMPLETE THIS SECTION

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1 Article Addressed to

*Don Ball
 Montana-Dakota Utilities Co.
 400 N 4th St
 Bismarck ND 58501*

2 Article Number
(Transfer from service label)

7002 2410 0003 4912 5611

PS Form 3811, August 2001

Domestic Return Receipt

2ACPRI-03-Z-0985

COMPLETE THIS SECTION ON DELIVERY

A Signature

X *[Signature]*

- Agent
- Addressee

B Received by (Printed Name)

ATL SOUX

C Date of Delivery

4/29/04

D Is delivery address different from item 1? if YES, enter delivery address below

- Yes
- No

3 Service Type

- Certified Mail
- Express Mail
- Registered
- Return Receipt for Merchandise
- Insured Mail
- C O D

4 Restricted Delivery? (Extra Fee)

- Yes

Helbling, Sharon D.

From: Bauske, Shelly A
Sent: Monday, October 11, 2004 2:52 PM
To: Helbling, Sharon D
Subject: FW: wouldn't be good press

-----Original Message-----

From: Roller, Dennis R.
Sent: Monday, October 11, 2004 2:09 PM
To: -Info-Public Service Commission
Subject: wouldn't be good press

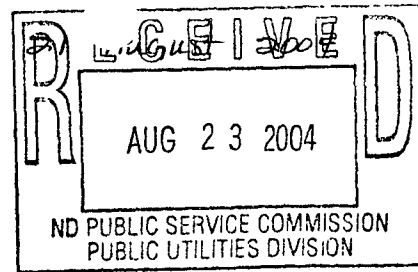
I just wanted to inform you that an IS auditor (a friend of mine) with the State has been hired by MDU at \$4,500/month as a staff IS auditor (manager's for ND barely make that! – I know I'm one of them) The individual was only making \$2,750/month with the State, which was very competitive at the State level. To the public, it would appear that if MDU can pay their people that, then the PSC hasn't scrutinized them enough when they're asking for rate increases. I'm sure state employees would be very upset about this too, given the fact they haven't had a raise for a while and may not get one again.

Dennis Roller
ND State Auditor's Office - Royalty Audit Section Manager
ph 701-250-4682
Fax.701-250-4686

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

10/13/2004

North Dakota Public Service Commission
600 EAST BOULEVARD AVENUE
BISMARCK, NORTH DAKOTA 58505-0480



RE: MONTANA-DAKOTA UTILITIES RATE INCREASE

DEAR COMMISSIONERS:

THE END OF THIS MONTH YOU WILL DETERMINE WHETHER OR NOT MDU CAN INCREASE ITS RATE FOR RESIDENTIAL GAS. PLEASE, DON'T ALLOW THAT INCREASE.

PRESENT RATES ARE TIED TO MARKET FLUCTUATIONS, AND THE MARKET TREND IS GOING UP. THAT TREND REPRESENTS NO LOSS FOR MDU, BUT IS ALREADY AN INCREASE FOR THE CONSUMER. IN ADDITION, YOU HAVE ALLOWED MDU A SUBSTANTIAL HIKE IN THEIR RATES THAT CREATED HARDSHIP FOR MANY LAST WINTER. ANOTHER INCREASE WOULD FORCE SOME PEOPLE IN NORTH DAKOTA TO CHOOSE BETWEEN HEAT AND FOOD THIS WINTER, AND OFTEN JUGGLE THAT WITH DRUGS AND MEDICAL CARE.

THERE IS A FINE LINE BETWEEN PROFIT AND PROFITEERING,*

COMPANIES THAT PROVIDE ESSENTIAL COMMUNITY SERVICES, SUCH AS GAS, ELECTRICITY AND TELEPHONE, HAVE A SOCIAL AND ETHICAL RESPONSIBILITY BEYOND THAT DUE TO SHAREHOLDERS.

AND, PLEASE, DON'T EVEN THINK OF ASSISTANCE. FREEDOM AND INDEPENDENCE ARE SO DEARLY VALUED THAT ANY KIND OF HANDOUT OR PREFERENTIAL TREATMENT IS DEMEANING AND ULTIMATELY DESTRUCTIVE.

THERE IS NEVER ANY EXCUSE FOR PRICING ESSENTIAL SERVICES BEYOND THE MEANS OF ANYONE.

WHAT I DO ASK OF YOU IS UNBIASED REASON AND FAIRNESS IN YOUR DELIBERATIONS, ETHICAL BEHAVIOR AND STANDARDS, AND, ABOVE ALL, CONCERN FOR THE ESSENTIAL NEEDS OF ALL PEOPLE IN NORTH DAKOTA.

Sincerely,
Susan Francisco
P.O. Box 504
205-5th AVENUE NORTHWEST
MANDAN, ND 58554-0504

* Accounting practices not withstanding.

C. Comm
Legal
Fund (4)
Orig Public Input file

Bauske, Shelly A.

From: JAMIE STICH [oligopolycorp@yahoo com]
Sent: Friday, August 20, 2004 5 30 AM
To: ndpsc@psc state nd us
Subject: Concerns about price gouging

Hello. With the upcoming winter season, we are concerned with the coming, groundless assertions that MDU will be needing to increase rates yet AGAIN. A reasonable profit is one thing, but people have had enough. Every year we hear about the alleged 'tight' natural gas market. This is not a luxury item; it's heat to keep reasonably happy & healthy. Clearly, it seems there must be a conflict of interest on your board regarding natural gas prices. Again, a reasonable profit & evil greed are two different things. Sincerely, Jamie Stich

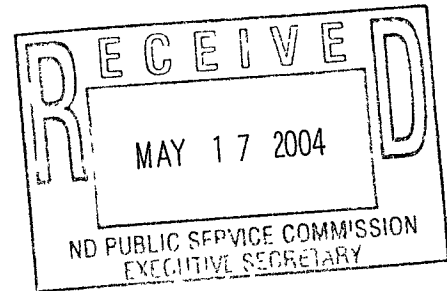
Do You Yahoo!?

Tired of spam? Yahoo! Mail has the best spam protection around
<http://mail.yahoo.com>

C. Comm
Regal
Pub (4)
Orig. Public Input
8/20/2004

Scott, Sandi L.

From: Helbling, Sharon D
Sent: Monday, May 17, 2004 9:32 AM
To: Comm, Legal, PUD
Subject: FW: MDU rate increase request



-----Original Message-----

From: Bauske, Shelly A.
Sent: Monday, May 17, 2004 9:29 AM
To: Helbling, Sharon D.
Subject: FW: MDU rate increase request

-----Original Message-----

From: Shelley [mailto:micheleehlis@hotmail.com]
Sent: Sunday, May 16, 2004 2:22 PM
To: ndpsc@psc.state.nd.us
Subject: MDU rate increase request

I could not make the meetings that you held. Please do not allow the rate increase. It is going to cause a burden, as usual, on people who do not qualify for assistance. These people have been struggling to pay their utility bills for a long time. Most of them are our young people with low paying jobs and the elderly on fixed incomes. These are people who care about being able to pay their own way in life. MDU is making millions of dollars already!

May 2, 2004

For more information contact the Public Service Commission, State Capitol, Bismarck, North Dakota 58505, 701-328-2400 or Relay North Dakota 1-800-366-6888 TTY. If you require any auxiliary aids or services, such as readers, signers, or Braille materials, please notify, Illona Jeffcoat-Sacco, Executive Secretary, at least 24 hours prior.

PUBLIC SERVICE COMMISSION

Regarding MDU natural gas rate increase

**Susan E. Wefald
Commissioner**

**Tony Clark
President**

**Kevin Cramer
Commissioner**

Commissioners,

Another one of MDU's reasons for this rate increase besides labor costs was health care costs.

I live on a declining pension. By declining pension I mean every year I lose \$20. to \$25 a month because of increasing Blue Cross premiums. Who can I pass that increase on to? No one. I am the stuckee. Can't someone do anything about rising health care costs?

My pension is just a little above the requirements for fuel assistance, so welfare isn't an option yet.

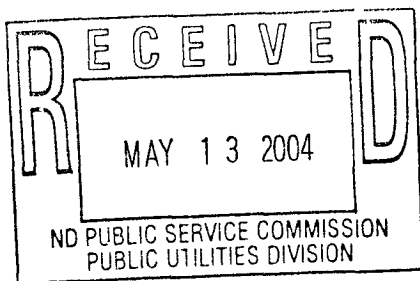
I am against this increase because I think MDU employees are being paid a fair wage package for this region. Also MDU had an increase approved in Dec 2002. It seems like a reverse Robin Hood- steal from the poor and give to the rich.

Sincerely,

Jerome A. Bokn

**God
Bless
America**

Mr Jerome A. Bokn
815 3rd Ave
Devils Lake, ND 58301-2113



*@ Comm
Legal
Pub (4)
Orig - Public Input File*

The public will also be able to hear the input session by connecting to the Commission's web site www.psc.state.nd.us and clicking on "Highlighted Issues" and then clicking on the "Broadcast of Public Input Sessions" link. The Commission will receive e-mail questions during the session at ndpsc@psc.state.nd.us

For more information, contact the North Dakota Public Service Commission, State Capitol, Bismarck, North Dakota 58505, 701-328-2400 or Relay North Dakota 1-800-366-6888 TTY. If you require any auxiliary aids or services, such as readers, signers, or Braille materials, please notify Illona Jeffcoat-Sacco, Executive Secretary, at least 24 hours prior.

M.D.U. will get their way, so why waste state money running all over for these meetings. They need to give their employees a big raise and to pay for insurance's. What a joke.



Another raise for M D U

In the Community to Serve®

NOTICE OF PUBLIC INPUT SESSION

The rate changes described in this Notice have been requested by Montana-Dakota Utilities Co.



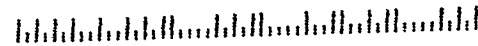


CELEBRATING
FROM
BISMARCK



North Dakota Public Service Commission
State Capital Bldg
Bismarck, N. Dak
58505

58505/0480



Scott, Sandi L.

From: Fortney, Kathy M.
Sent: Tuesday, April 13, 2004 8:43 AM
To: Comm, Legal; PUD
Subject: FW: MDU raise

-----Original Message-----

From: Wefald, Susan E.
Sent: Tuesday, April 13, 2004 8:41 AM
To: 'Vred65@aol.com'
Cc: Fortney, Kathy M.
Subject: RE: MDU raise

Georgene, Thank you for writing to me about the MDU Natural Gas Rate Increase Case. You may want to attend the public meeting that the Commission will be holding on this topic. It will be held on May 10, Bismarck Vocational Technical Center at BSC, Room 222, at 7:30 central. The meeting will be held at several other locations in the state as well, since I do not know if you live in Bismarck.

If you would like more information about the increase proposal, please call the Commission at 701-328-2400 and ask for Pat Fahn. A copy of your e-mail will be placed in the public comment file of this case.

Sincerely,
Commissioner Susan Wefald

[Wefald, Susan E.]

-----Original Message-----
From: Vred65@aol.com [mailto:Vred65@aol.com]
Sent: Monday, April 12, 2004 6:34 PM
To: swefald@state.nd.us
Subject: MDU raise

Why would it even be considered that MDU can have a hike, just look what their stockholders received, salaries that their Executives make and property they have purchased, why should we have to pay for all of that, they need to get new accountants, PLEASE do not allow anymore MDU hikes, nobody can afford it.

Thank you.

Georgene Vredenburg
VRED65@aol.com

Scott, Sandi L.

From: Helbling, Sharon D
Sent: Monday, April 12, 2004 10 24 AM
To: 'tamie aberle@mdu.com', 'karen.collins@mdu.com'
Cc: Comm, Legal, PUD
Subject: MDU Gas Rate Increase Gary Gas

;
The following contact was recorded into the Public Contact System:

Gary Giardini
3014 Twin City Dr
Mandan ND Phone: 701-663-9745

The issue is as follows: He thinks this increase is ridiculous in view of the "already overpaid help" MDU has. They have the highest pay scale. A monopoly like this doesn't need to be advertising on TV.

The resolution so far is as follows: .
Additional Notes read as follows:
MDU contact: tamie.aberle@mdu.com; karen.collins@mdu.com;

This issue is not resolved.
This issue is jurisdictional.

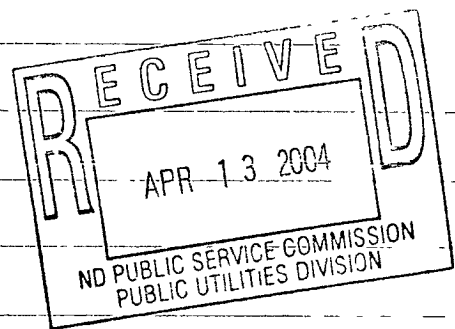
Helbling

4-12-04

Public Service Commission

I read in The Merit
Daily News today about another
increase. What do we have a
Public Service Commission in
the first place. It seems like
all utilities are going to be increased
and I think is a Crack of D. S.
I am so sick on tired of all
the increases. What every thing
there is nothing to live on by
time you pay your Taxes, Utilities
and Insurance for every thing has
increased I think they better start
elect different people down there.
Just sit here and look at the
four walls, The Blue Collar Work
live on Minimum Wages, and
lower class get all kind of help and
back seat need no help. The wonder why
we are losing people in the job you
shouldnt have to be told why they are
leaving the State its time we get some people

in there. It' depend the per %
of our state and be created.
It's just a crying shame that
it has to be that way. They
better spend their money not
only think of their own expense
they are getting. Thanks you
Sincerely Myrtle Beaudoin



© Comm
bezel
Fund (4)
Orig. Public Fund Fee

Ray, N. Dak.
March 18-04

Dear P.S.C. folks:

We have paid M.D.U. bills for over 50 years, four of our kids who have families of their own live in the area and pay MDU bills, so I feel I have a right to be heard.

First off, M.D.U. stockholders seem to be doing O.K.

I feel its time for you people to tell M.D.U. to quit their D--- ^{S.P.}whining, go home and bite the bullet like the rest of us are doing.

Thanks for listening.

Ruud Keyrauch

224 Winther St.

Ray, N. D., 58849



C. Connor

Legal

File (4)

Orig - Public Input File

Scott, Sandi L.

From: Helbling, Sharon D
Sent: Wednesday, March 10, 2004 8 43 AM
To: Comm, Legal; PUD
Cc: 'tamie aberle@mdu.com', 'karen collins@mdu com'
Subject: MDU Gas Rate Increase MDU Gas

tamie.aberle@mdu.com; karen.collins@mdu.com;
The following contact was recorded into the Public Contact System:

Inez/Dale Hallock
74 Custer
Lincoln ND
Phone: 701-255-6549

The issue is as follows: Commission has to put a stop to these MDU increases. Other people need raises too but don't get them. If Commission keeps giving them 2%, 3%, pretty soon they'll have the 11% they asked for. An election coming up and she won't vote for any of them if they give in again.

The resolution so far is as follows: .
Additional Notes read as follows:
MDU contact: tamie.aberle@mdu.com; karen.collins@mdu.com;

This issue is not resolved.
This issue is jurisdictional.

Helbling

Scott, Sandi L.

From: Helbling, Sharon D
Sent: Tuesday, March 09, 2004 2:54 PM
To: Comm, Legal, PUD
Subject: RE Proposed MDU rate increase

Arlene,

Thank you for contacting us about MDU's recent natural gas rate increase application.

Your e-mail will be placed in the Public Input file relating to this proceeding, and copies will be forwarded to the Commissioners.

Public Input Sessions and later a Technical Hearing will be scheduled, so you might want to watch the papers and news media if you are interested in attending those hearings. The public input sessions are usually held in several different places and are broadcast over interactive television via our website. The technical hearing is usually held in the Public Service Commission offices. You can either attend the hearings in person or listen on the Public Service Commission's website at www.psc.state.nd.us.

All the materials filed in the case will soon be available on the internet at the Commission's website.

Again, thank you for your interest. The Commission appreciates hearing from North Dakota consumers.

-----Original Message-----

From: Bauske, Shelly A.
Sent: Monday, March 08, 2004 9:52 AM
To: Helbling, Sharon D.
Subject: FW: Proposed MDU rate increase.

-----Original Message-----

From: AAndreka1@aol.com [mailto:AAndreka1@aol.com]
Sent: Sunday, March 07, 2004 4:59 PM
To: ndpsc@psc.state.nd.us
Cc: aandreka1@aol.com; disselhorst@hotmail.com
Subject: Proposed MDU rate increase.

To the Commissioners. My name is Arlene Andre. I reside in Bismarck and am a customer of MDU. I read in Saturday's Bismarck Tribune that MDU is proposing another rate increase. Many in Bismarck are struggling to make ends meet, especially after the last rate increase. Did you know that MDU Resources is even buying other companies internationally? The company makes huge profits on the backs of the consumers and then invests overseas with profits from us. I urge the Commission as a whole to vote against the latest proposed MDU rate

3/9/2004

hikes I live at 635 N 35th St and my phone no is 701-221-0949 Thank you for your time

Scott, Sandi L.

From: Helbling, Sharon D
Sent: Tuesday, March 09, 2004 1 28 PM
To: Comm, Legal, PUD
Cc: 'tamie aberle@mdu.com', 'karen.collins@mdu.com'
Subject: MDU Gas Rate Increase MDU Gas

;
The following contact was recorded into the Public Contact System:

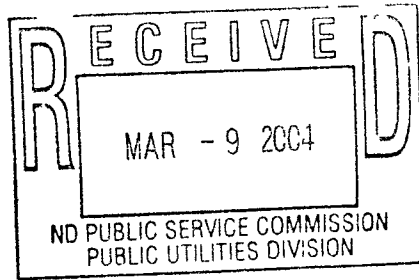
Warren Hintz
3516 Overlook Dr
Bismarck ND
Phone: 701-255-1078

The issue is as follows: He's opposed to MDU's increase. If other people have to live within their budgets, MDU should too.

The resolution so far is as follows: .
Additional Notes read as follows:
MDU contact: tamie.aberle@mdu.com; karen.collins@mdu.com;

The issue is resolved as of 03/09/04 13:27
This issue is jurisdictional.

Helbling



P.S.C.

3-8-04

Boy I hope you people on the P.S.C consider very carefully the increase on gas for m.d.u. This is getting pretty ridiculous already they say they need the money for maintenance and operating but why don't they use some of these record profits that they say they made; not just raise the price and next year they can brag about bigger profits yet for these stockholders or what ever. It is about high time some common sense sets in and start looking out for the average person that has to have heat in there home. It is a election year and I suppose m.d.u. donations will be making a difference.

Larry W Kademas
Box 507
Belfield, N. Dak.
58622

C. Comm
Rec'd
Pd (4)
Public Input File



Public Service Commission
Bismarck, N.D.

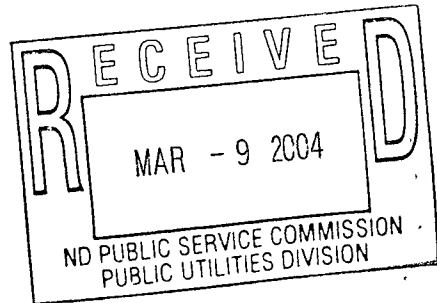
I see that Montana Dakota Co wants
to raise their rates. The Company just had
the largest income on gas in several years.
I do not see why they need an increase in price

Sincerely,

Carl W. Ferguson

P.O. Box 506

Bowman, ND 58623



C. Comm
Legal
Pubd (4)
Public Input File



Scott, Sandi L.

From: Helbling, Sharon D
Sent: Tuesday, March 09, 2004 11 30 AM
To: Comm, Legal, PUD
Cc: 'tamie aberle@mdu.com', 'karen.collins@mdu.com'
Subject: MDU Gas Rate Increase MDU Gas

;
The following contact was recorded into the Public Contact System:

Debbie Hintz
3516 Overlook Dr
Bismarck ND
Phone: 701-255-1078

The issue is as follows: She doesn't think gas rates should be increased so MDU can pay it's employees' benefits, salary increases adn health care. That should come out of MDU's budget. As a consumer she shouldn't have to pay for those things.

The resolution so far is as follows: I told her hearings had not been scheduled yet but she should watch the papers and news media. I told her the Public Input Sessions would be held in several places over interactive TV and the technical hearing can be heard on our website.

Additional Notes read as follows:

MDU contact: tamie.aberle@mdu.com; karen.collins@mdu.com;

This issue is not resolved.
This issue is jurisdictional.

Helbling



School of Business
University of South Dakota
414 E Clark Street
Vermillion, SD 57069-2390



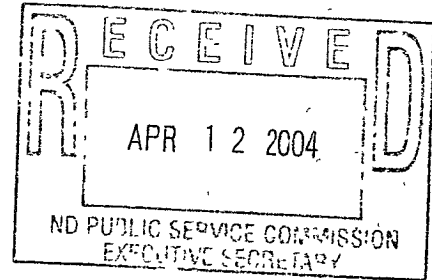
BUSINESS RESEARCH BUREAU

Telephone (605) 677-5287

FAX (605) 677-5427

April 9, 2004

Illona A. Jeffcoat-Saaco, Executive Secretary
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismarck, North Dakota, 58505-0480



Dear Ms. Jeffcoat-Saaco,

Enclosed please find our response to your Request for Proposal for Case No. PU-04-97.

If you have any questions please do not hesitate to contact me.

Wade Druin

Director, Business Research Bureau
University of South Dakota

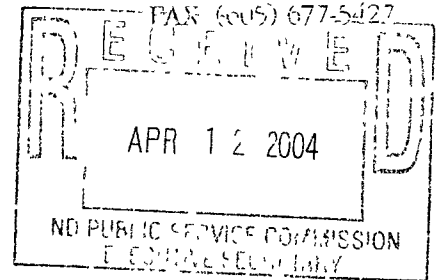
Enclosure (1)





BUSINESS RESEARCH BUREAU

School of Business
University of South Dakota
414 F. Clark Street
Vermillion, SD 57069-2390
Telephone (605) 677-5287



PROPOSAL

NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-04-97
April 9, 2004

Business Research Bureau
University of South Dakota
Patterson Hall 132
414 East Clark Street
Vermillion SD 57069



Proposal

Introduction

The Business Research Bureau at The University of South Dakota submits this proposal to the North Dakota Public Service Commission to assist the Commission staff in its investigation of Montana-Dakota Utilities Company's proposed gas rate increases, referenced by the commission as Case No. PU-04-97.

With access to the institutional capabilities of the AACSB-International accredited School of Business at the University, the Business Research Bureau (BRB) is fully capable of conducting the investigation and analysis needed to explore the justification and reasonableness of the proposed rate increases. Principle investigators for this project include:

- Ralph J. Brown, Ph.D., Professor of Economics
- Randall E. Waldron, Ph.D., Associate Professor of Economics
- Wade D. Druin, J.D., Director of the Business Research Bureau

This team has expertise in law and economics, with specializations in labor economics and in econometric and regulatory analysis, as well as experience in the analysis of public utility industries and in public testimony. Short biographies follow the proposal details, and a curriculum vita is attached for each investigator.

Proposal and Work Approach

The Request for Proposal identifies five specific areas for investigation, analysis, and testimony:

- salary expense
- pension expense
- medical insurance
- supplemental pension expense for key employees
- other labor costs

This proposal encompasses work on all five areas, using a consistent approach for each that focuses on the statistical analysis of historical trends and current market conditions, using forecasts derived from data obtained through discovery and from independent sources.

Proposed salary expense increases will be analyzed on the basis of current market conditions and the labor requirements necessary to operate the utility. The BRB is familiar with data sources relating to salary and wages by industry, occupation, and geographic location. This data will assist in the assessment of the reasonableness of the proposed wage and salary increase.

Pension and supplemental pensions will be studied with reference to industry norms and changing conditions. The Request for Proposal states that increases of 246% and 85% in pension expenses are anticipated by MDU for the next two years, respectively. The dramatic percentage increases merit careful attention, with analysis of the implications not only for the immediate rate increases but also with concern for future obligations.

Medical and dental insurance expenses continue to rise at rates that exceed general inflation. The BRB team will study the cost implications of the complete fringe benefit package with special attention to insurance issues, particularly regarding company decisions or changes in coverage and benefits. The BRB analysis will consider the appropriate level of fringe benefits relative to wages and salaries as well.

Other labor costs will be addressed as necessary, based on a discussion of concerns with the commission staff. The BRB will analyze the contribution of labor costs to overall utility costs as well as measure the extent to which salary and related expenses should be passed along in the form of rate increases.

The BRB team will engage in the consulting duties as indicated in the Request for Proposal. A proposed timetable with division of responsibilities among the team is as follows:

Starting May 1, 2004	May-04				Jun-04				Jul-04				Aug-04				Sep-04				Oct-04			
Week #	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
(1) Preliminary analysis and review	■																							
(2) Initial discovery trip		■																						
(2) Continued discovery					■	■																		
(1) Further analysis and review						■	■																	
(3) Monthly progress reports						■	■						■					■					■	
(4) Prepare and file written testimony							■	■	■	■	■													
(5) Provide oral testimony																		■	■					
(6) Assist staff in preparing cross-exam																		■	■					
(7) Assist staff in preparation of proposed findings																			■	■	■			

Participant Roles	1	2	3	4
(1) Preliminary analysis and review	x	x	x	x
(2) Initial discovery trip	x	x	x	
(2) Continued discovery	x	x		x
(1) Further analysis and review	x	x		
(3) Monthly progress reports	x	x	x	x
(4) Prepare and file written testimony	x	x	x	x
(5) Provide oral testimony	x	x		
(6) Assist staff in preparing cross-exam	x	x	x	
(7) Assist staff in preparation of proposed findings	x	x	x	
Chart Key				
Dr. Brown	1			
Dr. Waldron	2			
Druin	3			
Nelson	4			

The Investigators - Capacity

The Business Research Bureau (BRB) and its personnel will serve as the managers of this Project. The Business Research Bureau has engaged in business research and consulting services for over 50 years, and has extensive experience in both the private and public arenas. The BRB provides support to faculty, students and businesses by conducting research for public and private organizations, serving as depository for business and economic data, and distributing economic research and analysis to the business and public community. The Bureau is a charter member of the Association for University Business and Economic Research (AUBER).

The BRB has provided businesses and governmental entities with research services in the areas of economics, statistical process control, public finance, investment strategies, banking, marketing, health care administration, issue research, and public opinion surveying. The BRB also oversees the State Data Center (SDC), Kids Count, the Small Business Development Center (SBDC), Management Education Services (MES), Crash Outcome Data Evaluation System (CODES), the South Dakota Family Business Initiative (SDFBI), the Freeman Initiative in Rural Entrepreneurship (FIRE), the Institute for the Study of Rural Banking and Financial Markets, and the South Dakota Bankers Association Chair of Banking.

For the purpose of this application, the primary participants will include:

Ralph J. Brown (Ph.D. in economics, University of Colorado) is a labor economist who has extensive academic and practical experience. Dr. Brown teaches Labor Economics, which deals in part with employee compensation plans. In addition, he has authored a number of articles dealing with labor economics. In particular, he was the research economist for Governor Janklow's Wage Study Task Force in 1999-2000. He authored a report (see curriculum vita) summarized in "The South Dakota Wage Study: Determinants of State Differences in Average Annual Pay."

Dr. Brown has also worked as an expert witness for thirty-three years (33) in cases involving the projection of lost wages and salaries, fringe benefits, and pension plans. He has provided testimony in hundreds of cases and is experienced in adversarial settings. He has testified hundreds of times in courtrooms throughout the Midwest. (See list of testimonials since 1993 attached to C.V.) Dr. Brown is also a member of the Governor's Council of Economic Advisors. He presents a quarterly forecast of the South Dakota Economy to state policymakers and assists in the preparation of annual revenues for the Governor's Budget. Dr. Brown has been a member of the Council since it was created in the early 1990's. Dr. Brown also has extensive experience consulting with other agencies of the state and federal governments. He is very familiar with data sources of wage and salary data. He has consulted with the South Dakota Department of Labor and has assisted them on forecasting key labor market variables.

Randall E. Waldron (Ph.D. in economics, Vanderbilt University) is an economist specializing in industrial organization and managerial economics. He has taught at The University of South Dakota for ten years, and has co-authored a study on the restructuring of South Dakota's electricity markets, "Electricity Pricing in a Restructured Electric Power Industry." This study was conducted by the Business Research Bureau for South Dakota's Rural Electric Cooperative, and was recognized as a leading study by national authorities on the provision of rural electricity. Dr. Waldron has also consulted on antitrust projects, both privately and on behalf of the State of South Dakota, including one in which he estimated damages leading to a settlement in a mil price-fixing suit.

Wade D. Druin (JD, University of South Dakota) is a South Dakota licensed attorney. Prior to coming to the University, he has practiced law for several years. On numerous occasions, he conducted direct and cross-examination of witnesses and assisted with the preparation of testimony. He has taught at the University of South Dakota for over 5 years. He currently is the managing director of the Business Research Bureau at the School of Business and the University.

Nancy Craig, Information Officer at the Business Research Bureau, provides support to the SD State Data Center (SD SDC). The SD SDC was established as part of the Business Research Bureau in 1981 by Executive Order of the Governor to serve as the State's official source for population and socio-economic statistics. Nancy is responsible for identifying resources to be able to provide information to the public and private sector data users. As part of the joint agreement with the U.S. Census Bureau to disseminate

census data, Nancy also assists the Census Bureau with various projects such as updating group quarter data and boundary updates. Nancy coordinates the publication of releases from the SD SDC which includes compiling data and publication layout. Releases are made available in either paper reports or CD-ROM.

Combined Price/Bid

The Business Research Bureau will complete the entire project to include all of the issues for \$50,000.00. It is not practical for the BRB to bifurcate the issues and give pricing by issue.

The bid includes all travel cost. It was assumed that there would be two trips to Bismarck, ND.

Compliance

The University of South Dakota complies with all applicable Equal Employment Opportunity laws and regulations and with applicable provisions of the Americans with Disabilities Act of 1991.

References for Ralph Brown and the Business Research Bureau

Kenneth E. Barker
Attorney at Law
P.O. Box 100
Belle Fourche, SD 57117
Phone: (605) 723-8000

Russell Janklow
431 N. Phillips Avenue, Suite 400
Sioux Falls, SD 57104
Phone: (605) 338-4304

Greg Eiseland
P O. Box 6900
Rapid City, SD 57009
Phone: (605) 348-7300

Jason Dilges, Commissioner
Bureau of Finance and Management
South Dakota Capitol Building
Phone: (605) 773-4149

Daniel Greenwood
30 First Avenue East
Dickinson, ND 58602
Phone: (701) 225-6074

Paul Lundberg
505 5th Street Frances Bldg
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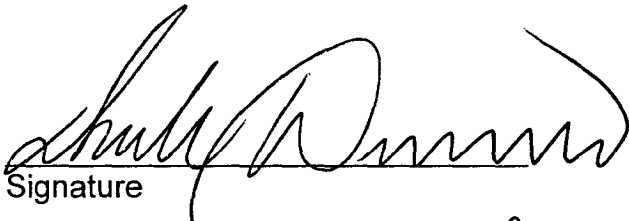
Paul Ebeltoft Jr.
P.O. Box 1097
Dickinson, ND 58603
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Matthew F. Gaffey
Assistant Attorney General
Department of Roads - Legal Counsel
PO Box 94759
Lincoln, NE 68509
Phone: (402) 479-4611

CONFLICT OF INTEREST

DISCLAIMER

The undersigned does hereby certify there is no financial substantive interest in the utilities which are or may be parties in this proceeding. It is also certified that no business officer, partner, employee, agent, or any immediate family member has a substantive financial interest in the utilities which are or may be parties in this proceeding. It is further certified that, should a financial interest occur during the period of active involvement in the proceedings, the Commission will be immediately notified and shall have the right to terminate the contract.



Signature

Apr 9, 04

Date

Director, Business Research Bureau

Title

The University of South Dakota

Company Name

THE UNIVERSITY OF SOUTH DAKOTA

FACULTY CURRICULUM VITAE

Name of Faculty: RALPH J. BROWN

DEGREES:

University of Colorado, Boulder, CO, *Ph.D., Economics, 1970.

South Dakota State University, Brookings, SD, M.S. Economics, 1968.

Northern State College, Aberdeen. SD, B.S., Economics, 1967.

TEACHING EXPERIENCE:

University of South Dakota, 1977-Present, Professor of Economics.

Northern State College, 1970-1977, Assistant, Associate and Professor of Economics.

University of Colorado, 1968-1970, Teaching Assistant and Teaching Associate.

OTHER PROFESSIONAL EXPERIENCE:

Partner in Economic Analysts and Associates, 1978-Present.

Workshop on Economic Education for Secondary teachers, Summer 1978, 1977, 1976.

Research Assistant, South Dakota State University, 1967-1968.

HONORS:

2002 School of Business Nominee for Belbas Larson Award for Excellence in Teaching

2003 School of Business Nominee for Belbas Larson Award for Excellence in Teaching

2003 Honorable mention for Belbas Larson Award for Excellence in Teaching at University of South Dakota

2003 University of South Dakota, School of Business, Great Teaching Prize of 2003 - Econometrics

PUBLICATIONS/RESEARCH/CREATIVE WORKS:

Publications and Papers:

With Scott Selk, "Economic Trends on American Indian Reservations in South Dakota," *South Dakota Business Review*, Vol. LXI, No. 4, June 2003.

"Is South Dakota a Poor State?" *South Dakota Business Review*, Vol. LXI, No. 1, September, 2002.

"State Differences in the Federal Balance of Payments," *South Dakota Business Review*, Vol. LX, No. 2, December, 2001.

"The Cyclical Sensitivity of the South Dakota Economy: Revisited," *South Dakota Business Review*, Vol. LIX, No. 3, March, 2001.

"Do Right-to-Work Laws Reduce Union Membership?" Paper Presented at the Missouri Valley Economics Association, February 2001

"The Myth of Energy Independence" Unpublished paper December, 2000.

"A Statistical Analysis of the Impact of the Forward Sioux Falls Program," Business Research Bureau, School of Business, University of South Dakota, Vermillion, SD 57609

"South Dakota Rankings on Wages, Personal Income, and Gross State Product," *South Dakota Business Review*, Vol. LIX, No. 1, September, 2000.

"The Political Economy of Ethanol" Paper Presented at the Missouri Valley Economics Association, February 2000.

"A Simple Method for the Measurement of the Economic Importance of Variables in Multiple Regression Analysis" Paper Presented at the Missouri Valley Economics Association, February 2000.

"The South Dakota Wage Study: Determinants of State Differences in Average Annual Pay", *South Dakota Business Review*, Vol. LIX, No 3, March, 2000.

Papers Prepared for the Governor's Wage Study Task Force, Fall 1999.

"The South Dakota Wage Study: State Differences in Average Annual Pay"

"Why Wages Differ?"

"Explaining the Wage Gap: Why are SD Wages so Low? "

"Explaining the Wage Gap: Why are SD Wages so Low? The Regional Facts"

"Differences in Average Wage Per Worker and Personal Income Per Capita Measures"

"Cities, Clusters, Firm Size, and Productivity"

"A Note on Industry and Occupation Mix"

"Measures of Geographical Differences in the Cost of Living"

"Saving Rates by Estimates for Single Persons by Income, Age, and Gender," *Journal of Legal Economics*, Vol. 8, Number 2, Fall 1998.

"Helping Experts in Personal Injury and Death Cases: What Legal Assistants Should Know," *FACTS & FINDINGS The Journal for Legal Assistants*, Volume XXV Issue 3, November, 1998.

(Reprinted in *The Verdict*, Newsletter of the Ventura County Legal Assistants, October, 1999.

(Reprinted in *What Legal Assistants Should Know*, Snell and Wilmer Educational Paralegal Business Conference Handbook. September, 1999.

Book Review of *Expert Economic Testimony Reference Guides for Judges and Attorneys*, by Ireland, Horner, Rodgers, Gaughan, Trout, and Piette. *Journal of Economics*, Vol XXIV, No. 2, 1998.

With Matt C. Rousu, "Enrollment Trends and Out-of-State Tuition," *South Dakota Business Review*, Vol. LVII, No. 4, June, 1998.

"The Measure of Damages in Loss to the Estate Cases." Paper Presented at the Missouri Valley Economics Association, February 1998.

With Dennis A. Johnson and Randall E. Waldron, "The Economics of Recycling: A Case Study," A Study prepared for the City of Vermillion, South Dakota presented at Missouri Valley Economic Association meeting March 1, 1997

"Whither Manufacturing?", *South Dakota Business Review*, Vol. LV, No. 2, December, 1996.

"Loss of Earning Capacity in the Case of a Farmer," *Litigation Economics*, Vol. 1, No. 1, Summer 1995.

"Trials of an Expert Witness: Cross-Examination," Proceedings of the Management Functions and Applications, Vol. 13, Number 3, 1995.

With Dennis A. Johnson, *The Economic Impact of Limiting Drug Price Discounts in South Dakota*, a study prepared for the Pharmaceutical Manufacturers Research Association of America, September 10, 1994.

"Do Locational Amenities Equalize Utility Across States?," *Journal of Economics*, Volume XX, No.1, 1994.

"Support for Public Higher Education: State-By-State Comparisons," Prepared for the South Dakota Board of Regent, August 1991.

"An Economic Impact Study of a Proposed Wet Corn Milling Plant in Southeastern South Dakota," Prepared for the Governor's Office of Economic Development, January 1991.

"Personal Consumption: The Case of Retirement Period Consumption," *Journal of Forensic Economics*, Spring/Summer, 1991 (Vol. 4, Number 2).

With Dennis A. Johnson, "Determinants of Faculty Salaries in Public Institutions of Higher Education in South Dakota, 1989," Prepared for the South Dakota Board of Regents, May 1990.

With Linda Lea Viken, "Recognition of Homemaker Career Opportunity Cost in Marital Dissolution Cases," *South Dakota Law Review*, Vol. 35, Issue 1, 1990.

An Analysis of Economies of Scale in South Dakota School Districts, Prepared for the Commission on Government Cost Efficiency and Tax Reform, July 1989.

"New Gross State Product Estimates," *South Dakota Business Review*, Vol. XLVIII, No. 3, March 1989.

With Raymond J. Ring, "A Study of the Impact of Dakota Proposition II on Property Tax Revenues in South Dakota", *South Dakota Business Review*, Vol. XLVII, No. 2, September, 1988

With Raymond J. Ring, *A Study of the Impact of Dakota Proposition II on Property Tax Revenues in South Dakota*, Bulletin No. 134, Business Research Bureau, School of Business, University of South Dakota, July 1988.

"Financing Public Higher Education in South Dakota," *South Dakota Business Review*, Vol. XLVI, No. 4, May, 1988.

"The South Dakota Economy. An Historical Perspective," *South Dakota Business Review*, Vol. XLVII, No. 1, July, 1988.

A Study of the Support for Public Higher Education in South Dakota A Comparative And Historical Analysis, Publication 88-5, Office of the Executive Director, South Dakota Board of Regents, Pierre, South Dakota, January 1988

With Dennis A. Johnson, *An Analysis of the Impact of the Nonresident Tuition Rate on Non-resident Enrollment Demand*, Bulletin No. 132, Business Research Bureau, School of Business, University of South Dakota, July 1987.

With P. Dougherty and T. Dougherty, *Public Debt in South Dakota: Economic Survey and Outlook*, 4th Edition, Prepared for Dougherty Dawkins, Strand and Yost, Investment Bankers, Minneapolis, MN, November 1986.

"The Implicit Inflation and Interest Rates in Discounting Personal Injury Economic Losses," *Journal of Risk and Insurance*, September 1986.

With P. Dougherty, *Public Debt In South Dakota Economic Survey and Outlook*, 3rd Edition, Prepared for Dougherty, Dawkins, Strand, and Yost Inc., Investment Bankers, Minneapolis, MN, November 1984.

With Jerry Johnson, "Perspective 1983-Outlook 1984," *South Dakota Business Review*, Vol. XLII, No. 3, March 1984.

With Dennis Johnson, "Wrongful Death and Personal Injury: Economics and the Law," *South Dakota Law Review*, Vol. XLI, Winter, 1983.

"Is the Inflation Cycle Dead?," *South Dakota Business Review*, Vol. XLI, No. 3, February, 1983.

With Jerry Johnson, "Perspective 1982, Outlook 1983," *South Dakota Business Review*, Vol. XLI, No. 3, February 1983.

With Dennis A. Johnson and Richard Shane, "An Approach to the Grazing Fee Problem on Indian Lands," *Journal of the American Society of Farm Manager and Rural Appraisers*, Vol 46, No. 1, April 1982.

With David I. Knudson, *Public Debt in South Dakota Survey and Outlook*, 2nd Edition, Prepared for Dougherty, Dawkins, Strand and Eckstrom Investment Bankers, Minneapolis, Minnesota, August 1982.

With Richard Shane, *Simulating the Statewide Impact of Irrigation Development on South Dakota*, Bulletin No. 129, Business Research Bureau, School of Business, University of South Dakota, December 1981.

"Simulating the Impact of an Irrigation Project on a Small Regional Economy," *Growth and Change*, Vol. 12, No. 2, April 1981.

"Inflation and the New Monetary Aggregates," *Business Economics*, Vol. XVI, No. 3, May 1981.

With Dennis A. Johnson, "Valuation, Inflation, and the Discount Rate," *Appraisal Journal*, Vol. XLVIII, October 1980.

"The Cyclical Sensitivity of the South Dakota Economy," *South Dakota Business Review*, Vol. XXXIX, No. 1, August 1980.

With David I. Knudson, *Public Debt in South Dakota Survey and Outlook*, Prepared for Dougherty, Dawkins, Strand and Eckstrom Investment Bankers, Minneapolis, Minnesota, August 1980.

With Jerry W. Johnson, "Productivity, Inflation, and Living Standards," *South Dakota Business Review*, Vol. XXXVIII, No. 4, May 1980.

"High Prices or Rationing," *Colorado Business Review*, Vol 41, No. 3, March 1980.

With Richard Shane, "An Analysis of the Impact of Irrigation Development on the Economy of South Central South Dakota," Water Resources Institute, South Dakota State University, October 1980.

"Simulating the Impact of Irrigation Development," *South Dakota Business Review*, Vol. XXXVII, No. 5, August 1979.

"A Study of Certain Aspects of the South Dakota Housing Development Authority Program," a memorandum published by the State Legislative Research Council, State Capital, Pierre, South Dakota, August 1979.

With Richard Shane, *Simulating the Impact of Irrigation Development in the Third Planning District*, Bulletin No. 127, Business Research Bureau, School of Business, University of South Dakota, 1979.

"Do High Gasoline Prices Matter?," *South Dakota Business Review*, Vol. XXXVII, No. 4, May 1979.

With Jerry W. Johnson, "Perspective 1978, Outlook 1979," *South Dakota Business Review*, Vol. XXXVIII, No. 3, February 1979.

With Dennis Johnson and Greg Gullickson, "Reducing Property Taxes in South Dakota," *South Dakota Business Review*, Vol. XXXVIII, No. 3, November 1978. Reprinted in *South Dakota Municipalities*, Vol. 45, No. 9, March 1979.

With Jerry W. Johnson, "Perspectives 1977, Outlook 1978," *South Dakota Business Review*, Vol. XXXVI, No.3, February 1978.

"A Regional Econometric Model with an Endogenous Agricultural Sector," *Proceedings of the Pittsburgh Conference on Computer Modeling and Simulation*, April 1978.

With Jerry Schmitz, "Appraising Easements: The Case of the Wetland Easement," *Appraisal Journal*, Vol. XLV, No. 2, April 1978.

"The Impact of the Wetlands Easement Program on Agricultural Land Values," *Land Economics*, Vol. 52, No. 4, November 1976.

Abstracted in *Journal of Economic Literature*, Vol. XV, No.2, June 1977.

With Michael Morrissey, "The Demand for Public Higher Education in South Dakota: With Projections to 1985," *South Dakota Social Science Association Journal*, Summer 1975.

"On the Selection of the Best Predictive Model in Multiple Regression Analysis," 1, *The Appraisal Journal*, Vol. XLII, No. 4, October 1974.

"1974-Another Year of Inflation," *Economic Forecaster*, April 1974. Published by First National Bank of Aberdeen.

"Why Are Interest Rates So High?," *Economic Forecaster*, March 1974. Published by First National Bank of Aberdeen

"South Dakota and the National Economic Slowdown," *Economic Forecaster*, January 1974. Published by First National Bank of Aberdeen.

Research and Consultation:

Economic Advisor to the Governor's Council for Tax Decision, 1971-1972.

Economic Advisor to the Governor's Task Force on Economic Development, 1972.

Board of Trustee of South Dakota Economic Education Association, 1973.

Member of Academic Resources Council-Advisory Board to State of South Dakota.

Consultant to Attorneys on the estimation of economic loss due to wrongful death and personal injury or loss of business profits.

Consultant to Department of Interior, Bureau of Indian Affairs, Land Appraisal Division, 1973-76 Development of Computer-based Appraisal Models.

Consultant to Department of Interior, Fish and Wildlife Service, Wetlands program 1974-76. Evaluation of Impact of Easement of Land Values and Development of and Equitable Pay Schedule.

Consultant to Department of Interior, National Park Service, Cypress Project, 1975-76. Development of Computer-based Appraisal Models for Land Acquisition project.

Constructed an Econometric Model of South Dakota under contract with the South Dakota State Planning Bureau, Summer 1976.

Prepared study which was presented in testimony before the Federal Power Commission in Washington, D.C., January 1977. Case involved economic impact of natural gas curtailments in Montana-Dakota Utility Service area.

Constructed Agricultural Econometric Model of South Dakota under contract with the South Dakota State Planning Bureau, Summer 1977.

Presented Summer Workshop in Economic Education for Secondary Teachers, Summer 1975, 1976, 1977, 1978.

Constructed Econometric Model for Third Planning and Development District for the purpose of estimating the impact of a large-scale irrigation project for Department of Natural Resources and Development and Legislative Research Council of State of South Dakota, Spring 1979.

Consultant to the Office of the Secretary of the U.S. Department of Interior on the design of multiple regression models for rental house appraisal. Wrote technical standards manual. 1980.

Consultant to Legislative Research Council on legislative matters, 1978-79.

Analyzed the impact of the South Dakota Housing Development Authority for Legislative Research Council, Summer 1979.

Testified before Committee on Bonding Review concerning irrigation impacts on South Dakota, October 1978.

Testified before Committee on Bonding Review concerning irrigation model, August 1979.

Testified before Committee on Bonding Review concerning South Dakota Housing Development Authority, August 1979.

Testified before Committee on Bonding Review concerning South Dakota Housing Development Authority, August 1979.

Testified before Executive Board of Legislative Research Council on Irrigation study, July 1979.

Testified before Water Resources Board on irrigation model, October 1979.

Testified before Committee on Bonding Review concerning Housing Development Authority, October 1979.

Developed Grazing Fee Formula for Cheyenne River Indian Reservation for United Sioux tribes. Consultant to United Sioux Tribes on development of computer-based appraisal models, Summer 1980.

Consultant to United Sioux Tribes on development of grazing fee formula for Cheyenne River Reservation, Summer 1980.

Expert Witness for U.S. Department of Justice in Yosemite National Park case involving computer-based setting of rental rates, 1983.

Consultant to Office of the Secretary of the U.S. Department of Interior. Testified in court in Fresno, California concerning the appraisal of rents in Yosemite National Park, 1983-1984.

Constructed South Dakota Labor Market econometric model for South Dakota Department of Labor and prepare four forecasts per year, 1981-88

Constructed Econometric Model to simulate statewide impact of irrigation projects for Department of Water and Natural Resources, 1980-81.

Consultant to the Council of Presidents of South Dakota Higher Education System on impact of changes in non-resident tuition, 1986 (See publications).

Consultant to the South Dakota Board of Regents on the financial support for higher education. (See publications).

Consultant to Sweetman Construction Company, Sioux Falls, South Dakota on economic impact of quarry in Minnehaha County, July-August 1987. Testified before Minnehaha County Planning and Zoning Board and Minnehaha County Commission.

Consultant to South Dakota Attorney General as damage expert in ETSI litigation 1984-1988. Jury awarded \$660 million

Member South Dakota Investment Council, 1987-1992. Vice-Chairman, 1988, Chairman, 1989-90.

Testified before Joint Appropriations Committee concerning financing of public higher education in South Dakota, January 1988.

Presented testimony on impact of changes in nonresident tuition rate on nonresident enrollment before Board of Regents meeting in Brookings, May 1988.

Consultant to Bureau of Budget and Finance on outlook for SD Economy, 1988.

Presented SD economy outlook seminar for Standard and Poor's meeting for Governor Mickelsen's meeting, June 1988.

Presented SD economy outlook seminar for Moody's Financial Services meeting for Governor Mickelsen's meeting, June 1988.

Prepared with Ray Ring study of impact of Dakota Proposition II on property tax revenues in South Dakota (See publications).

Economic Advisor to Governor's Advisory Commission on Taxation, 1988.

Economic Advisor to South Dakota Tax Study Commission, 1989-90.

Referee for papers submitted to Global Finance Journal, California State University, Fresno, California.

Consultant to the South Dakota Board of Regents on regression analysis to test for evidence of gender or ethnic origin discrimination in faculty salaries at six public institutions of higher education in South Dakota, 1990.

Consultant to Bureau of Budget and Finance on development of econometric forecasting system for state of South Dakota, 1990-

Testified before Joint Rules Committee on discount rate for lump-sum settlement for workman's compensation claims, August 1990.

Consultant to Governor's Office on Economic Development on Economic Impact of Proposed Wet Corn Milling Plant, January 1991.

Economic Advisor to Governor's Council of Economic Advisors, 1991-.

Presenter on topic of economic development and state fiscal policy to Governor's Tax Strategy Briefing, September 1992.

Presented talk on Economic Development Trends in the Tri-State area to the Annual Tri-State Governor's Conference held at Dakota Dunes, South Dakota, October 1992.

Presented talk on use of economist in forensic work to the South Dakota Legal Assistants Association in Sioux Falls, October 1992.

Presented paper on "Do Locational Amenities Equalize Utility Across States?" Annual Meeting of the Missouri Valley Economics Association, Memphis, Tennessee, February 1993. Revised version of paper to published in *Journal of Economics*.

Presented paper on "Economic Loss in the Case of a Farmer" Annual Meeting of the Missouri Valley Economics Association, St. Louis, Missouri, February 1994.

Discussant of papers on forensic economics, Annual Meeting of the Missouri Valley Economics Association, Kansas City, Missouri, February 1995.

Referee for manuscript review for *Journal of Forensic Economics*

Consultant to Pharmaceutical Manufacturers Research Association of America on unitary pricing law in South Dakota, Summer 1994.

Presented paper on "Trials of an Expert Witness: Cross-Examination," The Association of Management (AoM) 13th Annual International Conference, Vancouver, British Columbia, August 1995.

Session Chair, Consulting and Professional Issues, The Association of Management (AoM) 13th Annual International Conference, Vancouver, British Columbia, August 1995.

Presented results of Economics of Recycling Study to Missouri Valley Joint Powers Committee, March 1997. With Dennis A. Johnson and Randall Waldron.

Presented paper on "The Economics of Recycling: A Case Study," with Randall E. Waldron at Great Plains Waste Management Conference, March 1997.

Speech for Civic Issues in the 21st Century Conference, University of South Dakota, March 25-26, 1997. Speech on the topic of "Too Much Political Participation."

Speaker Yankton Rotary Club, March 1997.

Presented results of Economics of Recycling Study to Missouri Valley Joint Powers Committee, August 1997. With Dennis A. Johnson and Randall Waldron.

Research on Nonresident Enrollment and Tuition Patterns. Research for President James Abbott, University of South Dakota. With Dennis A. Johnson and Leon Korte.

Speaker on the Future of the Welfare State, Political Economy Club Forum, March 1998.

Speaker on the Impact of Canada-South Dakota Trade War, International Economics Forum, September 1998.

Research Economist Governor's Wage Study Task Force, Summer and Fall 1999.

Speaker in Political Economy Club Forum on Ethanol. Should It Be Subsidized? November 1999.

Faculty Exchange with Council on International Educational Exchange, Argentina and Chile, June 2001.

Speaker Vermillion Rotary Club on the Argentine Economy, August 2001.

Speaker Vermillion Elephant Club on the Chile Economy, August 2001.

Speaker USD International Forum on Is Latin America Falling Apart?, March 2002

Speaker. USD International Forum on Do We have an Energy Crisis?, April 2002.

Speaker, Business School Faculty Forum On Chile and Argentina, April 2002.

Speaker with Lillian Lopez on Chile and Argentina, South Dakota Investment Society, April 2002

"A Primer on the South Dakota Economy: Are We a Poor State?" USD Faculty Forum, Sponsored by USD School of Business and the Office of Research and Graduate Education. 02/04/03.

Recipient Of Governor Rounds 2003 Faculty Award for Teaching with Technology grsnt

MEMBERSHIP IN PROFESSIONAL SOCIETIES:

American Economic Association

Midwest Economic Association

South Dakota Social Science Association (now defunct)

South Dakota Council on Economic Education, Board of Trustees

South Dakota Investment Society

Western Regional Science Association

National Association of Forensic Economists

Member of Midwestern Regional Board of Directors

Association of Management

UNIVERSITY/COMMUNITY/STATE ACTIVITIES:

University:

Member of Library Committee, 1981-82.

Member of University Research Committee, 1981-82.

Member of Committee to Study the Status of Women, University of South Dakota, 1978.

Member of Social Science Curriculum Committee, Northern State College, 1973-1975.

Member of Faculty Personnel Committee, Northern State College, 1976-77.

Member of Faculty Senate, Northern State College, 1976-77.

Lecturer law school class on Legal Remedies and class on

Trial Techniques each year on use of economist.

Expert Witness, Mock Court Trial for Law Day, University of South Dakota Law School, 1982.

Expert Witness, Mock Court Trial for Law Day, University of South Dakota Law School, 1986.

Expert Witness, Mock Court Trial for Law Day, University of South Dakota Law School, 1988.

Undergraduate economics advisor, 1986-

Lecturer for Determining Disability and Worth Seminar, Kilian Community College, Sioux Falls, April 1989.

Member of General Research Committee, Chairman, University of South Dakota, 1990-.

Participant on Use of Expert Witness and Demonstrative Evidence, South Dakota Trial Lawyers Association, "Nuts and Bolts" Seminar, November 1990

Participant in Demonstration Trial Association of Trial Lawyers of America Meeting in Toronto, July 1991.

Member of Steering Committee for Business School Accreditation, Chairman of Sub-Committee for Institutional Effectiveness, 1991-94.

Co-Chairman of Search Committee for Director of Business Research Committee, 1991-92.

Expert Witness, Mock Trial for Law School, University of South Dakota Law School, 1993.

Member of University of South Dakota Efficiency Plan Committee, 1995-1996.

Chairman of Mission Statement Committee for School of Business, 2001-2002.

Community/State Activities:

Who's Who in the Midwest, 1981-82.

Speeches to Rotary(2), Cosmopolitan(2), Exchange, and Sertoma Clubs in Aberdeen on economic topics.

Resource person on topic of Oahe Irrigation Project for South Dakota Association of the Humanities, Aberdeen (3 meetings).

Resource person for AAUW meeting on Economic Status of Women.

Resource person on topic of the Dakota Proposition for South Dakota Association of the Humanities, Scotland and Brookings.

Keynote speaker for Annual Business Conference, Northern State College, October 1979.

Speaker for Water Goals Conference in Pierre, December 1979.

Speaker for South Dakota Consumer Finance Convention in Sioux Falls, June 1980.

Speaker for Argus Leader Economic Outlook Conference, August 1980.

Speaker for Sioux Falls Chamber on South Dakota Economic Outlook, April 1982.

Speaker for S.D. Society of Certified Public Accountants in Yankton, July 1982.

Lecturer for Continuing Legal Education group on use of economist in wrongful death and personal injury cases, 1978.

Speaker for Watertown Chamber of Commerce, January 1983

Speaker for Northern State College Annual Business Conference, Surviving the 1980's.

Speaker for the Sioux Falls Argus Leader Management Seminar, July 1983.

Panel discussion on structured settlements SD Bar Association (CLE) Rapid City, May 1983.

Speaker for education workshop on economics at School of Education, University of South Dakota, April 1984.

Speaker School of Business Advisory Board Meeting, Rapid City, October, 1986.

Speaker for the Sioux Fall Argus Leader and Sioux Falls Chamber Economic Seminar, April 1987.

Speaker for Student Higher Education Days at the Legislature, South Dakota Student Federation, January 1988.

Member South Dakota Investment Council, 1987-1992. Vice-Chairman of South Dakota

Investment Council, 1988-89. Chairman of South Dakota Investment Council, 1989-1991.

Speaker at South Dakota School Administrators Conference on impact of Dakota Proposition II, School of Education, University of South Dakota, September 1988.

Speaker and panel member for Broadcaster's Day presentation on South Dakota economy, South Dakota State University, October 1988.

Speaker at Elk Point School Board Meeting on the impact of Dakota Proposition II, October 1988.

Speaker on topic of Economic Testimony in Alimony Cases for State Bar of South Dakota Committee on Continuing Legal Education, Watertown, S.D., October 1989

Speech on Economic Value of Homemaker, Center for Economic Education at Augustana College, Sioux Falls, December 1989.

Member of Board of Director of Vermillion Development Company, 1991-. Vice-President, 1991-92.

Who's Who in Business and Finance, 1991.

Speaker at Southern Union County Economic Development Corporation meeting on economic trends, January, 1993

Speaker Yankton Rotary Club, March 1997

Speaker on the Future of the Welfare State, Political Economy Club Forum, March 1998.

Speaker on the Impact of Canada-South Dakota Trade War, International Economics Forum, September 1998.

Speaker in Political Economy Club Forum on Ethanol: Should It Be Subsidized? November 1999.

Speaker Vermillion Rotary Club on the Argentine Economy, August 2001.

Speaker Vermillion Elephant Club on the Chile Economy, August 2001.

Speaker USD International Forum on Is Latin America Falling Apart? April 2002

Member of Citizen taskforce on the Vermillion School District Opt-Out Issue.

"A Primer on the South Dakota Economy: Are We a Poor State?" USD Faculty Forum, Sponsored by USD School of Business and the Office of Research and Graduate Education. 02/04/03.

*Dissertation Title: *A Factor Analysis of the Differential Growth Process of Rural-Urban Centers in the Upper Midwest*

Testimony in Court - Ralph J. Brown

Case	Number	Plain/Def	Attorney	Location
1 Peterson	2/93	P	Brad Schreiber	state/SD/Bison
2 Batcheller	7/93	P	Larry Piersol	state/SD/SF
3 Sybesma	10/93	P	Robert Schaub	state/SD/LakeAnde
4 Wahl	12/93	P	Dann Greenwood	state/ND/Williston
5 Hanson	1/94	P	Rick Johnson	state/SD/Madison
6 North	2/94	P	Gary Jensen	state/IA/Council Blu
7 Webber	4/94	P	Brad Schreiber	federal/SD/RC
8 Saingen	5/94	P	Martin Trotzig	state/IA/LeMars
9 Cole	5/94	P	S Meierhenry	state/SD/SF
10 Welch	6/94	P	Brad Kollars	federal/Iowa/Sioux (
11 Red Elk	6/94	P	Terry Pechota	federal/SD/Rapid C
12 Delzer	6/94	P	Brad Schreiber	state/SD/Deadwooc
13 Mahoney et al	6/94	P	Ken Barker	federal/WY/Cheyen
14 Bjork	7/94	P	Jim Roby	state/SD/SF
15 Goldammer	7/94	P	John Blackburn	state/SD/SF
16 Wright	7/94	P	Alvin Pahlke	state/SD/Mitchell
17 Soma	7/94	P	Dennis Duncan	state/SD/Vermillion
18 Perman	8/94	P	Ron Wager	state/SD/Aberdeen
19 Daniels	8/94	P	Gerald Reade	state/SD/Vermillion
20 Erickson	8/94	P	David Palmer	state/SD/SF
21 Harlow	8/94	P	Jeff Sveen	state/SD/Aberdeen
22 Lujan	9/94	P	Don Shultz	federal/SD/RC
23 Rickert	12/94	P	Don Shultz	state/SD/Rapid City
24 Nolte	12/94	P	Murray Ogborn	state/NE/Omaha
25 Tapp	12/94	P	Palhke	state/NE/Chadron
26 Keiser	1/95	Divorce	McCulloch	state/SD/Elk Point
27 Read	2/95	P	Sanford	federal/SD/SF
28 Scherr	2/95	P	Cotton	federal/ND/Bismarc
29 Meyer	2/95	P	Steve Johnson	state/SD/Brookings

30 Schreiber	2/95	P	Debra Watson	state/SD/RC
31 Rasmussen	3/95	P	Gellhaus	state/SD/Aberdeen
32 Bottum	4/95	P	Lee Burd	federal/SD/SF
33 Kaltenbach	4/95	P	Bonynge	state/SD/Canton
34 Schnee	4/95	P	Padrnos	state/SD/Salem
35 Stevenson	5/95	P	Freeman	state/SD/Mitchell
36 Sullivan	5/95	P	Steve Johnson	federal/SD/SF
37 Schettler	5/95	Divorce	Kay Dull	State/IA/Caroll
38 Dullerud	6/95	P	Gale Johnson	state/SD/SF
39 Andreson	8/95	D	Nooney	state/SD/RC
40 Hagan	8/95	P	Oliver	state/SD/Aberdeen
41 Skvicalo	9/95	D	Christensen	state/SD/Deadwood
42 Sexton	9/95	P	Keane	state/IA/SC
43 Bovee	10/95	P	Jones	state/IA/Spirit Lake
44 Steinhauer	10/95	P	Nichols	state/SD/Flandreau
45 Munsen	10/95	P	Hoy	state/SD/SF
46 Allphin	10/95	P	Stratton	state/NE/Columbus
47 Thompson	10/95	P	Munger	state/IA/SC
48 Selby	11/95	P	Schreiber	state/SD/RC
49 Bland	11/95	P	Day	state/SD/Mitchell
50 Shultz	11/95	P	Ford	federal/SD/SF
51 Dearborn	11/95	P	Wengert	federal/IA/SC
52 Carr	11/95	P	Wengert	federal/IA/SC
53 Armijo	12/95	P	Doyle	state/SD/SF
54 Daniels	2/96	P	Bonynge	state/SD/RC
55 Koch	4/96	P	Stratton	state/NE/Ord
56 Allen	4/96	P	Fox	state/SD/Chamberl
57 Elrod	5/96	P	Christensen	state/SD/SF
58 Tunender	5/96	P	Issenhuth	state/SD/Madison
59 Dahl	5/96	P	Turbak	state/SD/Clear lake
60 Stuart	6/96	P	Bottaro	state/IA/SC
61 Olson	7/96	P	Janklow	arbitration MPLS

62 Davis	7/96	P	Dougherty	state/SD/SF
63 Hammrich	9/96	P	Schaffer	state/SD/RC
64 Hayes	9/96	P	Eiseland	state/SD/Sturgis
65 Jaml	10/96	P	Hoy	state/SD/White River
66 Didier	10/96	P	Swedlund	state/SD/SF
67 Bryant	10/96	P	S Johnson	state/SD/Vermillion
68 Frankman	10/96	P	Schaffer	Federal/SD/SF
69 Swett	11/96	P	Nooney	Federal/SD/RC
70 Hermann	11/96	P	Killinger	Federal/SD/SC
71 Anderson	1/97	P	Burnett	state/NE/Wayne
72 Hanson	2/97	P	Giles	state/SD/SF
73 Honomichl	4/97	P	Wilka	state/SD/SF
74 Myers	5/97	P	Whiting	state/SD/Winner
75 Selchert	5/97	P	Larson	Federal/SD/SF
76 Eygabroad	5/97	P	Martens	state/IA/Pocahontas
77 Landmark	6/97	P	Schoenbeck	state/SD/Sisseton
78 Schweitzberger	6/97	P	McMahon	state/IA/Ida Grove
79 Harmon	6/97	P	Hecht	state/IA/SC
80 Gregorson	7/97	P	Connot	state/SD/Lake Ande
81 Harris	7/97	P	Hieb	Federal/SD/SF
82 Hayden	8/97	P	Schreiber	state/SD/RC
83 Kaiser	8/97	P	Schmitz	state/SD/Belle Four
84 Jones	8/97	P	Johnson	state/SD/Huron
85 Hofer	10/97	P	Shelton	state/SD/Huron
86 Daktronics	10/97	D	Lange	Federal/SD/SF
87 Fiedler	11/97	P	Collier	state/SD/Yankton
88 Peterson	12/97	P	Burke	state/SD/Salem
89 Sletten	12/97	P	Binger	state/SD/SF
90 Eckes	12/97	P	Ramsey	state/ND/Dickinson
91 Hey	12/97	P	Heidepriem	state/SD/SF
92 Huling	1/98	P	Eiseland	state/SD/RC
93 Williams	1/98	P	Burns	state/SD/Canton

94 Buum	3/98	P	Miller	state/SD/Elk Point
95 Freiberghouse	4/98	P	Fox	state/SD/Yankton
96 Reimer	4/98	P	Busick	state/NE/Omaha
97 McClintock	4/98	P	Cook	state/IA/Spirit Lake
98 Chase	6/98	P	Casey	state/SD/SF
99 McIlravy et al	6/98	P	Barker	Federal/WY/CH
100 Tri-County	7/98	P	Schaub	state/SD/Chamberl:
101 Howe	8/98	P	Hoskins	state/SD/Mitchell
102 Mack	9/98	P	King	state/SD/Watertowr
103 Campbell	10/98	P	Scott	Federa/IA/SC
104 Alexander	11/98	P	Bowen	Federal/SD/Pierre
105 Peterson	11/98	P	Bridgeman	state/
106 Wolcott	12/98	P	Johnson	Federal/SD/SF
107 Hardin	1/99	P	Nadolski	state/Brookings
108 DeVries	2/99	P	Burnette	state/IA/SC
109 Still	2/99	P	Hecht	state/IA/SC
110 Lock	4/99	P	James	state/Yankton
111 Nash	6/99	P	Crew	Federal/SD/Pierre
112 Kritzmire	7/99	P	Johnson	state/SD/SF
113 Athey	7/99	P	Hertz	Federal/SD/SF
114 Wiese	8/99	P	Turbak	state/SD/Milbank
115 Wilson	9/99	P	Weidemeirer	state/SD/Yankton
116 Critser	10/99	P	Landon	state/SD/SF
117 Roos	11/99	P	Klinker	state/IA/Spencer
118 Schlidt	1/00	P	Urbigkit	Federal/WY/Casper
119 Hayes	1/00	P	Eiseland	State/SD/Deadwoor
120 Kvols	1/00	P	Harmelink	State/NE/Wayne
121 Prine	1/00	P	Munger	Federal/IA/SC
122 Kidd	2/00	P	Burns	Federal/SD/SF
123 Tramp	3/00	P	Stevens	Federal/SD/SF
124 Pavel	3/00	P	Howey-Fox	State/SD/Yankton
125 Entringer	3/00	P	Hurley	State/SD/Deadwoor

126 Thompson	5/00	P	Claggett	State/SD/RC
127 Olson	8/00	P	Janklow	State/SD/Brookings
128 Jacobs	9/00	P	Connot	State/SD/RC
129 Brady	10/00	P	Thompson	State/SD/Canton
130 Mattis	11/00	P	Anderson	Federal/SD/SF
131 Baarts	11/00	P	Healey	State/SD/Brookings
132 Ferrell	11/00	P	Swanson	Federal/IA/Cedar F;
133 Kaarup	12/00	P	Hertz	State/SD/SF
134 Swedlund	1/01	P	Bridgman	Federal/SD/SF
135 Griffiths	5/01	P	Turbak	State/SD/Aberdeen
136 Jung	7/01	P	Russman	State/SD/Aberdeen
137 Wylie	8/01	P	Hoffman	State/SD/SF
138 Big Stone Partners	12/01	P	Gerdes	State/SD/Aberdeen
139 Buschkamp	2/02	P	Blakeman	State/NE/Center
140 Olson	2/02	P	Fox	State/NE/Yankton
141 Ruden	4/02	P	Munger	State/IA/Orange Cit
142 Athey	5/02	P	Horner	State/SD/SF
143 Kappeman	5/02	P	Eiesland	Federal/SD/SF
144 Stoffers	5/02	P	Breit	State/SD/Brookings
145 Burhenn	1/03	P	Meierhenry	State/SD/SF
146 Esser	3/03	P	Crew	State/SD/SF
147 Maynard	8/03	P	Rasmussen	State/SD/Mobridge
148 Kriz	8/03	P	Parsons	DOL/Hearing/Sisse

Testimony by Deposition-Ralph J. Brown

1 Schroeder	1/95	P	Crary
2 Schumacher	1/95	P	Bindner
3 Schreiber	2/95	P	Watson
4 Schwietert	3/95	P	Shultz
5 Schaeffer	4/95	P	Barker
6 Boldt	4/95	P	Barker

7 Schettler	5/95	Divorce	Kay Dull
8 Whalen	5/95	P	Schreiber
9 Dolly	6/95	P	Shultz
10 Slagel	7/95	P	Nooney
11 Uhl	7/95	P	Ellwanger
12 Stone	7/95	P	Beardsley
13 Hofland	8/95	P	Morris
14 Sward	8/95	P	Willia
15 Peterson	9/95	P	Fritz
16 Olson	10/95	P	Heidepriem
17 Harmon	10/95	P	Colwill
18 Fine	10/95	P	Peterson
19 Chester	10/95	P	Cook
20 Youngblade	10/95	P	Hanks
21 Price	1/96	P	Fitzgibbons
22 Hesco	3/96	P	Roby
23 Swett	6/96	P	Nooney
24 Bunkofske	8/96	P	Barry
25 Moench	8/96	P	Jensen
26 Dorso	8/96	P	Myers
27 Didier	9/96	P	Swedlund
28 Baca	11/96	P	Eiseland
29 Langten	11/96	P	Day
30 Jones	2/97	P	Johnson,R
31 Davis	2/97	P	Head
32 Schweitzberger	5/97	P	McMahon
33 Alexander	6/97	P	Duffy
34 Stopkotte	10/97	P	Busick
35 Sletten	11/97	P	Binger
36 Cole	11/97	P	Morris
37 Wolcott	1/98	P	Johnson
38 Hayes	2/98	P	Eiseland

39 Elverude	3/98	P	Merkle
40 Gestring	4/98	P	Busick
41 Harvey	5/98	P	Killinger
42 Huron Kitchen	5/98	P	Janklow
43 Dickerson	5/98	P	Durkin
44 Beisch	8/98	P	Turbak
45 Fox	8/98	P	McCallister
46 Grunewald	9/98	D	Wheeler
47 Blair	9/98	P	Gleason
48 Balzer	9/98	P	Hertz
49 Peterson	9/98	P	Bridgeman
50 McLarty	12/98	P	Bottaro
51 Jurgensen	2/99	P	Johnson
52 Lippon	3/99	P	Barry
53 Praus	3/99	P	Greenwood
54 Kvols	3/99	P	Harmelink
55 McConnell	7/99	P	Hoy
56 Samaniego	7/99	P	Brown
57 Schiller	7/99	P	Greenwood
58 KayStar	8/99	P	Moore
59 Dvorak	9/99	P	Christensen
60 Beliveau	11/99	P	Swedlund
61 Fox	11/99	P	Groves
62 Kenworth	11/99	P	Welsh
63 Bahr	12/99	P	Chozen
64 Pavel	12/99	P	Howey-Fox
65 Ferrell	2/00	P	Swanson
66 Gonzalez	3/00	P	Kline
67 Nemesio	3/00	P	Mahr
68 Davis	5/00	P	Domina
69 Dietrich	5/00	P	LaFleur
70 Big Stone Partners	7/00	P	Gerdes

71 Kolar	9/00	P	Mahr
72 Feldmann	10/00	P	Kube
73 Chick	1/01	P	Wilson
74 Carr	2/01	P	Anderson
75 Hopfinger	3/01	P	Groseclose
76 Bahr	7/01	P	Ribstein
77 Lear	7/01	P	Welter
78 Holzbauer	7/01	P	Meierhenry
79 Der Hogopian	11/01	P	Starovoytova
80 Ruden	1/02	P	Lessman
81 Norling	1/02	P	Foss
82 Fisherman	2/02	P	Hoy
83 Olson	2/02	P	Fox
84 Scott	6/02	P	Nasser
85 Burke	12/02	P	Cutler
86 Rhoads	12/02	P	Day
87 Voeltz	1/03	P	Casey
88 Clark	1/03	P	Sommervold
89 Kruse	2/03	P	Bjorkman
90 Markegaard	5/03	P	Johnson, Glen

Randall E. Waldron, Ph.D.
Associate Professor of Economics
School of Business
University of South Dakota
Vermillion, South Dakota 57069-2390

Education

December, 1994 Doctor of Philosophy in Economics, Vanderbilt University (Nashville, Tennessee)

Fields of Specialization: Industrial Organization, Economic Development, and Econometrics
Dissertation Title: "Market Foreclosure and Strategic Vertical Integration in Successive Oligopolies"

June, 1985 Bachelor of Arts with majors in Political Science and Economics, Northwestern University (Evanston, Illinois)

Academic Experience

August, 2000 - Present Associate Professor
Division of Economics, Decision Sciences, and Management
Information Systems
University of South Dakota School of Business

August, 1994 - July 2000 Assistant Professor
Division of Economics, Decision Sciences, and Management
Information Systems
University of South Dakota School of Business

Courses taught at the University of South Dakota:

Introduction to Economics
Principles of Microeconomics
Principles of Macroeconomics
Economic Analysis
Monetary and Fiscal Analysis
Macroeconomic Theory
Special Topics: Game Theory and Strategic Interaction in Economics
Industrial Organization
Managerial Economics II (Graduate Program)

1992 - 1994 Academic Counselor, Learning Center, Vanderbilt University
Responsible for implementation of study programs, tutoring, and individual counseling for students facing academic difficulties

1989 - 1993 Instructor/Graduate Teaching Assistant
Department of Economics and Business Administration,
Vanderbilt University

Courses taught at Vanderbilt

Principles of Microeconomics

Principles of Macroeconomics

Intermediate Microeconomic Theory

1988 – 1989 Graduate Research Assistant
Department of Economics and Business Administration,
Vanderbilt University

Scholarly Activity

Refereed Publications

Stuefen, Randall M. and Randall E. Waldron, "Proximity Feeding of Distiller's Grain to Cattle and Dairy Herds," South Dakota Business Review, Vol. LX, No. III (March 2002).

Waldron, Randall E., "Marriage and Other Prisoner's Dilemmas," Humanomics, Vol. 16, No. 1 (2000), pp. 26 – 34.

Waldron, Randall E., "A Game Theoretic Approach to Teaching the Principles of Economics," Proceedings of the Second Annual Economics and the Classroom Conference at Idaho State University, March/April 2000, pp. 132-137.

Stuefen, Randall M., Dennis A. Johnson, Randall E. Waldron, and Wade E. Paulson, "Electricity Pricing in a Restructured Electric Power Industry," South Dakota Business Review, Vol. LVII, No. III (March 1999).

Johnson, Dennis A., and Randall E. Waldron, "Price Discounts in the Pharmaceutical Industry: A Theoretical Analysis," Proceedings of the Global Awareness Society, San Francisco, CA, May 1996.

Current Research

Waldron, Randall E., "Learning Optimal Strategies in Rapidly Repeated Games Lessons from Rock/Paper/Scissors."

Johnson, Dennis A., and Randall E. Waldron, "On the Equivalence of Rent and Common Ownership Externalities."

Presentations at Professional Conferences

Waldron, Randall E. "Teaching and Learning with Mixed Strategy Games," Fifteenth Annual Conference on Teaching Economics: Instruction and Classroom Based Research, Pittsburgh PA (Robert Morris College), February 2004.

Waldron, Randall E., "Learning Optimal Strategies in Rapidly Repeated Games," Economic Science Association, Pittsburgh, PA, June 2003.

Waldron, Randall E., "Marriage and Other Prisoner's Dilemmas." First World Congress of the Game Theory Society, Bilbao Spain, July 2000.

Waldron, Randall E., "Teaching Oligopoly Using Cournot Competition Games." Eleventh Annual Conference on Teaching Economics: Instruction and Classroom Based Research, Pittsburgh PA (Robert Morris College), February 2000.

Waldron, Randall E., "A Game Theoretic Approach to the Principles of Economics." Second Annual Economics and the Classroom Conference, Pocatello, ID (Idaho State University), March-April 2000.

Waldron, Randall E., and Malika Rajan, "Learning Optimal Strategies in Rapidly Repeated Games: Lessons from Rock/Paper/Scissors." Missouri Valley Economic Association conference, Memphis TN, February 1999.

Waldron, Randall E., and James G. Sword, "Parents' Valuation of Children and the Calculation of Damages in Wrongful Death Lawsuits." Southern Economic Association Conference, Atlanta GA, November 1997.

Brown, Ralph J., Dennis A. Johnson, and Randall E. Waldron, "The Economics of Recycling: A Case Study." Missouri Valley Economic Association conference, St. Louis MO, February 1997.

Johnson, Dennis A., and Randall E. Waldron, "The Economic Impact of Limiting Drug Price Discounts." Missouri Valley Economic Association conference, Memphis TN, March 1996.

Waldron, Randall E., "Incentives and Strategies for Vertical Integration in Successive Oligopolies." Southern Economic Association conference, New Orleans LA, November 1995

Waldron, Randall E., "Conditions and Practices Facilitating Supra-competitive Pricing in International Markets." South Dakota International Business Conference, Rapid City SD, October 1995.

Other Professional Reports and Presentations

Stuefen, Randall M., and Randall E. Waldron, "Proximity Feeding of Distiller's Grain to Cattle and Dairy Herds." Report prepared for the South Dakota Corn Producer's Council, 2001 Presentation also made to the Corn Producer's Council, August 2001.

Presentation of new technology developed through a Governor's Grant for Teaching with Technology, Pierre SD, 2000.

Presentation to the School of Business Faculty, "A Medley of Games: Research Projects in Game Theory," Faculty Development Seminar, 1999.

Stuefen, Randall M., Dennis A. Johnson, Randall E. Waldron, and Wade Paulson, Electricity Pricing In A Restructured Electric Power Industry. Report prepared by the Business Research Bureau for the Rural Electric Association of South Dakota, delivered at the annual REA meeting, Pierre SD, January 1999. Full report available on the Internet at http://www.usd.edu/brbinfo/brb_research/publications.htm

Presentation to the School of Business Faculty, "On Externalities and Rent: Miracles and Markets," Faculty Development Seminar, 1998.

Brown, Ralph J., and Randall E. Waldron. Presentation of the results of a study, "The Economics of Recycling," at the Conference on Solid Waste Disposal, Omaha NE, October 1997. A similar presentation was made to the Joint Powers Solid Waste Authority for the cities of Vermillion and Yankton, SD, in August 1997.

Presentation to the Social Science Consortium Conference for teachers, Sioux Falls SD, October 1996.

Presentation to the School of Business Faculty, "Why Game Theorists Won the Nobel Prize in Economics," Faculty Development Seminar, 1995.

Book Reviews

Waldron, Randall E., Review of R. N. McCauley, J. S. Ruud, and F. Iacono, Dodging Bullets: Changing U S. Corporate Capital Structure in the 1980s and 1990s, MIT Press, 1999, in The Journal of Economics, 26:2, Fall 2000.

Waldron, Randall E., Review of N. R. Lamoreaux and D. M. G. Raff, eds., Coordination and Information: Historical Perspectives on the Organization of Enterprise, University of Chicago Press, 1995, in Review of Industrial Organization, 11:141 - 143, 1996.

Waldron, Randall E., Review of K. Binmore et al., eds., Frontiers of Game Theory, MIT Press, 1993, in The Journal of Economics, 21:2, Fall 1995.

Honors

Dean's Certificate of Achievement in Recognition of Outstanding Teaching, Vanderbilt University August, 1992.

Rendigs Fels Award for Excellence in Teaching, Vanderbilt University. May, 1992.

Grants

Investment Travel Program Grant, Spring 2001, in support of travel to the National Conference on Undergraduate Research. \$500

Grant for Incorporating International Components in Courses, Fall 2000. \$300

Grant for International Travel, Summer 2000, in support of travel and participation in the First World Congress of the Game Theory Society, Bilbao Spain. \$1200

Governor Janklow's Faculty Awards for Teaching with Technology, Summer 1999, in support of the proposal, "Redesigning Principles of Microeconomics for Interactive Learning." \$18,693

Faculty Development Grant for Educational Experience, Summer 1996, in support of the proposal, "Faculty Participation in the European Study Tour." \$1950

Siouxland International Project Grant, in support of presentation at the International Business Conference, Rapid City SD, October 1995 (noted above under presentations). \$250

Professional consulting services (in addition to published reports above)

Consultant to the Joint Powers Solid Waste Authority of Vermillion and Yankton, 1996 - 1997. This uncompensated *pro bono* work was done as a service to the community.

Consultant to the state of South Dakota in antitrust litigation involving milk price fixing, 1996 - 1997. This was paid work (at below market rates) which resulted in a favorable settlement for the state, and involved calculation of damages and distribution of the settlement to S D. school districts.

Consultant to the plaintiff in civil antitrust litigation involving alleged market monopolization in the home health care industry, 1995 - 1998.

Service to the Economics Profession

Discussant and session chair, Missouri Valley Economic Association conference, Memphis TN, February 1999.

Discussant and session chair, Missouri Valley Economic Association conference, St. Louis MO, February 1997.

Discussant, Missouri Valley Economic Association conference, Memphis TN, February 1996.

Discussant, Missouri Valley Economic Association conference, Kansas City MO, February 1995.

Review of paper for the Public and Nonprofit Division of the Academy of Management, February 1999.

Review of forthcoming textbook, Games of Strategy by Avinash Dixit and Susan Skeath.

Service to the University

Chair, University Senate Learning Resources Committee, Library Division, 1997 - 2001.

Member, University Senate Educational Resources Committee, Library Division, 1995 - 2001.

Member, Board of Directors, USD Book and Supply, 1998 - present.

Faculty Advisor, Campus Crusade for Christ, 1996 - present.

Member, Proposal Review Panel, University Research Council, 1999 - 2000.

Member, Faculty Screening Committee for "Who's Who among American College and University Students," 1997.

Faculty Sponsor, Economic Policy Forum, an annual event in which students from Economics 202 organize a public forum and ask questions of a panel of expert economists, 1996 - present.

Presentation to Advanced Placement calculus students, Vermillion High School, "Using Calculus in Economics," May 2001.

Director for student (Chad Schuldt) in Technology Fellow Program, 2000 – 2001.

Faculty Consultant, Youth Business Adventure, Summers of 2000 and 2001.

Director for student (Ruth Mangelsen) Ideafest presentation, Spring 2000.

Regional Judge, National Council on Economic Education curriculum design competition for high school teachers, Minneapolis MN, Fall 2000.

Judge, Federal Reserve Bank of Minneapolis essay contest for high school students, Spring 2000.

Panelist, Business School Forum, "Will the Euro Replace the U.S. Dollar as World Currency?" 1999.

Presentations to the Phi Delta Theta Fraternity, "Making Better Grades," Spring 1999 and Spring

2000

Presentation to the TTD 785 Delivery Systems class, "Distance Delivery Courses," March 1998.

Presentation to the Business Ethics class, "Ethical Decisions in Economics," February 1996.

Presentation to social studies students, Vermillion High School, "The Competition Game," December 1998.

Service to the School of Business

Chair, School of Business Promotion and Tenure Committee, 2001 – present.

Member, School of Business Promotion and Tenure Committee, 2000 – present.

Member, MBA Admissions Committee, 2001 – present.

Member, School of Business Curriculum and Instruction Committee, 1999 - present.

Member, School of Business Graduate Curriculum and Instruction Committee, 1995 - 1999.

Chair, School of Business C & I Subcommittee on the Residency Opportunity for MBA students, 1997.

Member, School of Business Committee on Assessment for the MBA program, 1997 - present.

Presentation to faculty at the Center for Instructional Design and Development, February 1998.

Member, School of Business Graduate Grievance Committee, 1999 - present.

Faculty participant in the European Business Study Tour, traveling to the Netherlands, Germany, Belgium and France with students, 1996.

Faculty co-leader of a tour of Winnipeg, Manitoba, with students from the Delta Sigma Pi business fraternity and the International Business class, 1996.

Coordinator, School of Business Faculty Development Seminars, 1999 - present.

Service to the Economics Department

Chair, Search Committee for economics position, 2000 – 2001.

Member, Economics Scholarships Selection Committee, 1995 - present.

Development of graduate work in economics including revision of the MA in economics program, the Ed.D. in economic education, and proposals for an economics option in the MBA program, and a Ph.D. in economics program, 1995 - 1996.

Promotion of the Economics undergraduate major including development of a departmental brochure, survey of economics students, and participation in the Political Economy Club.

Thesis/Graduate Examination Committees (Member of 2)

James G. Sword, master's thesis committee (MA in economics)

Li Sheng Su, master's examination committee (MA in economics)

Undergraduate Honors Thesis Committees

Ruth Mangelsen, "Experiments in Game Theory: Testing for Nash Equilibrium in Business Competition Simulations." (Director)

Kathryn Koenders, "Measuring External Costs through Private Property Rights with Dynamic Analysis." (Committee member)

Amy Johnson, "Do People Learn Optimal Mixed Strategies in Rapidly Repeated Games?" (Director; research in progress)

Honor Society memberships

Beta Gamma Sigma, the Honor Society for AACSB accredited business schools

Professional memberships

Economic Science Association, 2004 - present

National Association for Business Economics, 2002 – present

American Economic Association, 1993 - present

Game Theory Society, 2000 - present

Missouri Valley Economic Association, 1995 - 2002

Southern Economic Association, 1993 – 1999

WADE D. DRUIN

420 Pinehurst Ave ♦ Vermillion, SD 57069 ♦ (605) 624-1080 (H) ♦ (605) 677-5287 (W) ♦ wdruin@usd.edu

EMPLOYMENT INFORMATION

Director

November 2002 to Present

Business Research Bureau, Vermillion SD

Provide managerial direction and leadership to the various divisions and activities under the control of the Business Research Bureau along with providing strategic and management support to the University of South Dakota and the School of Business

- ♦ Development and supervision of staff
- ♦ Administration of seven separate programs
- ♦ Preparation, review, and administration of grants and contracts
- ♦ Identify, apply for, bid, and manage applied research opportunities
- ♦ Responsible for developing and implementing strategic plan
- ♦ Direct control over the budget and fiscal activities of the Business Research Bureau and its divisions
- ♦ Public relations representative for the Business Research Bureau
- ♦ Member of the School of Business's management team

State Director

March 1998 to November 2002

Small Business Development Center, Vermillion SD

Provide managerial direction and leadership to execute the missions and budgets of the Small Business Development Center in order to promote the economic development of the State of South Dakota

- ♦ Assist staff with customer service and problem resolution issues
- ♦ Provide training to staff and other external organizations and individuals
- ♦ Perform networking and public relations role for the Small Business Development Center
- ♦ Negotiate and prepare annual cooperative agreement with the Small Business Administration
- ♦ Prepare and oversee the annual statewide budget of 1.2 million dollars
- ♦ Oversight of all statewide expenditures
- ♦ Management of the statewide information system to ensure compliance with policy and regulation
- ♦ Work with subcontractors to ensure effective customer service delivery
- ♦ Directly and indirectly, hire and supervise staff of 14

Regional Director

May 1991 to March 1998

Small Business Development Center, Pierre, Watertown and Sioux Falls, SD

Provide managerial and technical assistance to numerous businesses

- ♦ Business, financial and marketing plans
- ♦ Loan applications (SBA, Bank, BED, Planning District, etc)
- ♦ Financial analysis and forecasting (income statement, cash flow, balance sheet, break-even and ratio analysis)
- ♦ Provide direction with accounting and bookkeeping
- ♦ Business structuring (Corporate, Partnership, Limited Liability and Sole Proprietorship)
- ♦ Business valuations (sale and purchase)
- ♦ Assist in formulating workout strategies
- ♦ Conduct research (general and marketing)
- ♦ Present numerous seminars on various subjects
- ♦ Develop close working relationship with local and regional lenders
- ♦ Supervise and hire support staff

Assistant/Adjunct Professor

University of South Dakota, Vermillion, SD

Instruct various business courses to include

- ◆ Business Law 320
- ◆ Finance 310
- ◆ Independent Study

Lake Area Technical Institute, Watertown, SD

Instructed various business courses, to include.

- ◆ Business Law
- ◆ Entrepreneurship
- ◆ Marketing Research
- ◆ Business Management
- ◆ Federal Taxation
- ◆ Sales
- ◆ Accounting 210 & 211
- ◆ Auditing
- ◆ Lending

Capital University Center, South Dakota State University and Northern State University, Pierre SD

Instructed various business courses, to include

- ◆ Business Law
- ◆ Business Management

Staff Judge Advocate (current rank of Lt. Col.)

U.S Air Force and 114 Fighter Wing, Sioux Falls, SD

Responsible for implementing military justice and providing legal assistance

- ◆ Senior Judge Advocate with responsibility of managing the base legal office, comprised of two additional attorneys and two paralegals
- ◆ Report directly to and represent the base commander concerning various legal issues
- ◆ Assist members with military and civilian legal issues
- ◆ Received an excellent rating on a QAFE inspection from 12th Air Force
- ◆ Develop and implement a deployment program, which has been presented to 12th Air Force as a model
- ◆ Participate in activating several local reserve units for Operation Desert Storm and Iraqi Freedom
- ◆ Air Force Commendation Medal, December 1993
- ◆ Air Force Achievement Medal, March 1992

April 1988 to Present

Research Trainer

Thompson Publishing and Lawyers Cooperative, Watertown, SD

Independent contractor providing legal research training

- ◆ Train other attorneys and judges
- ◆ Extensive use of folios software
- ◆ Custom tailored training sessions to meet various levels of expertise
- ◆ Provide some hardware assistance

December 1995 to August 1997

Attorney

Zimmer, Duncan and Deadrick, Parker, SD

Represent and assist numerous clients with legal problems and issues

- ◆ Specialize in business-related issues such as tax, bankruptcy and business association law
- ◆ Trial and discovery experience
- ◆ Research and draft numerous pleadings, briefs and memos covering a wide range of issues
- ◆ Assistance with supervision of support staff
- ◆ Favorably resolved numerous cases for the client through litigation or settlement
- ◆ Consistently billed between 30 and 35 hours per week
- ◆ Implementation of computerization of several office functions, including billing, research, bookkeeping and form generation

June 1989 to May 1991

Tax Consultant

June 1988 to June 1989

Delloitte, Haskins and Sells, Minneapolis, MN

Represent and assist clients with numerous tax issues

- ◆ Concentration in the corporate and partnership areas
- ◆ Formulation of tax projections to assist in liability minimization and deferral
- ◆ Performs legal research to find and implement tax reduction strategies
- ◆ Perform compliance work

BUSINESS INTEREST

CEO, Owner and Founder

June 1999 to January 2004

Bluff Construction, Inc , Sioux Falls and Vermillion, SD

Owner, Managing Member

April 1997 to Present

Druin Farms, LLC, Volin, SD

EDUCATION

Juris Doctor

May 1988

University of South Dakota School of Law, Vermillion, SD

Bachelor of Science in Business Administration

May 1985

University of South Dakota, Vermillion, SD

Emphasis in management and accounting (Eligible to take CPA exam)

Military Education

- ◆ Squadron Officer School (SOS), in residence, November 1994
- ◆ Judge Advocate Staff Officer Course, Maxwell AFB, AL, December 1989
- ◆ Army Boot Camp and Advanced Individual Training, Fort Sill, OK, Summer 1983

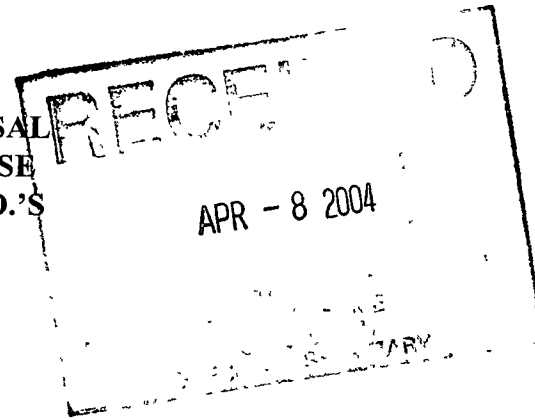
LICENSES/CERTIFICATIONS

- ◆ Licensed attorney, admitted to the South Dakota State Bar, September 26, 1988
- ◆ Licensed to practice in the U S District Court, September 18, 1989
- ◆ Licensed to practice in the U S Court of Military Appeals, December 4, 1989
- ◆ Commissioned Officer, U S Air Force, March 18, 1989
- ◆ Certified Economic Development Finance Professional, National Development Council, May 11, 1999

COMMUNITY INVOLVEMENT/PUBLIC SERVICE

- ◆ Volante Publications Board of Directors Member
- ◆ USD Research Council Member
- ◆ Family Business Initiative Board of Directors Member
- ◆ Political Volunteer
- ◆ Past Chamber of Commerce member
- ◆ Church Volunteer

RESPONSE TO REQUEST FOR PROPOSAL
INVESTIGATION OF A RATE INCREASE
OF MONTANA DAKOTA UTILITIES CO.'S



Submitted To:

Illona A. Jeffcoat-Sacco, Executive Secretary
North Dakota Public Service Commission
State Capital, 12th Floor
Bismarck, North Dakota 58505-0480

Submitted By:

Larkin & Associates, PLLC

Certified Public Accountants
And Regulatory Consultants
15728 Farmington Road
Livonia, Michigan 48154
(734) 522-3420

April 7, 2004

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PU-04-97

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Response to Request for Proposal

by Larkin & Associates

04/08/2004

CC Comm Legal PUD (3) Mike ALJ

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ATTACHMENTS

APPENDIX I - RESUMES OF KEY PROJECT PERSONNEL

APPENDIX II -LARKIN & ASSOCIATES, PLLC GAS CASE SUMMARIES

APPENDIX III - DISCLAIMER

I. INTRODUCTION

Larkin & Associates, PLLC is pleased to submit this proposal to provide the expert consulting assistance requested by the North Dakota Public Service Commission Staff (Commission Staff or Staff), which represents the public in utility proceedings before the North Dakota Public Service Commission, in the investigation of Montana Dakota Utilities Co.'s application for a rate increase.

We are very interested in performing this engagement and we have a team of professionals who possess the credentials and experience necessary to effectively serve the Commission Staff.

II. FIRM'S ORGANIZATION, EXPERIENCE AND RESOURCES

A. Firm Background

Larkin & Associates, PLLC is a firm of certified public accounts and regulatory consultants, with offices at 15728 Farmington Road, Livonia, Michigan 48154. The firm is organized as a partnership. Larkin & Associates, PLLC has no branch or affiliate offices. Larkin & Associates was formed in 1982 as a result of the reorganization of the Certified Public Accounting firm of Larkin, Chapski & Co., which also specialized in consulting engagements involving issues of public utility regulation.

B. Professional Staff

Larkin & Associates, PLLC currently employs six professional staff members. Of these, four are CPA's and two are staff accountants. The firm also employs secretarial/word-processing personnel.

Hugh Larkin, Jr., CPA, is founder and senior partner of Larkin & Associates. As such, Mr. Larkin has ultimate responsibility for all regulatory consulting work performed by the firm and actively participates in the firm's regulatory engagements and presents testimony on a regular basis.

There are three senior regulatory consultants on Larkin & Associates project team: Messrs. Schultz and Smith and Ms. DeRonne. These individuals have extensive experience in a variety of public utility regulatory engagements. Each of our senior regulatory consultants is a CPA and presents expert testimony on a regular basis.

The other members of our professional staff are regulatory consultants. Regulatory consultants are extensively utilized in regulatory engagements in reviewing prior Commission/Board decisions, verifying Company schedules and workpapers, and assisting in the preparation of reports and testimony; they are adequately supervised.

The Larkin & Associates, PLLC professional staff assigned to this project would bring to this engagement over 100 years cumulative business, public accounting and utility related experience. Our personnel are familiar with issues affecting gas utility regulatory issues. In performing our work for the Commission Staff, we will draw on knowledge gained through comparable studies performed in other utility cases. In order to present a convincing and accurate case to the North Dakota Public Service Commission, we will utilize to the fullest extent possible, our accumulated expertise in accounting, economics, finance, taxation and utility rate making. Specifically, Larkin & Associates, PLLC has addressed payroll and/or benefits in almost every rate proceeding that pertained to a rate increase.

Larkin & Associates, PLLC has had extensive experience in the utility regulatory field as expert witness in over 400 regulatory proceedings including numerous gas, telephone, electric and water and sewer utilities. Our personnel are familiar with issues affecting the revenue requirements of public utilities.

Professional staff members have performed numerous reviews of gas utilities in which they have analyzed issues that are directly relevant to this case. The number of gas utility engagements in which Larkin & Associates, PLLC have reviewed revenue requirements issues are abundant. Attached as Appendix I are the resumes of Larkin & Associates' staff. Included in the resumes are each staff members educational background and experience in the regulation of utilities.

C. Length of Time in Business and Related Qualifications

In April 1970, the certified public accounting firm of Larkin, Chapski & Co., was formed by former employees of Peat, Marwick, Mitchell & Co., a big eight accounting and auditing concern. In addition to the auditing, accounting and tax work typical of CPA firms, Larkin, Chapski & Co., specialized in the area of utility regulation. In September 1982 the firm was reorganized into Larkin & Associates, a certified public accounting and consulting firm with Hugh Larkin, Jr., as senior partner. Larkin & Associates performs some auditing and accounting services, but concentrates in the area of utility regulation and ratemaking.

Larkin & Associates, PLLC performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin & Associates' project team professionals have had extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous gas, electric, telephone, and water and sewer utilities.

Our project team is unusually well qualified to provide the consulting services for the Commission Staff. We believe we satisfy the key ingredients necessary for the success of this assignment: strong technical skills, extensive utility and accounting experience, high familiarity with the gas industry, an understanding of the regulatory environment and demonstrated project management capability.

Larkin & Associates, PLLC has performed a rate review and revenue requirement analyses for the Commission Staff of Montana Dakota Utilities Co.'s. In Case No. PU-399-94-297, we addressed, among other issues, payroll and benefits. The adjustments we proposed to the wage increases, incentive compensation and fringe benefits projected by MDU were significant.

Attached as Appendix II is a summary of gas cases including docket numbers, contact person, description of the assignment and key participants.

Larkin & Associates foresees no potential conflict of interest that could affect the objectivity, analysis or performance required by the "Scope of Work" section of the RFP.

III. SCOPE OF WORK

Plan of Work - Approach to the Issues

The purpose of the contract will be to have Larkin & Associates, PLLC provide comprehensive assistance to the North Dakota Public Service Commission in analyzing Montana-Dakota Utilities Co.'s (MDU's) labor and benefit costs incorporation in its filing for a gas rate increase.

The ultimate objective of this project is to provide written and oral testimony, before the North Dakota Public Service Commission. We will investigate and analyze MDU's proposed labor costs and benefits for the projected years ending in 2004 and 2005. Our analysis will be performed in an effective manner that will result in our presentation of convincing testimony at the proceeding. To meet these objectives we will perform a thorough review of the filing, analyze the Company's studies that are purported to be supportive of its filing; make comparisons to other jurisdictions recent determinations on labor and benefit costs, and assess recent economic forecasts that focus on labor and benefit costs.

Throughout the project, a high degree of communication will be maintained among all members of the project team, as well as with Commission staff members and other consultants assigned to the project. Communications will be facilitated by telephone conference calls, and if necessary, trips to North Dakota to meet with Commission personnel and review Company data.

Our findings will be presented first in the form of oral telephone discussions and monthly progress reports to Commission staff members working on the project. Upon completion of the analytical work, we will prepare and submit to the appropriate Commission staff members drafts of testimony. Then, after discussions with, and approval by these persons, our findings will be presented to the Commission in the form of written testimony and exhibits, to be followed with oral direct testimony and cross-examination at the hearings. We will respond to interrogatories related to our scope of work issued by any parties to the proceeding. We will also analyze rebuttal testimony, prepare and assist in cross-examination procedures, and prepare and present such surrebuttal testimony as may be necessary. In addition, we will provide Commission Staff with technical support at the hearings, and in the preparation of proposed findings of facts.

Summary of Specific Work Elements Which Must Be Addressed

To successfully perform this rate case review, a number of specific work elements must be addressed. The following describes our approach to the specific work elements:

The request for proposal calls for seven principle tasks. In this section we discuss our approach to each of them.

1. Professional analysis and review of the filing.

This section involves review of the Company's filings, testimony and workpapers. We expect this will help us identify the strengths and the weaknesses of the Company's position in the filing. Other issues may come from this review and from discussions with the Commission staff. After examination of the issues and the evidence, we will discuss with staff the issues that should be pursued.

2. Discovery requests and evaluation of responses, including assistance with preparation for depositions.

The main task of any rate case is discovery and the evaluation of responses, along with the analysis of the direct-filed evidence. This evaluation provides the evidence on which the intervening witness builds his or her direct case. We will prepare data requests based on the Company's filing and any other issues that are likely to be of concern. This will include detailed follow-up questions to further identify and quantify issues. An on-site review is anticipated for review of payroll information typically classified as confidential and/or voluminous. Specifically, payroll studies are generally classified as confidential and copy righted and, therefore, only can be reviewed on-site.

If needed, we will prepare a list of depositions questions, similar to cross-examination questions, for the benefit of the Commission's attorney conducting the depositions.

3. Prepare monthly progress reports of discovery, conclusions and recommendations.

The quality of responses and the timeliness of responses are key to the discovery progress. We will provide written monthly reports and maintain interim verbal communications with Commission Staff and the Commission's attorney to provide assurance that the flow of information is timely and complete. Our report will include our findings to date and current recommendations based on the evidence available at that time.

4. Written testimony presenting a description of the review methods, materials reviewed, conclusions, and recommendations with supporting analysis.

The written testimony will be prepared in the usual format, with workpapers. To the extent possible, major backup documentation will be in exhibits attached to the testimony, while some more complex backup or studies would be, if permitted by North Dakota law, rules, and practice, in electronic spreadsheet form.

We will describe succinctly what reviews we conducted, what materials we reviewed (referring to the significant ones included in our exhibits), and showing how these lead to our conclusions and recommendations

If the docket calls for filing of surrebuttal testimony by the staff witnesses, we will prepare and file such testimony

We will file responses to discovery by the Company or other intervenors based on our testimony

5. Provide oral testimony.

Larkin & Associates, PLLC will generally provide oral testimony in a clear and succinct manner. To the extent more detailed explanations are required to clarify or defend the Commission's position, we will articulate our responses in a manner that will address the issue without burdening the record. Larkin & Associate, PLLC has extensive experience in providing oral testimony.

6. Cross-examination testimony and assistance with cross-examination of opposing issues.

We will prepare cross-examination questions for the testimony of the company and other intervenors, to the degree and in the form that the staff attorney prefers. (Some attorneys want more detailed questions than others). If desired, we will attend hearings to assist the staff attorney with cross-examination.

7. Proposed findings of fact and other assistance with initial and reply briefs in support of the Commission's case.

We will assist in the preparation of proposed findings of fact and the factual portions of the initial and reply briefs. We will work under the direction of the staff attorney to provide the documents in the form and format required.

Rate Base

We would expect to perform the following analysis pertaining to rate base:

Review and analysis of MDU's accounting records and budgets that are associated with labor and benefits.

Review the Company's accounting data to assure the per book balances included in rate base are appropriate and the adjustments are supported.

Review the Company's projections.

Review the Company's filing to ensure that all labor and benefit rate base figures presented are legitimate.

Ensure that all major labor and benefit balance sheet accounts have, in some way, been accounted for in rate base or capital structure ratemaking components.

Review the Company's labor and benefit adjustments to rate base to assure their propriety. Rate base adjustments are normally made to update items such as deferred pension assets or liabilities, deferred compensation and benefit reserves. Where Company adjustments are inappropriate, we will propose alternative adjustments and explain our reasons for rejecting the Company's adjustments in testimony.

Determine if any labor or benefit liability or credit-balance accounts should be offset against rate base.

Operating Labor & Benefit Expenses

We will review labor and benefit expenses, including normalizing and out-of-period pro forma adjustments. Our review of the operating income statement will include the following areas:

Review labor and fringe benefit costs for reasonableness. We will review MDU's calculation of payroll expense and propose adjustments as appropriate. We will also compare management wage increases with those granted to non-management employees for purposes of determining the reasonableness of management compensation. The typical utility argument regarding total compensation is anticipated and will be analyzed in detail. We will review Company studies (anticipated to be on-site) and review other payroll study data to evaluate the reasonableness of union and non-union increases.

Consider if the Company has included wages for vacant positions in payroll expense. If so, determine if it is desirable to adjust payroll expense by a vacancy factor developed from historic experience.

Examine the Company's accounting for pension benefits and non-pension post-retirement benefits. Assure that book pension expense is computed in accordance with FAS 87 and FAS 106 guidelines. The downturn in the market has impacted the current funding status of pension and post-retirement funds of many utilities and the downturn has been the launch pad for the significant increases being requested. The impact has affected rate base and expense alike. Generally, the Company will focus on the downturn without recognizing the more recent turn around in the market.

Review proposed adjustments to medical insurance and the various other benefits typically offered to utility employees. The Company's support for projected costs will be thoroughly analyzed along with the Company's cost containment efforts.

Incentive plan(s) and the respective cost associated with the plan(s) will be analyzed in detail. Typically, the Company will argue that the incentive plan has to be considered as part of the total compensation package. The Company will also

argue that the incentive compensation is “at risk” and comparisons will be made to total compensation studies. Incentive compensation to be justified must be based on real goals that serve to benefit ratepayers and are not shareholder oriented. Proper comparisons must be made when the Company offers other utility compensation plans as justification

IV. ADVANTAGES OF USING LARKIN & ASSOCIATES, PLLC

The distinct advantages of utilizing Larkin & Associates, PLLC's regulatory consulting team for this project include:

Maximum consulting skill applied to this assignment. The effective use of consultants rests on finding the best fit between the client's need and the skill, knowledge and experience of the individual consultants who actually work on the assignment. Our approach maximizes the productive time of the senior consultants who work on the engagement. Furthermore, we are not encumbered by the considerable overhead necessary to support a large firm; consequently our clients receive more pure consulting services for every dollar they spend.

Extensive utility industry experience. Collectively, the consultants available for our assignments have extensive and diverse experience with utilities and regulators. In addition to possessing the requisite professional skill, our project team brings together people with broad practical experience. All consultants specialize in the public utilities sector.

Value added approach. Our consulting philosophy emphasizes a collaborative approach. We strive to establish the closest possible working relationship with our client's personnel. We believe that the success of a consulting engagement varies directly with the degree of client involvement. Therefore, we encourage our clients to become actively involved in our assignments and we believe that the results of our work should include the initiation of action programs.

Proven technical skills. Consulting is a skill based, professional service. Our project team is made up of seasoned, career consultants who have climbed well up the experience curve at each functional discipline. The methodologies we employ have been tested successfully on many engagements. We believe our approach provides the greatest probability of producing useful and measurable benefits.

Demonstrated project management capability. We consider project management to be an essential responsibility. We have substantial experience managing a full spectrum of consulting engagements, including many complex, large-scale projects. The senior consultants responsible for providing direction to the project team insure that there is sufficient depth, detail and balance to work plans. We use detailed work activity plans and budgets to monitor progress and as a focal point for communications with the client. We have repeatedly demonstrated the ability to manage consulting teams that produce quality results on time and within budget.

Several CPAs on project team. Our project team includes four CPAs and two regulatory analyst, who have devoted their professional careers to addressing issues affecting public utilities. In our extensive public utility consulting work, which encompasses management studies, rate case testimony, and other types of cost analyses and regulatory project

assistance, we stress the quantification of recommendations, where applicable. Our background as CPAs helps assure that all of our recommendations are quantified, where possible, and that the underlying facts have been thoroughly verified.

Experience as expert witnesses. Each of our project team managers have presented testimony and have been cross examined on numerous utility regulatory issues. As a result of this experience, our team has a sharper appreciation of the value of rigorous fact verification and documentation of our findings and conclusions. We approach the regulatory consulting process with a type of discipline that enhances our ability to support our findings in subsequent regulatory proceedings, if and as necessary. Larkin & Associates' project team members are eminently qualified to testify on the Commission Staff's behalf.

Importance of this engagement We can offer all the talents and experience of a large consulting firm. At the same time, we are a smaller business that values each client. We strive to give each client a high degree of personalized care and attention, thus we anticipate being able to bring to this project a valuable blend of big firm capabilities and small firm commitment, attention and responsiveness.

V. PROJECT MANAGEMENT AND KEY PROJECT PERSONNEL

Hugh Larkin, Jr. will function as project director. Mr. Larkin has worked in the regulatory field for 25 years and has testified in over 400 rate proceedings. Mr. Larkin's regulatory experience includes rate cases, management audits, litigation assistance and training seminars. As project director, Mr. Larkin will assume ultimate responsibility for the completion of each phase of the project and the quality of the resulting work product. We do not currently anticipate that Mr. Larkin will extensively participate in this case.

Helmuth W. Schultz, CPA, is a senior regulatory analyst and the firm's audit and tax manager. Mr. Schultz is particularly well versed in the regulatory arena, and has presented testimony in numerous cases. Mr. Schultz will serve as project manager and will be closely involved in all phases of the project. The project manager coordinates the work efforts of all professional staff, monitors the progress of the project and ensures that all deadlines are met. Mr. Schultz will also be responsible for allocating each consultant's time to this project in light of their commitments to other projects. Scheduling and control of each phase of the work will be provided under the personal supervision of Mr. Schultz. Communications between Mr. Schultz and the professional staff assigned to the project will be maintained on a daily basis. Mr. Schultz has served as project manager on numerous utility rate cases.

Donna M. DeRonne, CPA, is a senior regulatory analyst. Ms. DeRonne has been a key member in numerous rate case engagements and testified on many occasions, will actively participate in this case.

Ralph C. Smith, CPA, is a senior regulatory analyst. He has provided testimony in an abundant number of rate cases and other regulatory matters. Mr. Smith will perform analytical work on this project on an as-needed basis.

Mark Dady, and Tina Miller are staff accountants and regulatory analysts. Each has prepared calculations, performed analyses and prepared schedules and exhibits on several Larkin & Associates' engagements. They will be involved in the project by performing analytical work, preparing schedules and exhibits, editing written reports and verifying data.

A schedule showing each analyst's estimated hours and anticipated time devoted to each task during the performance of this project is included as Exhibit 1, "Allocation of Analyst Hours Per Specific Task" in the cost detail in Chapter VI of this proposal. Resumes for each member of the project team are presented as Appendix I, "Background and Qualifications - Resumes of Key Project Personnel".

VI. COST CENTER

Price

Our estimated price of \$24,990 is presented below in these components: estimated hours, professional costs and the total project cost including expenses.

Time Allocation

The estimated time allocation for each task is shown for each member of the project team

Professional Fees

We estimate professional fees of \$22,280, which is presented in Exhibit 2 by taking the time allocated per task per person from Exhibit 1 and multiplying it by each person's hourly rate

Total Estimated Price

The total bid for the project is \$24,990, this is presented in Exhibit 2. We minimize expenses by staying at economical hotels, comparing airline flights and car rentals, and the efficient and economical use of supplies and resources

Statement of Noncollusion

Larkin & Associates, PLLC certifies that the prices submitted herein were independently arrived at without collusion.

Cost By Issues

If only specific issues are addressed the estimated cost is presented in Exhibit 2. The total of the individual issues exceeds the total cost because the performance of certain tasks are overlapping. As a result of that overlap a cost savings is reflected in the total cost estimate.

Exhibit 1 - Total Price Estimate

<Insert Excel Table>

Exhibit 1 - Estimated Hours

Larkin & Associates PLLC
 Montana-Dakota Utilities Co 's
 Estimated Hours by Activity

Staff	Function	Review Filing	Discovery*	Preparation of Testimony	Hearings	Brief, etc	Total
Hugh Larkin	Project Leader	0		8			8
Helmuth Schultz	Project Manager	12	48	24	20	8	112
Donna DeRonne	Sr Analysts	8	20	20	0	8	56
Ralph Smith	Sr Analysts			4			4
Tina Miller/Mark Dady	Analysts	4	8	8			20
Total Professional Hours		24	76	64	20	16	200
Kerri Niemiec	Clerical		8	12			20

* Includes on-site visit

Exhibit 2 - Projected Cost

Larkin & Associates, PLLC
 Montana-Dakota Utilities Co 's
 Projected Total Cost

Staff	Function	Total Hours	Hourly Rate	Total Cost
Hugh Larkin	Project Leader	8	\$ 125 00	\$ 1,000 00
Helmuth Schultz	Project Manager	112	\$ 115 00	\$ 12,880 00
Donna DeRonne	Sr Analysts	56	\$ 115 00	\$ 6,440 00
Ralph Smith	Sr Analysts	4	\$ 115 00	\$ 460 00
Tina Miller/Mark Dady	Analyst	20	\$ 75 00	\$ 1,500 00

Total Professional Fees	200	\$ 22,280 00
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Kerry Niemiec	Clerical	20	\$ 25 00	\$ 500 00
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Total Fees	\$ 22,780 00
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Expenses	
Airfare	\$ 1,530 00
Lodging	\$ 350 00
Meals	\$ 160 00
Car Rental	\$ 120 00
Other	\$ 50 00

Total Expenses	\$ 2,210 00
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Total Fees & Expenses	\$ 24,990 00
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Cost by Individual Issue	Cost	Expense	Total
Payroll	\$ 10,500 00	\$ 2,100 00	\$ 12,600 00
Pension	\$ 6,000 00	\$ 1,050 00	\$ 7,050 00
Medical	\$ 4,500 00	\$ 1,050 00	\$ 5,550 00
Supplemental Pension	\$ 3,500 00	\$ 1,050 00	\$ 4,550 00
Other Labor Costs (Incentive Compensation, Etc)	\$ 4,500 00	\$ 1,050 00	\$ 5,550 00

Cost by Combined Issues	Cost	Expense	Total
Payroll & Other Labor Costs	\$ 14,000 00	\$ 2,100 00	\$ 16,100 00

APPENDIX I

**BACKGROUND & QUALIFICATIONS - RESUMES OF
KEY PROJECT PERSONNEL**

The personnel Larkin & Associates proposes for this project are ideally suited to the project's requirements. The project team includes professionals with educational backgrounds in accounting, taxation and law, as well as expertise in addressing regulatory issues for electric, gas, telecommunications, water and sewer utilities.

Members of this team have extensive experience providing consulting to regulatory agencies concerning a wide range of issues affecting public utilities. The professionals proposed for this project have worked as consultants on numerous projects for regulatory commission staffs and intervenors, and have provided litigation assistance on behalf of law firms representing utilities and others. Our team includes expert consultants and CPAs who are thoroughly familiar with the issues in utility regulatory consulting engagements.

Concise resumes emphasizing gas utility experience for the professionals proposed for this project are as follows.

	<u>Page</u>
HUGH LARKIN, JR., CPA	1
HELMUTH W. SCHULTZ, III, CPA	5
RALPH C. SMITH, CPA	9
DONNA M. DERONNE, CPA.....	13
TINA MILLER	17
MARK S. DADY	20

HUGH LARKIN, JR., CPA

Mr Larkin is a certified public accountant, founder and senior partner of Larkin & Associates. He is thoroughly versed in independent auditing, as well as the design and review of accounting systems and the presentation of data for management and financial reporting. Mr Larkin is licensed in the states of Michigan and Florida.

For 30 years, Mr Larkin has concentrated in the field of public utility regulation. He has served as project leader for numerous financial and compliance audits and regulatory consulting engagements, and has testified as an expert witness on issues dealing with public utility management and regulation in over 300 proceedings. His testimony has been sponsored by public utility/service commission staffs, state attorneys general, groups of municipalities, a district attorney, people's counsel, public counsel, and other such entities. Jurisdictions in which Mr Larkin has presented expert testimony include Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Kansas, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Vermont, Utah, Washington, Wisconsin, West Virginia, FERC and Canada.

Relevant Regulatory Experience

Following are examples of gas regulatory cases in which Mr Larkin has participated:

- Project Member in the review of the application for an increase in rates and charges filed by Questar Gas Company. Issues addressed in testimony included: Appropriate test year, revenues, declining customer usage, contributions in aid of construction, gain on sale of property, corporate cost allocations, employee levels, charges from and relationship with unregulated affiliate, incentive compensation, uncollectibles, various expense items, rate of return adjustment from affiliates, and tax credits.
- Project Leader in the review of Questar Gas Company's application for an increase in rates and charges. Issues analyzed and included in testimony presented by Mr Larkin included: revenues, gain on sale of property, advertising expense, incentive compensation, uncollectibles, phantom stock correction, rate of return adjustment from affiliates and contingent liabilities. The revenue requirement portion of the case was settled prior to hearings.
- Project Manager in the review of Connecticut Natural Gas Company's proposed performance based ratemaking plan. Our testimony addressed numerous deficiencies with the Company's proposed plan. Other issues addressed in testimony included: the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr Larkin & Ms DeRonne also proposed an alternative performance based ratemaking plan for consideration.
- Key project team member in the review of Southern Connecticut Gas Company's proposed performance based ratemaking plan. Larkin & Associates' testimony pointed out numerous problems with the Company's proposed plan as well as a discussion of the following issues: the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr Larkin & Ms DeRonne also proposed an alternative performance based ratemaking plan for consideration.
- Key project team member in the review of Connecticut Natural Gas Corporation's rate case filing. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Ultimately, the Company's rates were reduced. Issues addressed in

Resume of Hugh Larkin, Jr., CPA, continued

testimony included injuries and damages reserve, FAS 106 deficiency deferred debit, working capital, uncollectibles, hardship arrearage program, inflation, insurance, outside services, commission assessments, maintenance of plant, public relations expense, and property tax expense

- Project Director in the Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation. The project involved analyzing the combined utilities compliance with market power safeguards adopted in the Commissions Decision D 98-03-073 to ensure open and nondiscriminatory service was conducted. An extensive investigation of the combined utilities gas system, tariffs, contracts, and operations was conducted. The review also consisted of interviewing approximately 97 Company personnel, and reviewing over 4,000 recorded telephone calls. A final report was issued that discussed the Companies' compliance with the 25 Remedial Measures and market power safeguards.
- Mr. Larkin was a key participant in the review of Black Mountain Gas Division of Northern States Power Company, Page Operation's rate increase request. Larkin & Associates was retained by the Residential Utility Consumer Office of Arizona to submit testimony regarding Black Mountain Gas Division of Northern States Power Company, Page Operation's request for rate increase. Testimony addressed the following issues: revenue annualizations, weather normalization, late payment revenues, employee benefits, corporate overhead allocation, insurance expense, directors' fees, advertising expense, property tax expense, rate case expense and income tax rates. This was the first rate case subsequent to the purchase of Black Mountain Gas by Northern States Power Company. Consequently, corporate allocations were of particular concern in this case.
- Project Director in the review of the rate increase request of the Connecticut Natural Gas Corporation. Issues addressed in Mr. Larkin's testimony included: plant additions, accumulated depreciation, air conditioning rebate program, working capital - cost of gas, working capital - O&M, deferred credits, hardship arrearage forgiveness program, residential late payment charge revenues, sale of automatic meter reading assets, production and distribution, rent expense, payroll, employee benefits, matching gift program, personal use of Company automobile, directors' and officers' liability insurance, outside services, rate case expense, economic development expense, uncollectibles, lobbying expense, membership dues, miscellaneous expenses, general inflation adjustment, depreciation expense, property taxes, income tax expense, and interest synchronization.
- Project Director in the review of the application for an increase in rates and charges filed by the Mountain Fuel Supply Company. Testimony addressed the Company-proclaimed impact on its working gas inventory and labor requirements resulting from FERC Order 636. Another issue of paramount importance was unbilled revenue. Other issues included: cash working capital, accumulated deferred income taxes, "banked" vacation, equal payment plan, payroll expense, overtime expense, stock purchase plan expense, O&M expense percentage, payroll taxes, executive incentive retirement plan, supplemental executive retirement plan, postretirement benefits other than pensions, and consolidated income taxes.
- Project Director in the review of the request of the Indiana Gas Company to increase its rates. Issues addressed in Mr. Larkin's testimony included: weather normalized gas sales, appropriate ratemaking treatment of an acquisition adjustment, inter-company allocations, collection charge revenues and changes in customer levels.
- Project Director in the review of the rate increase requested by Connecticut Natural Gas Corporation. Issues addressed in testimony by Larkin & Associates included: natural gas vehicles, software additions, working capital, accounts payable, materials and supplies, deferred credits, deferred conservation expense, economic development, sales, late payment revenue,

Resume of Hugh Larkin, Jr., CPA, continued

payroll, executive compensation, incentive compensation, pensions, employee benefits, uncollectibles, hardship arrearage forgiveness program, hardship shortfalls, corporate insurance, D&O insurance, environmental liability insurance, injuries and damages, production and distribution expense, computer costs, legal expense, training costs, demonstration and selling, promotional advertising, market development, service contracts, dues, inflation and taxes

- Project Director in the review of Southern Union Gas Company's request for an increase in rates Issues included acquisition adjustment amortization, investment tax credit amortization, liability insurance expense, and acquisition investigation costs
- Project Director in the audit and review of United Cities Gas Company's rate increase request Policy issues addressed in Mr Larkin's testimony included ratemaking treatment of acquisition adjustment, non-compete agreement, pipeline safety deferrals, gas costs, employee benefits and distribution expense
- Project team member in the review of a rate increase request by Hope Gas, Inc The case was settled prior to hearings Issues specifically addressed by Larkin & Associates included post-test year plant additions, consolidated tax savings, revenues, labor costs, FAS 106, benefits, Employee Appliance Purchase Plan, corporate charges, affiliated charges, advertising and injuries and damages expense
- Project Director in the review of accounting and revenue requirement issues of the Southwest Gas Corporation Specific issues included prepayments, pipe replacement program, marketing and advertising expense, revenues, gain on disposition of property and officers' compensation
- Project Director in the review of Southwest Gas Corporation's Purchased Gas Adjustment Report The following topics were addressed. lost and unaccounted for gas, adjustment to account 191 for tier-2 gas cost corrections, Santa Fe margin on system gas sales to be credited to ratepayers, allocation to Arizona of Santa Fe's profits on end-user sales
- Project Director in the review of Mountaineer Gas Company's request for an increase in rates Issues included plant in service, accumulated depreciation, sale of liquid propane gas plant, plant acquisition from Columbia, materials and supplies inventory, prepayments, working cash allowance, customer deposits, accrued vacation pay, rate refunds, unclaimed accounts, weather normalization, commercial and industrial sales growth, miscellaneous revenue, O&M expense, payroll expense, pension expense, uncollectibles, rate year expense, expense for mandatory drug/alcohol testing, legal and outside services expense, affiliated transactions, rate case expense, truck lease expense, inflation adjustment, EDP lease expense, advertising expense, software expense, taxes other than income, payroll taxes and income taxes
- Project Director in the evaluation of the impact of the Tax Reform Act of 1986 on the gas distribution utility operations of the Northern States Power Company Issues included reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC and timing of TRA associated impacts upon utility rates
- Project Director in the analysis of the Connecticut Natural Gas Corporation to determine the appropriate regulatory treatment associated with various changes in the tax code caused by tax reform and determine the impacts of the Tax Reform Act on the cost of service and revenue requirements Other areas examined were unbilled revenues, allowance for bad debt, inventory storage costs, cash flow changes associated with the TRA, excess accumulated deferred income tax reserve and adjustments to CNG's calculations
- Project Director in the review of Southwest Gas Corporation's Audit of Gas Procurement Practices and Purchased Gas Costs The following topics were addressed: summary of audit conclusions and recommendations, propriety of deferred gas account, accrual of PGA reports,

Resume of Hugh Larkin, Jr., CPA, continued

take-or-pay, two-tiered gas costs, non-traditional gas purchases from affiliate, ratemaking implications of SWG/Santa Fe/NGC relationship and acronyms and definitions

- Project Director hired to research and describe in detail the historical development of natural gas transportation issues at Federal and State jurisdictional levels in the case of Reynolds Metals Company vs The Columbia Gas System, Inc In addition, the calculation of damages and present alternative damage calculations

A complete list of cases in which Mr Larkin has participated/testified will be provided upon request.

Previous Positions

- Employed by the international certified public accounting firm Peat, Marwick, Mitchell and Company from 1963 through 1969 Supervised major audits of the Detroit office.
- Partner in the public accounting firm of Tischler & Lipson, 1969-1970
- Formed the certified public accounting firm of Larkin, Chapski & Company in 1970 (reorganized in 1982 as Larkin & Associates)

Education

- Bachelor of Science, Accounting, Michigan State University, East Lansing, Michigan, 1960
- Certified Public Accountant, 1966
- Continuing professional education necessary to maintain CPA license

Professional Affiliations

- Michigan Association of Certified Public Accountants
- American Institute of Certified Public Accountants.

References

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HELMUTH W. SCHULTZ, III, CPA

Helmuth ("Bill") Schultz, a certified public accountant and management consultant, was employed with Larkin & Associates' predecessor firm, Larkin, Chapski & Company, in 1975. He is presently a Larkin & Associates partner and, as such, is responsible for all the accounting and much of the auditing work done by the firm. Mr. Schultz has evaluated numerous issues affecting regulated public utilities including capital structure, rate base, sales, fuel and purchased power expenses, O&M expenses, taxes of all types, and management controls over operations and expenses. He has made projections in the areas of sales, required generation, capital structure, rate base, overhead, O&M expenses, taxes, and cost of debt. Mr. Schultz has testified as an expert witness in numerous regulatory proceedings.

Relevant Regulatory Experience

Following are examples of gas regulatory cases in which Mr. Schultz has participated:

- Project Member in the review of Peoples Gas System's request for an increase in rates. Our testimony addressed projected additions to plant in service, construction work in progress, off-system sales, charges from and contract with affiliated sales and marketing entity, separation of employees into non-regulated sales and marketing entity, charges from parent company and affiliates, promotional programs; advertising expense, employee levels; incentive compensation, employee benefits; trending adjustments, and impact of Economic Stimulus Package signed into law on March 9, 2002 on deferred income taxes.
- Project Member in the review of Yankee Gas Services Company's application for an increase in rates. Mr. Schultz analyzed issues including rate base, system expansion project, working capital, regulatory pension liability, SERP, payroll expense, incentive compensation, payroll-related expenses, benefit expense, and uncollectible and hardship forgiveness/matching payment plan expenses.
- Project team member in the review of Southwest Gas Corporation's application to amend its rate schedules. The following issues were addressed: rate base, work management system, post-test year safety additions, completed construction not classified correction, cash working capital, corrections to prepayments, working capital offset for payments from UPI, and the relationship between Southwest Gas and Utility Partners Inc. Adjustments to operating income included labor annualization, management incentive plan, outside contractor expense, office closures, expired amortizations, amortizations of payments from UPI, environmental amortizations, American Gas Association membership dues, officer retreat expense, directors' and officers' liability insurance, property tax expense, interest synchronization, and merger related costs.
- Project team member in the review of Southern Connecticut Gas Company's rate case filing. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Issues addressed in our testimony included: conservation expenditures, working capital, payroll, incentive compensation; pensions, PBOP, early retirement plan expense, outside services, computer system maintenance expense, age change program cost savings, uncollectibles, environmental remediation amortization, property taxes, reduction of income tax reserve, and federal income taxes.
- Project Member. Larkin & Associates was contracted to conduct a financial review of Southern Connecticut Gas Company. Larkin & Associates recommended adjustments to both rate base and operating income. An alternative ratemaking plan and performance based ratemaking plan were both further examined. Specific areas analyzed and addressed: truckline project, conservation expenditures, working capital, incentive pay, payroll, payroll tax expense, pensions, health care benefits and other benefits; early retirement plan expense, outside services expense; computer system maintenance expense, AGA dues expense, age change program cost savings, additional cost savings, amortization of environmental remediation costs, amortization of three-

Resume of Helmuth Schultz, CPA, continued

way payment forgiveness plan, uncollectibles, lease income, property tax expense, reduction of income tax reserve, income tax expense, and interest synchronization.

- Mr Schultz was a lead consultant in the review of Black Mountain Gas Division of Northern States Power Company, Page Operation's rate increase request Larkin & Associates was retained by the Residential Utility Consumer Office of Arizona to submit testimony regarding Black Mountain Gas Division of Northern States Power Company, Page Operation's request for rate increase Testimony addressed the following issues revenue annualizations, weather normalization, late payment revenues, employee benefits, corporate overhead allocation, insurance expense, directors' fees, advertising expense, property tax expense, rate case expense and income tax rates This was the first rate case subsequent to the purchase of Black Mountain Gas by Northern States Power Company Consequently, corporate allocations were of particular concern in this case
- Project team member in the review of Connecticut Natural Gas Corporation's rate case filing Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company Ultimately, the Company's rates were reduced Issues addressed by Larkin & Associates in testimony included injuries and damages reserve, FAS 106 deficiency deferred debit, working capital, uncollectibles, hardship arrearage program, inflation, insurance, outside services, commission assessments, maintenance of plant, public relations expense, and property tax expense
- Lead Consultant Assisted the Office of Consumer Counsel of the State of Connecticut in a financial review of Southern Connecticut Gas Company The review determined that the Company was over-earning and a reduction in rates was recommended As a result of the investigation, the Company was required to either voluntarily reduce rates or file a full rate case proceeding before the Connecticut Department of Public Utility Control Mr Schultz testified as an expert witness in this case Issues addressed by us in our testimony included plant-in-service, conservation expenditures, working capital, inflation, payroll, incentive compensation, pensions, PBOP, outside services, advertising, rent expense, leak survey costs, uncollectibles, Conservation Adjustment Mechanism, depreciation, amortization, property taxes, reduction in state income tax rate, federal income taxes, and cost savings from sale and lease back of liquidated natural gas facility
- Project Manager in the review of the rate increase request by Connecticut Natural Gas Corporation Issues addressed included plant additions, accumulated depreciation - plant additions, air conditioning rebate program, working capital - cost of gas, working capital - O&M, deferred credits, hardship arrearage forgiveness program, residential late payment charge revenues, sale of automatic meter reading assets, production and distribution - LNG facility, rent expense - O&A center, payroll, employee benefits, pension expense, removal of certain employee benefits, matching gift program, personal use of Company vehicles, directors' and officers' liability insurance, outside services - legal, rate case expense, economic development expense, uncollectibles, lobbying expense, membership dues, adjustment for miscellaneous expenses, general inflation adjustment, CIS/DCIS depreciation expense, property taxes, income tax expense, interest synchronization
- Lead Consultant retained to review the filing of the Minnesota Alliance for Fair Competition (MAC) against Minnegasco and to analyze the July 1993 filing by Minnegasco in response to MAC's filing Mr Schultz was to analyze the filings and make a determination as to whether Minnegasco's Cost Apportionment Manual provide a means of 1) determining whether costs can be identified, 2) determining if an allocation process is reasonable such that all direct costs are allocated, the remaining common costs to be allocated are reasonable, and the allocator being used is reasonable, 3) determining if the allocation process is auditable, and 4) determining if an audit trail exists

Resume of Helmuth Schultz, CPA, continued

- Key project team member in the review of the accounting and revenue requirements of Southwest Gas Corporation. Prefiled testimony addressed the following issues: prepayments, pipe replacement program, marketing and advertising expense, revenues, gain on disposal of property and officers' compensation.
- Project Manager in the review of the rate increase requested by Connecticut Natural Gas Corporation. Issues addressed in testimony by Larkin & Associates included: natural gas vehicles, software additions, working capital, accounts payable, materials and supplies, deferred credits, deferred conservation expense, economic development, sales, late payment revenue, payroll, executive compensation, incentive compensation, pensions, employee benefits, uncollectibles, hardship arrearage forgiveness program, hardship shortfalls, corporate insurance, D&O insurance, environmental liability insurance, injuries and damages, production and distribution expense, computer costs, legal expense, training costs, demonstration and selling, promotional advertising, market development, service contracts, dues, inflation and taxes.
- Key project team member in the review of Southwest Gas Corporation's - Purchased Gas Adjustment Report. The following topics were addressed: lost and unaccounted for gas, adjustment to account 191 for Tier-2 gas cost corrections, Santa Fe margin on System Gas sales to be credited to ratepayers, allocation to Arizona of Santa Fe's profits on end-user sales.
- Project Manager. Larkin & Associates was retained by the Iowa Utilities Board to perform an audit of Peoples Natural Gas Company's direct assignment and allocation of costs to its non-regulated operations in the State of Iowa. The purpose of our audit was to assess if the Company complied with its Cost Allocation Manual and to evaluate the propriety of the allocation methods embodied within the Manual.
- Project Manager in the determination of the appropriate regulatory treatment associated with various changes in the tax code caused by tax reform and determine the impact of the Tax Reform Act on the cost of service and revenue requirements. Further, examine unbilled revenue, allowance for bad debt, inventory storage costs, cash flow changes associated with the TRA, excess accumulated deferred income tax reserve and adjustments to Connecticut Natural Gas' calculations.
- Key project team member in the audit of gas procurement practices and purchased gas costs of Southwest Gas Corporation. The following topics were addressed: summary of deferred gas account, accuracy of PGA reports, take-or-pay, two-tiered gas costs, non-traditional gas purchases from affiliate, ratemaking implications of SWG/Santa Fe/NGC relationship and acronyms and definitions.
- Lead Consultant retained by the Delaware Valley Chapter PCAUUP to review the accounting records of Philadelphia Electric Company's gas operations with specific focus on the Gas House Heating Service Contract Program. The purpose of the review was to attempt to determine the propriety of the Company's recording of revenue and expenses for the Contract Service Program. In addition, attempted to determine whether the Contract Service Program was subsidized by ratepayers' monies and whether the price of the program was below an average variable cost.

A complete list of cases in which Mr. Schultz has participated/testified will be provided upon request.

Education

- Bachelor of Science in Accounting, Ferris State College, 1975
- Certified Public Accounting Certificate, 1980
- Continuing education required to maintain CPA license

Professional Affiliations

- Michigan Association of Certified Public Accountants

Resume of Helmuth Schultz, CPA, continued

References

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RALPH C. SMITH, CPA

Mr Smith's professional credentials include being a Certified Financial Planner™ professional, a certified rate of return analyst, a licensed certified public accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, Ohio, Pennsylvania, South Carolina, Texas, Washington, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Relevant Regulatory Experience

Following are examples of gas regulatory cases in which Mr. Smith has participated:

- Project Manager. Larkin & Associates was retained by the New Jersey Department of Law and Public Safety to assist in submitting comments to the Environmental Protection Agency regarding the EPA's proposed rule published on December 31, 2002 at 67 Federal Register 80290 entitled, "Prevention of Significant Deterioration (PSD) and Non-attainment New Source Review (NSR) Routine Maintenance, Repair and Replacement." Larkin & Associates assisted the NJ Department of Law with research and drafting of the comments submitted to the EPA.
- Project Manager in the review of Southwest Gas Corporation before the Arizona Corporation Commission. Involvement included, but was not limited to, preparing testimony, performing data analysis and monitoring the progress of the overall project. Mr. Smith was also actively involved with the Southwest Gas Corporation's Rebuttal & PGA Audit as well as the Audit of Gas Procurement Practices and Purchased Gas Cost both before the Arizona Corporation Commission.
- Project Manager in the Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation. The project involved analyzing the combined utilities compliance with market power safeguards adopted in the Commission's Decision D.98-03-073 to ensure open and nondiscriminatory service was conducted. Mr. Smith performed an extensive investigation of the combined utilities gas system, tariffs, contracts, and operations. The review also consisted of interviewing approximately 97 Company personnel, and reviewing over 4,000 recorded telephone calls. A final report was issued that discussed the Companies' compliance with the 25 Remedial Measures and market power safeguards.
- Project team member in the review of Southern Union Gas Company's revenue requirements. Mr. Smith filed testimony addressing issues resulting from this review. Issues included Acquisition adjustment amortization, investment tax credit amortization, liability insurance expense and acquisition investigation costs.
- Project Manager in the analysis of Equitable Gas Company's rate base, operating income and revenue requirement issues including the Company's capitalization of promotional allowances, projected plant additions, accumulated depreciation, materials and supplies, accounts payable related to CWIP, customer deposits, provision for rate refund, cash working capital (billing lag, collection lag, other taxes lag, income tax lag, interest expense lag) residential sales, take-or-pay liability amortization, uncollectibles, advertising and promotional expense, recoveries of theft gas,

Resume of Ralph C. Smith, CPA, continued

associated dues, employee retirements, projection of work force, pension expense, marketing study, energy assistance program, depreciation, gross receipts tax, customer deposits interest and income tax expense

- Project Manager in the evaluation of Southwest Gas Corporation Reviewed gas procurement practices and purchased gas costs Retained by Arizona Corporation Commission to prepare a report on audit of gas procurement practices and purchased gas costs. The following topics were addressed: Summary of Audit Conclusions and Recommendations; Propriety of Deferred Gas Account, Accuracy of PGA Reports; Take-or-pay, Two-Tiered Gas Costs; Non-Traditional Gas Purchases from affiliate, and Ratemaking implications of SWG/Santa Fe/NGC Relationship.
- Project Manager in Larkin & Associates' review of Citizens Utilities Company, Arizona Gas Division's request for an increase in rates Responsible for analyzing rate base and net operating income issues, quantifying adjustments, and writing testimony Specific issues addressed included Stamford Administrative Office common plant balance, cash working capital, revenue annualization, payroll expense, employee benefits expense, and investment tax credit amortization
- Project manager in the review of Missouri Gas Energy's ("MGE") affiliated transactions and Southern Union Company's corporate costs This was the first rate case review after the acquisition by Southern Union of MGE MGE and Southern Union's previously owned gas distribution operations (located in Texas) were approximately the same size in terms of annual revenues and rate base This project involved a thorough review of the corporate cost allocation model that was developed after the merger occurred Testimony addressed the following issues: common plant - Austin, Texas office, accumulated deferred income taxes, corporate allocations, New York Stock Exchange listing fees (initial and ongoing) for the new company; executive stock options and stock-based compensation, SFAS 123, incentive compensation, pensions and SFAS 106 nonpension post retirement benefits, budgeting of corporate costs and employee levels; executive offices in New York City, treatment of salary expense for geographically removed executives; affiliated transactions, KellAir, an affiliated supplier of airplane passenger service, allocation factors, use of time reporting for corporate executives
- Project team member in the evaluation of the impact of the Tax Reform Act of 1986 on the gas distribution utility operations of the Northern States Power Company Issues included reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC and timing of TRA associated impacts upon utility rates
- Project Manager Larkin & Associates was employed by the Office of Consumers' Counsel of Ohio ("OCC") to review and evaluate the material filed by the River Gas Company and the East Ohio Gas Company, the PUCO Staff, and any other parties to the proceedings, relating to FAS 106 and FAS 112 Review included, but was not limited to, Company testimony and standard filing requirements, responses to discovery, Company workpapers, the Staff Report, Staff workpapers, actuarial studies supporting the accrual of postretirement benefits and the comments and findings in prior cases This case was settled.
- Project manager in the review of the rate increase requested by CNG Transmission Corporation Issues addressed in testimony included ratemaking treatment of extraordinary gas loss at CNG Transmission Corporation, treatment of costs incurred by CNGT associated with the Company's violations of environmental laws, and, the amortization period to be applied to CNGT's FAS 106 regulatory asset
- Project manager Larkin & Associates was hired by the Pennsylvania OCA to review Columbia Gas Company's request to increase its rates Mr Smith prepared discovery, reviewed responses, reviewed documents and interviewed Company employees on-site at their Columbus, Ohio office, quantified adjustments for a wide range of issues, and prepared a report containing

Resume of Ralph C. Smith, CPA, continued

the impacts of our adjustments. Larkin & Associates also quantified various alternatives as part of the "collaborative" negotiating process that resulted in the final agreement concerning the amount of rate increase.

- Project Manager in the analysis of Pacific Gas & Electric Company. Issues addressed included Review revenues, sales and customer forecast, O&M expense, labor and non-labor cost, income taxes, other taxes, depreciation, return and rate base items. Adjustments were proposed for rad waste disposal expense, non-routine maintenance expense, Geyers effluent pipeline project, outage management system, integrated distribution information system, distribution expense - tree trimming, customer accounts expense, customer charge, relocation expense, long-term disability expense (FAS 112), Performance Incentive Plan, total compensation, hazardous substance tax expense, nuclear decommissioning expense, depreciation on hydraulic production plant, and 215/245 Market Street headquarters building seismic retrofit project costs.

A complete list of cases in which Mr. Smith has participated/testified in will be provided upon request.

Previous Positions

With Larkin, Chapski & Co., the predecessor firm to Larkin & Associates, Mr. Smith was involved in utility regulatory consulting, tax planning and research for businesses and individuals, tax return preparation and review, independent auditing, review and preparation of financial statements. Installed computerized accounting system for a realty management firm.

Education

- Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979
- Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.
- Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.
- Continuing education required to maintain CPA license and CFP certificate.
- Received CPA certificate in 1981 and certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Professional Affiliations

- Michigan Association of Certified Public Accountants, Committee on Management Consulting Services
- Michigan Bar Association
- American Bar Association, sections on public utility law and taxation

References

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Resume of Ralph C. Smith, CPA, continued

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Resume of Donna DeRonne, CPA, continued

DONNA M. DeRONNE, CPA

As a certified public accountant with Larkin & Associates, duties include the analysis of utility rate cases, researching accounting and regulatory developments, preparing computer models and spreadsheets, and preparation of written testimony and exhibits. Ms. DeRonne has testified as an expert witness in numerous regulatory proceedings. Ms. DeRonne has also prepared and presented training programs on the analysis of financial capabilities of firms. Jurisdictions in which Ms. DeRonne has participated in the analysis of regulatory filings include Alaska, Arizona, California, Connecticut, Florida, Guam, Hawaii, Illinois, Indiana, Kentucky, Pennsylvania, Rhode Island, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin.

Relevant Regulatory Experience

Following are examples of gas regulatory cases in which Ms. DeRonne has participated:

- Project Manager and expert witness in the review of Southern Connecticut Gas Company's Request for Recovery of Exogenous Costs under its Incentive Rate Plan. Ms. DeRonne's testimony addressed the request for an increase in rates under the incentive rate plan for pensions, post retirement benefits other than pensions, uncollectibles, change in property tax valuation methodology, change in Connecticut corporate tax rate, and recovery of Three-Way Payment Plan deferrals.
- Project Manager in the review of Peoples Gas System's request for an increase in rates. Our testimony addressed projected additions to plant in service, construction work in progress, off-system sales, charges from and contract with affiliated sales and marketing entity, separation of employees into non-regulated sales and marketing entity, charges from parent company and affiliates, promotional programs, advertising expense, employee levels; incentive compensation, employee benefits, trending adjustments; and impact of Economic Stimulus Package signed into law on March 9, 2002 on deferred income taxes.
- Project Manager in the review of the application for an increase in rates and charges filed by Questar Gas Company. Our testimony addressed the following issues: Appropriate test year, revenues, declining customer usage, contributions in aid of construction, gain on sale of property, corporate cost allocations, employee levels, charges from and relationship with unregulated affiliate, incentive compensation, uncollectibles, various expense items, rate of return adjustment from affiliates, and tax credits.
- Project Manager in the review of Southwest Gas Corporation's application to amend its rate schedules. Ms. DeRonne submitted testimony which addressed the following issues: rate base, work management system, post-test year safety additions, completed construction not classified correction, cash working capital, corrections to prepayments, working capital offset for payments from UPI, and the relationship between Southwest Gas and Utility Partners Inc. Adjustments to operating income included labor annualization, management incentive plan, outside contractor expense, office closures, expired amortizations, amortizations of payments from UPI, environmental amortizations, American Gas Association membership dues, officer retreat expense, directors' and officers' liability insurance, property tax expense, interest synchronization, and merger related costs.
- Project Manager in the review of Yankee Gas Services Company's application for an increase in rates. Ms. DeRonne addressed issues and filed testimony in this case regarding rate base, system expansion project, merger synergies and related adjustments, fuel diversity fund, marketing expense, inflation adjustment, AGA dues expense, environmental remediation costs, gain on sale of property, property tax refund, property tax expense, and income tax expense. Ms. DeRonne also prepared and sponsored the overall revenue requirement schedules on behalf of the Office of Consumer Counsel.

Resume of Donna DeRonne, CPA, continued

- Project Manager in the review of Southern Connecticut Gas Company's rate case filing. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Issues addressed in testimony included: conservation expenditures, working capital, payroll, incentive compensation, pensions; PBOP; early retirement plan expense, outside services, computer system maintenance expense; age change program cost savings, uncollectibles, environmental remediation amortization, property taxes, reduction of income tax reserve, and federal income taxes.
- Project Member in the review of Questar Gas Company's application for an increase in rates and charges. Ms. DeRonne evaluated revenues, gain on sale of property, advertising expense, incentive compensation, uncollectibles, phantom stock correction, rate of return adjustment from affiliates and contingent liabilities. The revenue requirement portion of the case was settled prior to hearings.
- Project Manager in the review of Southern Connecticut Gas Company's proposed performance based ratemaking plan. Larkin & Associates' testimony pointed out numerous problems with the Company's proposed plan as well as a discussion of the following issues: the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr. Larkin & Ms. DeRonne also proposed an alternative performance based ratemaking plan for consideration.
- Project team member in the review of Connecticut Natural Gas Company's proposed performance based ratemaking plan. Our testimony addressed numerous deficiencies with the Company's proposed plan. Other issues addressed in testimony included: the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr. Larkin & Ms. DeRonne also proposed an alternative performance based ratemaking plan for consideration.
- Key project team member in the review of Connecticut Natural Gas Corporation's rate case filing. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Ultimately, the Company's rates were reduced. Issues addressed in testimony included: injuries and damages reserve, FAS 106 deficiency deferred debit, working capital, uncollectibles, hardship arrearage program, inflation, insurance, outside services, commission assessments, maintenance of plant, public relations expense, and property tax expense.
- Ms. DeRonne was a lead consultant in the review of Black Mountain Gas Division of Northern States Power Company, Page Operation's rate increase request. Larkin & Associates was retained by the Residential Utility Consumer Office of Arizona to submit testimony regarding Black Mountain Gas Division of Northern States Power Company, Page Operation's request for rate increase. Testimony addressed the following issues: revenue annualizations, weather normalization, late payment revenues, employee benefits, corporate overhead allocation, insurance expense, directors' fees, advertising expense, property tax expense, rate case expense and income tax rates. This was the first rate case subsequent to the purchase of Black Mountain Gas by Northern States Power Company. Consequently, corporate allocations were of particular concern in this case.
- Project Member in the review of the merger of CTG Resources, Inc. and Energy East Corporation. Ms. DeRonne evaluated certain merger issues including: the merger's effect on competition in the State of Connecticut, the merger's consistency with public interest; whether it would benefit both consumers and stockholders, whether there were acceptable customer

Resume of Donna DeRonne, CPA, continued

protections in place to ensure effective cost control, how the merger would effect regulation, and whether there were any factors benefiting customers which clearly compel the approval of the merger

- Project Member in the review of the merger application between Energy East and Connecticut Energy Corporation Ms DeRonne evaluated the merger in regards to the effect on competition in Connecticut, whether the merger is a benefit to both consumers and shareholders, effect on regulation, any factors which compels the merger for the benefit of customers, and whether there are acceptable customer protections in place to ensure affective cost control
- Project Manager Assisted the Office of Consumer Counsel of the State of Connecticut in a financial review of Southern Connecticut Gas Company The review determined that the Company was over-earning and a reduction in rates was recommended As a result of the investigation, the Company was required to either voluntarily reduce rates or file a full rate case proceeding before the Connecticut Department of Public Utility Control Ms DeRonne testified as an expert witness in this case Issues addressed in testimony included plant-in-service, conservation expenditures, working capital, inflation, payroll, incentive compensation, pensions; PBOP, outside services, advertising, rent expense, leak survey costs, uncollectibles, Conservation Adjustment Mechanism, depreciation, amortization, property taxes, reduction in state income tax rate, federal income taxes, and cost savings from sale and lease back of liquidated natural gas facility
- Key project team member in the review of Connecticut Natural Gas Company's rate filing Assisted with the preparation of data requests, analysis of data, on-site review, and preparing testimony, schedules and exhibits Ms DeRonne also testified as an expert witness in this case Issues of this case were Natural gas vehicles, software additions, working capital - O&M, accounts payable related to gas materials and supplied, non-gas materials and supplies, deferred credits, deferred conservation expense, economic development assistance deferred debits, sales, late payment revenue, payroll, pensions, employee benefits, personal use of company vehicles, uncollectibles, hardship arrearage forgiveness program, hardship shortfall deferral, corporate insurance update, directors' and officers' liability insurance, environmental liability insurance, injuries and damages, production and distribution, computer rental, maintenance and conversion, radio maintenance and repair, management audit expense, consultants for generic proceedings, outside services - other, non-recurring outside services expense, outside services - legal, lobbying expense, corporate training expense, demonstration and selling expense, promotional advertising, market development and engineering studies, economic development deferral amortization, service contract and charge service, servicemen licensing fees, American Gas Association Membership dues, social and service club dues, postage expense, inflation adjustment, payroll taxes, property taxes, income tax expense, and interest synchronization.
- Project Manager in the review of Mountaineer Gas Company on behalf of the West Virginia Consumer Advocate Division Ms DeRonne and Mr Larkin prepared written testimony and exhibits in this case, however, the case was settled prior to hearings Issues addressed by Larkin & Associates include Post-test year plant additions, acquisition adjustment, prepayments, working capital, consolidated tax savings, revenues, payroll, pensions, FAS 112, uncollectibles, computer expense, legal costs, advertising, customer relations and training expense
- Project Manager in the review of a rate increase request by Hope Gas, Inc. Ms DeRonne and Mr Larkin prepared written testimony and exhibits in the case The case was settled prior to hearings Issues specifically addressed include. post-test year plant additions, consolidated tax savings, revenues, labor costs, FAS 106, benefits, Employee Appliance Purchase Plan, corporate charges, affiliated charges, advertising and injuries and damages expense
- Project team member in the review of a rate increase request by Columbia Gas Company before the Pennsylvania Public Service Commission Ms DeRonne prepared discovery, reviewed responses, reviewed documents and interviewed Company employees on-site, quantified

Resume of Donna DeRonne, CPA, continued

adjustments for a wide range of issues and assisted in the preparation of a report containing the impact of Larkin & Associates adjustments. The case was settled prior to the filing of testimony under a "collaborative" negotiating process.

- Project Manager in providing assistance to the West Virginia Consumer Advocate Divisions in the conduct of a general investigation of Equitable Gas Company's West Virginia operations. The purpose of the investigation was to determine whether Equitable's base rates were just and reasonable. Prepared rate base, operating income and revenue requirement schedules, along with addressing accounting issues. Issues addressed in the report included: discrepancies between the Company's operating reports and the annual reports filed to the Commission, plant allocated from affiliated service company, rent from gas properties, return on service company assets, comparison of cost levels with other utilities, meter reading charges allocated from an affiliate, meter & house regulatory expense, injuries and damages, legal costs, affiliated cost savings, depreciation expense and consolidated income tax savings.
- Performed training seminars on behalf of the Department of Defense, Navy Rate Intervention on Measuring Financial Capabilities of Firms. Ms. DeRonne prepared the training manuals and participated as one of the instructors. Training was provided to naval contracting employees, engineers and naval officers at five locations.

A complete list of cases in which Ms. DeRonne has participated/testified will be provided upon request.

Education

- Oakland University - Rochester, MI
Bachelor of Science - Accounting, April 1991
Graduated with University Honors
GPA 3.53 of 4.0
- Continuing education necessary to maintain CPA license

Professional Associations

- Michigan Association of Certified Public Accountants

References

- Richard Sobolewski
State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051
(860) 827-2900
- Dan Gimble
Utah Committee of Consumer Services
Heber M. Wells Building
160 East 300 South, Room 408
Salt Lake City, Utah 84111
(801) 530-6798
- Sam DeFrawi
Navy Rate Intervention
CHESNAVFACENGCOM
Building 212, 4th Floor
901 M Street, S.E.
Washington, D.C. 20374
(202) 685-0130

TINA MILLER

Ms Miller is a staff accountant and regulatory analyst with Larkin & Associates. As such, Ms Miller prepares discovery requests, produces spreadsheets and models, assists with the review and analysis of regulatory filings, and performs regulatory and accounting research

Relevant Regulatory Experience

Following are examples of recent regulatory cases in which Ms Miller has participated

- Key project team member in the Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation. Our task involved performing an extensive investigation of the combined utilities gas system, tariffs, contracts, and operations, and analyzing the combined utilities compliance with market power safeguards adopted in the Commissions Decision D 98-03-073 to ensure open and nondiscriminatory service Ms Miller assisted with the analysis of key issues, drafting of data requests, performed on-site reviews at the company's offices, attended numerous interviews with company personnel, reviewed over 4,000 recorded telephone calls of the Gas Scheduling and Control Departments, and assisted with drafting of the final report and exhibits
- Project Member in the review of Southwest Gas Corporation's (SWG) application to amend its rate schedules Larkin & Associates' testimony focused in the area of revenue requirement Issues addressed included rate base, adjustments to operating income, and the relationship between SWG and Utility Partners, Inc, and the costs and resultant litigation associated with a failed merger Ms Miller assisted with the analysis of key issues, and company documents
- Project Member in the review of the merger of CTG Resources, Inc and Energy East Corporation Ms Miller examined Company filings and documents and researched relevant issues Certain merger issues examined include the merger's effect on competition in the State of Connecticut, the merger's consistency with public interest; whether it would benefit both consumers and stockholders, whether there were acceptable customer protections in place to ensure effective cost control, how the merger would effect regulation; and whether there were any factors benefiting customers which clearly compel the approval of the merger
- Project Member in the review of the merger application between Energy East and Connecticut Energy Corporation Ms Miller reviewed Company material and responses to data requests. The project objective was to evaluate the merger in regards to the effect on competition in Connecticut, whether the merger is a benefit to both consumers and shareholders, effect on regulation, any factors which compels the merger for the benefit of customers, and whether there are acceptable customer protections in place to ensure affective cost control
- Project Member Larkin & Associates was contracted to conduct a financial review of Southern Connecticut Gas Company Ms Miller analyzed responses to data requests and Company material Larkin & Associates recommended adjustments to both rate base and operating income An alternative ratemaking plan and performance based ratemaking plan were both further examined Specific areas analyzed and addressed truckline project; conservation expenditures, working capital; incentive pay, payroll, payroll tax expense, pensions, health care benefits and other benefits, early retirement plan expense, outside services expense, computer system maintenance expense, AGA dues expense, age change program cost savings, additional cost savings, amortization of environmental remediation costs, amortization of three-way payment forgiveness plan, uncollectibles, lease income, property tax expense, reduction of income tax reserve, income tax expense, and interest synchronization

Resume of Tina Miller, continued

- Project Team Member in the rate case filing by Connecticut Natural Gas Corporation. Ms. Miller participated in this case by reviewing Company material and analyzing pertinent issues. Issues addressed by us in testimony included injuries and damages reserve, FAS 106 deficiency deferred debit, working capital, uncollectibles, hardship arrearage program, inflation, insurance, outside services, commission assessments, maintenance of plant, public relations expense, and property tax expense. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Ultimately, the Company's rates were reduced.
- Project Member in a review of the application of PacifiCorp for approval of its proposed electric rate schedules and electric service regulations. Issues addressed in testimony included incentive compensation, payroll, pensions/post-retirement benefits, working capital, Bridger Coal Company Rate Base, Environmental Settlements, Revenue Normalization Correction, Distribution Expense Correction, Accounting Write-Offs, Assets under construction write-off, Cholla Assets Under Construction Write-Off, Additional Assets Under Construction Written Off, Obsolete Inventory Write-Offs/Reserve, FERC Contingency Write-Off, Blue Sky Program, Stoel Rives Pricing Settlement, Transition Team Costs, Miscellaneous Outside Service Expense, Annualization of Contract Cost Savings, Dave Johnston (Glenrock) mine closure, systems applications and products software (SAP), re-engineering, 1997 computer software write-down, Company's proposed 1999 software write-off, uncollectible expense, and potential updates (pending additional information from the Company).
- Project Member in an investigation of over-earnings by the Connecticut Light & Power Company. Issues presented in testimony included over-earning standards, cause of over earnings, treatment of over-earnings, impact of over-earnings on conditions of NU/ConEd Merger, and the Company's proposed initiatives.

Project Member in the review of Wisconsin Public Service Corporation's application for a Supply Cost Recovery Plan and Authorization of Monthly Power Supply Cost Recovery Factors for the Calendar Year 2001. Ms. Miller assisted by analyzing issues such as additional coal costs for new coal contracts, forecast and historical analysis of hydro plant generation, and reviewing company material.

- Key project team member in the review of Delaware Electric Cooperative's Restructuring Plan for Retail Competition. Larkin & Associates was retained by the Delaware Public Service Commission (DPSC) to provide consulting services to the Hearing Examiner of the DPSC. Duties included review of filings and briefs of the parties, review of the transcript of the hearing, summarize the positions of the parties, and assist in the preparation of the Hearing Examiners Report.
- Key project member in the review of Delmarva Power & Light's billing system conversion problems. Consulting services were provided to the Hearing Examiner of the Delaware Public Service Commission. Relevant issues addresses included compensation and economic damages to customers, proration, arbitration procedures. Non-economic issues included "reaching back" problem, budget plans, tariff rates on bills, high bill parameters, PriceWaterhouseCoopers audit report, payment posting sequence, emergency phone number, issue list, lost customers, walk-in offices, and a summit for unresolved issues. Duties included review of filings and briefs of the parties, review of the transcript of the hearing, summarize the positions of the parties, and assist in the preparation of the Hearing Examiners Report. Project member in the review of Delmarva Power & Light's application for Approval of a Cost Accounting Manual and a Code of Conduct. Ms. Miller assisted by reviewing filings, transcripts, The Cost Accounting Manual, Code of Conduct, and summarize the positions of the parties, and assisting in the preparation of the Hearing Examiners Report.

Resume of Tina Miller, continued

- Key project member in the review of Chesapeake Utilities Corporation application for Approval of a Cost Accounting Manual and a Code of Conduct Ms Miller reviewed filings, responses to data requests, the proposed Cost Accounting Manual, and proposed Code of Conduct She also assisted in drafting a revised Code of Conduct and testimony.

A complete list of cases in which Ms Miller has participated will be provided upon request

Education

- Eastern Michigan University - Ypsilanti, MI
Bachelor of Business Administration Accounting
April 1996

References

- Greg Doyle
Minnesota Department of Commerce
Telecommunications Division
85 7th Place East, Suite 500
St. Paul, MN 55101-2198
(651) 284-4207
- Jack Fulcher
California Public Utility Commission
505 Van Ness Avenue
San Francisco, CA 94102
(415) 703-2061
- G Arthur Padmore
Division of the Public Advocate
820 French Street, 4th Floor
Wilmington, DE 19801
(302) 577-5077

MARK S. DADY

Mr Dady is a staff accountant and regulatory analyst with Larkin & Associates. As such, he prepares discovery requests, produces spreadsheets and models, assists with the review and analysis of regulatory filings, and performs regulatory and accounting research.

Regulatory Experience

- Since joining the firm in November 2001, Mr Dady has worked on a diverse range of regulatory projects under the supervision of senior members of the firm. He has prepared data requests, analyzed issues, prepared schedules, and assisted in the determination of the jurisdictional revenue requirements for a variety of regulated public utilities.
- Project team member in United Illuminating Company's rate case. Larkin & Associates was retained by the Connecticut Office of Consumer Counsel to address the calculation of the revenue requirement and adjustments to the calculations of rate base and net operating income presented in UI's filing. Larkin & Associates also addressed the sharing proportions that should be applied if the Department adopts a multi-year rate plan for UI in this proceeding. Issues discussed in testimony included rate plan, over-earnings sharing proportions, subsidiary income tax expense, starting point for 2002 rate year rate base, customer deposits, materials and supplies, rate-a-meter timers, injuries and damages reserve, severance expense, rate case expense, other O&M expense increase, ADIT on pension liability and Bad Debt reserve, accrued vacation and related ADIT, Steel Point remediation, depreciation expense, income tax expense correction, interest synchronization, property tax expense, accelerated amortization.
- Project team member in the review of Citizens Utilities Company's application for a rate increase. Issues addressed in testimony included an overall financial summary, accounting concerns, rate base (interim accumulated depreciation, rate year accumulated depreciation, used and useful, deferred income taxes, deferred costs, IRP Twenty Year Plan, PCB Costs, 1999 Windstorm and Hurricane Floyd costs, HQ Arbitration, Working capital), operating income (revenue adjustments, SAO expense, DAO expense, PSO expense, Rate Case Expense, Legal and Regulatory, Income Tax Expense, Tree Trimming) and summary of accounting problems.
- Project team member in the review of ACS of Alaska, Inc 's, d/b/a as Alaska Communications Systems, local rate case filing. Issues investigated and analyzed during the project included: Depreciation Expense, Accumulated Depreciation, Universal Service Fund Revenue, Management Fees, Customer Deposits, Interest Expense, Donations and Corporate Image Expense, Vancouver Office Rent Expense, Rate Case Expense, Depreciation Study Expense, Uncollectibles, Interest Synchronization, Inter-Company Allocations, Weighted Access Lines and Relative Size Factors, Unusual 2000 Expense for Legal Settlement Costs, AFUDC on Telephone Plant Under Construction, Materials and Supplies Inventory, Cellular Access Revenue, Lost Revenue from Discounts/Promotions, Directory Revenue, Insurance Expense, Bonus Expense and Cobra Expense.
- Project team member in the review of ACS of Anchorage, Inc 's, d/b/a as Alaska Communications Systems, local rate case filing. Issues investigated and analyzed during the project included Depreciation Expense, Accumulated Depreciation, Universal Service Fund Revenue, Management Fees, Customer Deposits, Interest Expense, Donations and Corporate Image Expense, Vancouver Office Rent Expense, Rate Case Expense, Depreciation Study Expense, Uncollectibles, Interest Synchronization, Inter-Company Allocations, Weighted Access Lines and Relative Size Factors, Unusual 2000 Expense for Legal Settlement Costs, AFUDC on Telephone Plant Under Construction, Materials and Supplies Inventory, Cellular Access Revenue, Lost Revenue from Discounts/Promotions, Directory Revenue, Insurance Expense, Bonus Expense and Cobra Expense.

Resume of Mark Dady, continued

- Project team member in the review of ACS of Fairbanks, Inc 's, d/b/a as Alaska Communications Systems, local rate case filing Issues investigated and analyzed during the project included. Depreciation Expense, Accumulated Depreciation, Universal Service Fund Revenue, Management Fees, Customer Deposits, Interest Expense, Donations and Corporate Image Expense, Vancouver Office Rent Expense, Rate Case Expense, Depreciation Study Expense, Uncollectibles, Interest Synchronization, Inter-Company Allocations, Weighted Access Lines and Relative Size Factors, Unusual 2000 Expense for Legal Settlement Costs, AFUDC on Telephone Plant Under Construction, Materials and Supplies Inventory, Cellular Access Revenue, Lost Revenue from Discounts/Promotions, Directory Revenue, Insurance Expense, Bonus Expense and Cobra Expense
- Project team member in the review of ACS of the Northland, Inc 's, d/b/a as Alaska Communications Systems, local rate case filing Issues investigated and analyzed during the project included Depreciation Expense, Accumulated Depreciation, Universal Service Fund Revenue, Management Fees, Customer Deposits, Interest Expense, Donations and Corporate Image Expense, Vancouver Office Rent Expense, Rate Case Expense, Depreciation Study Expense, Uncollectibles, Interest Synchronization, Inter-Company Allocations, Weighted Access Lines and Relative Size Factors, Unusual 2000 Expense for Legal Settlement Costs, AFUDC on Telephone Plant Under Construction, Materials and Supplies Inventory, Cellular Access Revenue, Lost Revenue from Discounts/Promotions, Directory Revenue, Insurance Expense, Bonus Expense and Cobra Expense
- Key project team member in the annual audit of Lake State Railway and Huron Leasing. Duties included verification of cash receipts and disbursements, payroll, and inventory

A complete list of cases in which Mr Dady has participated will be provided upon request

Education

- Davenport University, Dearborn, MI
Bachelor of Business Administration, Accounting
March 2001 – Graduated with High Honors

Reference

Kevin Mitzyk, Controller
Lake State Railway
323 Newman Street
P O Box 232
East Tawas, MI 48730
(517) 362-0214

APPENDIX II
LARKIN & ASSOCIATES
GAS CASE SUMMARIES
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Washington Gas Light Company for Authority to Increase Existing Rates and Charges for Gas Services; Formal Case No. 1016

Client. District of Columbia
Office of Peoples Counsel
113315th Street NW, Suite 500
Washington, DC 20005-2710
(202) 727-3071

Contact: Jennifer Emma

Assignment Larkin & Associates was retained by the Office of Peoples Counsel to review Washington Gas light Company's proposed incentive rate plan and construction budget as part of its request for an increase in rates. Mr Larkin's testimony focused on the following issues:

- Whether Company's construction budget and construction programs were reasonable
- Whether the Company's proposal for an incentive-based regulation plan ("IRP") was reasonable and appropriate.
- Does the Company need incentives over and above those provided by the traditional rate of return regulation
- Does the Company's incentive-based regulatory plan serve the best interest of the District of Columbia ratepayers?
- Does the Company's proposed incentive-based regulatory plan provide an appropriate and balanced treatment of ratepayer and shareholder interests?
- What quantifiable benefits, if any would District of Columbia consumers receive as a result of the Commission's acceptance of the Company's proposed incentive-based regulatory plan?
- Does the Company's proposed earnings sharing mechanism provide an equitable distribution of the costs and benefits to the Company's customer classes?
- Are the proposed customer service quality of service standards appropriate?
- Are the procedures that the Company proposes for adjusting rates without a full base rate proceeding under its proposed incentive-based regulatory plan, reasonable, appropriate and equitable?
- Will an incentive-based regulatory plan be effective for the Company for District of Columbia operations if similar incentive plans are not implemented for the Company's Maryland and Virginia Service territories?
- What impact would the Company's proposed incentive-based regulatory plan have on consumer input to the rate adjustment process?
- What has been the experience with this type of IRP in states that have implemented such plans?

Key Participants: Hugh Larkin, Jr.
Donna DeRonne

Geographic Location Washington, D.C

Contract Duration. 2003

ENSTAR Natural Gas Company and Alaska Pipeline Company, Docket No. U-00-88

Client: Regulatory Commission of Alaska, Public Advocacy Section
701 West Eighth Avenue, Suite 300
Anchorage, AK 99501
(907) 263-2151

Contact: Lew Craig, Chief, Public Advocacy Section

Assignment: Larkin & Associates was retained by the Public Advocacy Section of the Regulatory Commission of Alaska to review the Cost of Service Study and Rate Design proposals filed by ENSTAR. The objective of this review was to assess whether or not the Cost of Service Study and Rate Design proposed by ENSTAR will result in reasonable rates, and to recommend modifications as appropriate to ENSTAR's proposals, keeping in mind the interests of the ENSTAR's residential and small commercial customers. Issues addressed in testimony included: postage stamp rates, customer charge, gas cost, declining block rates, and proposed rates for residential and small commercial customers. Issues addressed in reply testimony included allocation of transmission costs, allocation of distribution system cost, derivation of peak demand factor, costs and revenues from Agrium Plant, Aurora testimony, and Northern Eclipse testimony.

Key Participants: Ralph C. Smith

Geographic
Location: Alaska

Contract Duration: 2003

Environmental Protection Agency – Comments concerning proposal rule

Client: State of New Jersey
Department of Law and Public Safety, Division of Law
Richard J. Hughes Justice Complex
25 Market Street
P.O. Box 093
Trenton, NJ 08625

Contact: Ruth Carter, 609/292-6945

Assignment: Larkin & Associates was retained by the New Jersey Department of Law and Public Safety to assist in submitting comments to the Environmental Protection Agency regarding the EPA's proposed rule published on December 31, 2002 at 67 Federal Register 80290 entitled, "Prevention of Significant Deterioration (PSD) and Non-attainment New Source Review (NSR): Routine Maintenance, Repair and Replacement." L&A assisted the NJ Department of Law with research and drafting of the comments submitted to the EPA.

Key participants: Hugh Larkin, Jr. and Ralph Smith

Geographic Location: New Jersey

Contract Duration: 2003

Yankee Gas Service Application for a Rate Increase, Phase 1-2002 IERM, Docket No. 01-05-19
REO3

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel to conduct a review of Yankee Gas Services Company's application for an increase in rates. Larkin & Associates is assist the OCC by reviewing models used by Yankee Gas to evaluate the economics of each potential system expansion project for which it is requesting DPUC approval in the current docket. This includes obtaining and reviewing such models for compliance with the DPUC established criteria, reviewing the inputs for reasonableness (to the extent feasible) and for changes from the assumptions used by Yankee Gas in its last rate case, reviewing information contained in the Yankee Gas filing and provided by Yankee in response to data requests, reviewing information on system expansion projects from the prior Yankee Gas rate case and assisting OCC with discovery, cross and briefing.

Key participants: Ralph C. Smith
Mark Dady

Geographic Location: Connecticut

Contract Duration: September 2002 – March 2003

Tampa Electric Company dba Peoples Gas System; Docket No. 020384-GU

Client: Office of the Public Counsel
111 W. Madison - St. 801
Tallahassee, Florida 32399-1400
(850) 488-9330

Contact. Rick Mann

Assignment: Larkin & Associates was retained by the Florida Office of Public Counsel to review Peoples Gas System's request for an increase in rates. Our testimony addressed projected additions to plant in service; construction work in progress; off-system sales; charges from and contract with affiliated sales and marketing entity; separation of employees into non-regulated sales and marketing entity; charges from parent company and affiliates; promotional programs; advertising expense; employee levels; incentive compensation; employee benefits; trending adjustments; and impact of Economic Stimulus Package signed into law on March 9, 2002 on deferred income taxes.

Key Participants: Donna DeRonne
Helmuth W. Schultz, III

Geographic Location: Florida

Contract Duration: 2002

Questar Gas Company, Docket No. 02-057-02

Client: Committee of Consumer Services
Heber M. Wells Building, Room 408
160 East 300 South, P.O. Box 146782
Salt Lake City, Utah 84114-6782
(801) 530-6674

Contact: Dan Gimble

Assignment: Larkin & Associates was under contract with the Committee of Consumer Services to review the application for an increase in rates and charges filed by Questar Gas Company. Our testimony addressed the following issues: Appropriate test year, revenues, declining customer usage, contributions in aid of construction, gain on sale of property, corporate cost allocations, employee levels, charges from and relationship with unregulated affiliate, incentive compensation, uncollectibles, various expense items, rate of return adjustment from affiliates, and tax credits.

Key Participants: Donna DeRonne
Hugh Larkin, Jr.

Geographic Location: Salt Lake City, Utah

Contract Duration 2002

Yankee Gas Services Company

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel to conduct a review of Yankee Gas Services Company's application for an increase in rates. Issues addressed in testimony included system expansion project, working capital, regulatory pension liability, SERP, merger synergy adjustment, fuel diversity fund, marketing expense, payroll, incentive compensation, payroll-related expenses, benefit expenses, inflation adjustment, uncollectible and hardship forgiveness/matching payment plan expenses, AGA dues expense, environmental remediation costs, gain on sale of property, property tax refund, property tax expense, income tax expense, and interest synchronization.

Key participants Helmuth W. Schultz, III
Donna DeRonne

Geographic Location: Connecticut

Contract Duration: 2001

PG&E 1999 Rate Case

Client: Department of the Navy
Director, Navy Rate Intervention
CHESNAVFACENGCOM
Building 212, 4th Floor
901 M Street, S.E.
Washington, D.C. 20374-5018
(202) 685-0130

Contact: Sam DeFrawi

Assignment: Larkin & Associates was retained by the Department of the Navy to analyze PG&E's application for a rate increase, including its testimony, exhibits and workpapers. We presented testimony on behalf of the Navy representing the Department of Defense and all other Federal Executive Agencies (Navy) to address the following issues: GRC Policy, Electric Revenues at Present Rates, Electric Generation Expenses, Gas Revenues at Present Rates, Other Operating Revenues, Total Compensation Expense, Administrative & General Expenses, Injuries and Damages (Account 925), Pensions and Benefits (Account 926), Long-term Disability/FAS Expense, Meter Reading, Payroll Taxes, Diablo Canyon Decommissioning, Humboldt Decommissioning, Fossil and GeoThermal Decommissioning, and the ORA's Results of Examination.

Key participants Ralph C. Smith
Donna DeRonne

Geographic Location: California

Contract Duration: 1999 – 2000

Connecticut Natural Gas Company; Docket No. 99-09-03, Phase II

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel of the State of Connecticut to review Connecticut Natural Gas Company's proposed performance based ratemaking plan. Our testimony addressed numerous deficiencies with the Company's proposed plan as well as the following issues: the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr. Larkin & Ms. DeRonne also proposed an alternative performance based ratemaking plan for consideration.

Key Participants: Hugh Larkin Jr.
Donna DeRonne

Geographic Location. Connecticut

Contract Duration: 2000

Southwest Gas Corporation; Docket No. G-01551A-00-0309

Client: Arizona Corporation Commission
1200 West Washington Street
Phoenix Arizona 85007
(602) 542-0745

Contact: Janice Alward

Assignment: Larkin & Associates was retained by the Arizona Corporation Commission to review Southwest Gas Corporation's application to amend its rate schedules. The testimony submitted by Larkin & Associates concentrates in the area of revenue requirement. Issues addressed in testimony include: rate base, adjustments to operating income, the relationship between SWG and Utility Partners, Inc., and the costs and resultant litigation associated with a failed merger.

Key Participants: Donna DeRonne
Helmuth W Schultz, III
Ralph Smith
Tina Miller

Geographic Location: Arizona

Contract Duration: 2000 - 2001

Southern Connecticut Gas Company; Docket No. 99-04-18, Phase II

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski
Gene Koss

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel of the State of Connecticut to review the rate case filing by Southern Connecticut Gas Company. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Issues addressed by us in our testimony included: conservation expenditures; working capital; payroll; incentive compensation; pensions; PBOP, early retirement plan expense; outside services; computer system maintenance expense; age change program cost savings; uncollectibles; environmental remediation amortization; property taxes; reduction of income tax reserve; and federal income taxes.

Key Participants: Helmuth W. Schultz, III
Donna DeRonne

Geographic Location: Connecticut

Contract Duration: 1999

Questar Gas Company; Docket No. 99-057-20

Client: Committee of Consumer Services
Heber M. Wells Building
160 East 300 South, P.O. Box 146782
Salt Lake City, Utah 84114-6782
(801) 530-6674

Contact: Dan Gimble

Assignment: Larkin & Associates was under contract with the Committee of Consumer Services to review the application for an increase in rates and charges filed by Questar Gas Company. Our testimony addressed the following issues: Revenues, gain on sale of property, advertising expense, incentive compensation, uncollectibles, phantom stock correction, rate of return adjustment from affiliates and contingent liabilities. The revenue requirement portion of the case was settled prior to hearings.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne

Geographic Location: Salt Lake City, Utah

Contract Duration: Early 2000

Southern Connecticut Gas Company; Docket No. 99-04-18, Phase III

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski
Gene Koss

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel of the State of Connecticut to review Southern Connecticut Gas Company's proposed performance based ratemaking plan. Our testimony pointed out numerous problems with the Company's proposed plan. Testimony also addressed the Company's estimated merger synergies, treatment of goodwill/acquisition premium and marketing program costs in calculating the return on equity for regulatory purposes, and the appropriate treatment of the PGA under any earnings sharing plans and several other issues inherent in the Company's proposal. Mr. Larkin & Ms. DeRonne also proposed an alternative performance based ratemaking plan for consideration.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne

Geographic Location: Connecticut

Contract Duration: 2000

Connecticut Natural Gas Corporation; Docket No. 99-09-03, Phase I

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski
Gene Koss

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel of the State of Connecticut to review the rate case filing by Connecticut Natural Gas Corporation. Our review recommended a reduction in the Company's rates as opposed to the increase requested by the Company. Ultimately, the Company's rates were reduced. Issues addressed by us in testimony included: injuries and damages reserve, FAS 106 deficiency deferred debit, working capital, uncollectibles, hardship arrearage program, inflation, insurance, outside services, commission assessments, maintenance of plant, public relations expense, and property tax expense

Key Participants: Hugh Larkin, Jr.
Helmuth W. Schultz, III
Donna DeRonne
Tina Miller

Geographic Location: Connecticut

Contract Duration: 1999

Black Mountain Gas Division of Northern States Power Company, Page Operations; Docket No. G-03493A-98-0705

Client: Arizona Residential Utility Consumer Office
2828 N. Central Avenue, Suite 1200
Phoenix, Arizona 85004
(602) 279-5659

Contact: Marylee Diaz Cortez

Assignment: Larkin and Associates was retained by the Residential Utility Consumer Office to review Black Mountain Gas Division of Northern States Power Company Page, Operation's rate increase request. Testimony submitted addressed the following issues. revenue annualizations, weather normalization, late payment revenues, employee benefits, corporate overhead allocation, insurance expense, directors' fees, advertising expense, property tax expense, rate case expense and income tax rates. This was the first rate case subsequent to the purchase of Black Mountain Gas by Northern States Power Company. Consequently, corporate allocations were of particular concern in this case.

Key Participants: Hugh Larkin, Jr.
Helmuth W. Schultz, III
Donna M. DeRonne

Geographic Location: Arizona

Contract Duration: February 1999 - July 1999

Energy East Corporation and CTG Resources; Application No. 99-08-09

Client: Connecticut Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051

Contact: Richard Sobolewski

Assignment: Larkin & Associates were asked to review the merger of CTG Resources, Inc. and Energy East Corporation. Certain merger issues examined include: the merger's effect on competition in the State of Connecticut; the merger's consistency with public interest; whether it would benefit both consumers and stockholders; whether there were acceptable customer protections in place to ensure effective cost control; how the merger would effect regulation; and whether there were any factors benefiting customers which clearly compel the approval of the merger.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne
Tina Miller

Geographic Location: Connecticut

Contract Duration: 1999-2000

Energy East Corporation and Connecticut Energy Corporation; Application No. 99-07-20

Client: Connecticut Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051

Contact: Richard Sobolewski

Assignment: The Connecticut Office of Consumer Counsel requested the assistance of Larkin & Associates in the review of the merger application between Energy East and Connecticut Energy Corporation. Larkin evaluated the merger in regards to the effect on competition in Connecticut, whether the merger is a benefit to both consumers and shareholders, effect on regulation, any factors which compels the merger for the benefit of customers, and whether there are acceptable customer protections in place to ensure affective cost control.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne
Tina Miller

Geographic Location: Connecticut

Contract Duration: 1999-2000

Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation

Client: California Public Utilities Commission

Contact: Jack Fulcher
Energy Division
505 Van Ness Avenue, Room 4205
San Francisco, CA 94102
(415) 703-1711

Assignment: Our task involved performing an extensive investigation of the combined utilities gas system, tariffs, contracts, and operation. An analysis of the combined utilities compliance with market power safeguards adopted in the Commissions Decision D.98-03-073 to ensure open and nondiscriminatory service was conducted. This included the Company's agreement to divest of its gas-fired generation facilities, and its options to purchase the California facilities of Kern River and Mojave Pipelines to non-affiliates of the merged company by the specified deadlines, and the Company's compliance with the 25 Remedial Measures adopted by the Commission as well as a review of market power.

Our approach to the work involved formal data requests, approximately 100 interviews with numerous Company personnel, and an extensive review of information including the review of over 4,000 recorded phone calls in key SoCalGas departments including Gas Scheduling and Gas Control as part of the testing for compliance an non-discrimination. It also involved frequent meetings and discussions with Staff personnel.

Key Participants: Hugh Larkin, Jr
Ralph C. Smith
Tina Miller

Geographic Location: Los Angeles and San Diego, California

Contract Duration: 1999- 2000

Southern Connecticut Gas Company; Docket No. 99-04-18

Client: Connecticut Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051

Contact: Richard Sobolewski

Assignment: Larkin & Associates was retained by the Connecticut Office of Consumer Counsel to conduct a financial review of Southern Connecticut Gas Company. Larkin & Associates recommended adjustments to both rate base and operating income. An alternative ratemaking plan and performance based ratemaking plan were both further examined. Specific areas analyzed and addressed: truckline project; conservation expenditures; working capital, incentive pay; payroll; payroll tax expense; pensions; health care benefits and other benefits; early retirement plan expense; outside services expense; computer system maintenance expense; AGA dues expense; age change program cost savings; additional cost savings; amortization of environmental remediation costs; amortization of three-way payment forgiveness plan, uncollectibles; lease income; property tax expense; reduction of income tax reserve; income tax expense; and interest synchronization.

Key Participants: Helmuth W. Schultz, III
Donna M. DeRonne
Tina Miller

Geographic Location: Connecticut

Contract Duration: 1999-2000

Southern Connecticut Gas Company; Docket No. 97-12-21

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644
(860) 827-2900

Contact: Richard Sobolewski
Gene Koss

Assignment: Larkin & Associates was retained by the Office of Consumer Counsel of the State of Connecticut to conduct a financial review of Southern Connecticut Gas Company. Our review determined that the Company was over-earning and a reduction in rates was recommended. As a result of the investigation, the Company was required to either voluntarily reduce rates or file a full rate case proceeding before the Connecticut Department of Public Utility Control. Issues addressed by us in our testimony included: plant-in-service; conservation expenditures; working capital; inflation; payroll; incentive compensation; pensions, PBOP; outside services; advertising; rent expense; leak survey costs; uncollectibles; Conservation Adjustment Mechanism; depreciation; amortization; property taxes; reduction in state income tax rate; federal income taxes; and cost savings from sale and lease back of liquidated natural gas facility.

Key Participants: Helmuth W. Schultz, III
Donna DeRonne

Geographic Location: Connecticut

Contract Duration: 1998

Pacific Gas & Electric Company; Attrition and Application for a Rate Increase, Docket No. 00-07-043

Client: Department of the Navy
Director, Navy Rate Intervention
CHESNAVFACENGCOM
Building 212, 4th Floor
901 M Street, S.E.
Washington, D.C. 20374-5018
(202) 685-0130

Contact: Sam DeFrawi

Assignment: Larkin & Associates was retained by the Department of the Navy to review and analyze the issues and determine whether PG&E is entitled to the requested rate increase. Relevant issues included: productivity, customer growth, usage growth, cost control, PG&E's claim of foregoing a \$43 million increase of Gas Distribution ARA, overearnings, and actual vs authorized ROE.

Key participants: Ralph C. Smith

Geographic Location: California

Contract Duration: 2000

Pacific Gas & Electric Company; Docket No 97-12-020

Client: Department of the Navy
Director, Navy Rate Intervention
CHESNAVFACENGCOM
Building 212, 4th Floor
901 M Street, S.E.
Washington, D.C. 20374-5018
(202) 685-0130

Contact: Sam DeFrawi
Donald Coates

Assignment: Larkin & Associates was retained by the Department of the Navy and all other Federal Executive Agencies to perform utility revenue requirement studies of Pacific Gas & Electric Company in connection with the company's 1999 general rate case. Our testimony addressed a number of issues affecting PG&E's jurisdictional revenue requirements for its gas and electric operations, including the following: revenue, total compensation, other post-employment benefits accrual amortization (FAS 112), pension expense, employee transition expense for hydro facilities, nuclear decommissioning expense, fossil and geothermal decommissioning expense, injuries and damages, and administrative and general expense.

Key Participant: Ralph C. Smith

Geographic Location: California

Contract Duration: 1998

Citizens Utility Company, Northern Arizona Gas Division; Docket No. E-1032-95-473

Client: Arizona Corporation Commission
Utilities Division
1200 W. Washington
Phoenix, Arizona 85007
(602) 542-0745

Contact: Janice Alward
Chris Kempley

Assignment: Larkin & Associates' reviewed Citizens Utilities Company, Northern Arizona Gas Division's request for an increase in rates. We were responsible for analyzing rate base and net operating income issues, quantifying adjustments, and writing testimony. Specific issues addressed included: construction work in progress; AR-13 amounts; Stamford Administrative Office common plant balance; accumulated deferred income taxes; acquisition adjustment; cash working capital; payroll expense; incentive compensation; FAS 106 expense; property taxes; legal, regulatory, and special studies expense; Target: Excellence expense; injuries and damages expense; insurance expense; Stamford Administrative Office expense; Phoenix Administrative Office expense; gas sales promotional expense; A&G expense disallowance; income tax rates. We also addressed the ratemaking treatment of the Company's build-out program. Furthermore, we coordinated with ACC Staff in addressing purchased gas costs. This case was settled.

Key Participants: Ralph C. Smith

Geographic Location: Phoenix, Arizona

Contract Duration: December 1995 - October 1996

Columbia Gas of Pennsylvania (Collaborative)

Client: Pennsylvania Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048

Contact: Tad Berger

Assignment: Larkin & Associates was hired by the Pennsylvania Office of Consumer Advocate to review Columbia Gas Company's request to increase its rates. We prepared discovery, reviewed responses, reviewed documents and interviewed Company employees on-site at their Columbus, Ohio office, quantified adjustments for a wide range of issues, and prepared a report containing the impacts of our adjustments. We also quantified various alternatives as part of the "collaborative" negotiating process that resulted in the final agreement concerning the amount of rate increase.

Key Participants: Ralph C. Smith
Donna DeRonne

Geographic Location: Pennsylvania

Contract Duration: 1995 - 1996

Missouri Gas Energy; Case No. GR-96-285

Client: Missouri Public Service Commission Staff
P.O. Box 360
Jefferson City, Missouri 65102

Contact: Chuck Hyneman, Case Coordinator, (816) 889-3551
Roy Boltz, Lead Auditor, (573) 751-4890
John Himmelberg, Jr., Assistant General Counsel, (573) 751-7485

Assignment: Larkin & Associates was retained by the Missouri Public Service Commission Staff to review Missouri Gas Energy's ("MGE") affiliated transactions and Southern Union Company's corporate costs. This was the first rate case review after the acquisition by Southern Union of MGE. MGE and Southern Union's previously owned gas distribution operations (located in Texas) were approximately the same size in terms of annual revenues and rate base. This project involved a thorough review of the corporate cost allocation model that was developed after the merger occurred. Testimony addressed the following issues: common plant - Austin, Texas office; accumulated deferred income taxes; corporate allocations; New York Stock Exchange listing fees (initial and ongoing) for the new company, executive stock options and stock-based compensation; SFAS 123; incentive compensation; pensions and SFAS 106 nonpension post retirement benefits; budgeting of corporate costs and employee levels; executive offices in New York City; treatment of salary expense for geographically removed executives, affiliated transactions; KellAir, an affiliated supplier of airplane passenger service; allocation factors; use of time reporting for corporate executives.

Key Participants: Ralph C. Smith

Geographic Location: Missouri

Contract Duration: 1996

Equitable Gas Company; Case No. 96-0059-G-GI

Client: Consumer Advocate Division
West Virginia Public Service Commission
7th Floor, Union Building
723 Kanawha Boulevard, East
Charleston, West Virginia 25301
(304) 558-0526

Contact: Billy Jack Gregg
Byron Harris

Assignment. Larkin & Associates was retained by the Consumer Advocate Division of the State of West Virginia to assist in the conduct of a general investigation of Equitable Gas Company's ("Equitable") West Virginia operations. The overall purpose of the investigation, which was initiated by the Consumer Advocate Division, was to determine whether Equitable's base rates, which were set over five years prior, were just and reasonable. Since there was not a rate case filed by the Company, we were responsible for preparing the rate base, operating income and revenue requirement schedules, along with addressing all accounting issues. Issues addressed in our final report include: discrepancies between the Company's operating reports and the annual reports filed to the West Virginia Public Service Commission; plant allocated from an affiliated service company; rent from gas properties; return on service company assets; comparison of cost levels with other West Virginia utilities; meter reading charges allocated from an affiliate; meter & house regulator expense; injuries and damages; legal costs; affiliated cost savings; depreciation expense; and consolidated income tax savings.

Key Participant: Donna DeRonne

Geographic Location: Pittsburgh, Pennsylvania; West Virginia

Contract Duration: May 1996 - November 1996

Peoples Natural Gas Company, Docket No. INU-94-2

Client: Iowa Utilities Board
Lucas State Office Building
Des Moines, Iowa 50319
(515) 281-5541

Contact: Don Judisch

Assignment: Larkin & Associates was retained by the Iowa Utilities Board to perform an audit of Peoples Natural Gas Company's direct assignment and allocation of costs to its non-regulated operations in the State of Iowa. The purpose of our audit was to assess if the Company complied with its 1995 Cost Allocation Manual and to evaluate the propriety of the allocation methods embodied within the Manual.

Key Participants: Helmuth W. Schultz, III

Geographic Location: Omaha, Nebraska

Contract Duration July 1996 - December 1996

Connecticut Natural Gas Corporation; Docket No 95-02-07

Client: State of Connecticut
Office of Consumer Counsel
10 Franklin Square
New Britain, Connecticut 06051-2644

Contact: Richard Sobolewski
Eugene Koss

Assignment: Larkin & Associates was retained by the Office of Consumer Advocate of the State of Connecticut to review the rate increase requested by Connecticut Natural Gas Corporation. Issues addressed in testimony by Larkin & Associates include: natural gas vehicles, software additions, working capital, accounts payable, materials and supplies, deferred credits, deferred conservation expense, economic development, sales, late payment revenue, payroll, executive compensation, incentive compensation, pensions, employee benefits, uncollectibles, hardship arrearage forgiveness program, hardship shortfalls, corporate insurance, D&O insurance, environmental liability insurance, injuries and damages, production and distribution expense, computer costs, legal expense, training costs, demonstration and selling, promotional advertising, market development, service contracts, dues, inflation and taxes.

Key Participants: Hugh Larkin, Jr.
Helmuth W. Schultz, III
Donna DeRonne

Geographic Location: Connecticut

Contract Duration: 1995

Mountaineer Gas Company; Case No. 95-0011-G-42T

Client: Consumer Advocate Division
West Virginia Public Service Commission
7th Floor, Union Building
723 Kanawha Boulevard, East
Charleston, West Virginia 25301
(304) 558-0526

Contact: Billy Jack Gregg
Byron Harris

Assignment: Larkin & Associates was retained by the Consumer Advocate Division of the State of West Virginia to review the rate increase request by Mountaineer Gas Company in regards to revenue requirement issues. Rate base items addressed include: Post test year plant additions, acquisition adjustment, prepayments and working capital. Operating income areas addressed include: consolidated tax savings, revenues, payroll, pensions, FAS 112, uncollectibles, computer expense, legal costs, advertising, customer relations expense, and training expense.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne

Geographic Location: Charleston, West Virginia

Contract Duration: February 1995 - June 1995

Hope Gas, Inc.; Case No. 95-0003-G-42T

Client. Consumer Advocate Division
West Virginia Public Service Commission
7th Floor, Union Building
723 Kanawha Boulevard, East
Charleston, West Virginia 25301
(304) 558-0526

Contact: Billy Jack Gregg
Byron Harris

Assignment: Larkin & Associates was retained by the Consumer Advocate Division of the State of West Virginia to review the rate increase request by Hope Gas, Inc., specifically as it relates to revenue requirement issues. Examples of items specifically addressed in testimony include: post test year plant additions, consolidated tax savings, revenues, labor expense, FAS 106, benefits, Employee Appliance Purchase Plan, corporate charges, affiliated charges, advertising and injuries and damages expenses.

Key Participants: Hugh Larkin, Jr.
Donna DeRonne

Geographic Location: Charleston, West Virginia

Contract Duration: February - June, 1995

UGI Utilities, Inc. - Gas Division; Docket No R-953297

Client: Pennsylvania Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048

Contact: Mark Shostak
Diana Dusman

Assignment: Larkin & Associates was employed by the Pennsylvania Office of Consumer Advocate ("OCA") to review gas distribution utility's filing for rate increase and compute adjusted revenue requirement, rate base and net operating income. Testimony addressed adjustments to rate base for cash working capital and adjustments to net operating income for the following: Revenue from Customer in Chapter 11 Bankruptcy; Rate IS/IL sales, Gasmark (an affiliated gas marketing entity) net revenues, Group Hospital Expense; Reading is Fundamental; Promotional Allowances/Demand Side Management; Heating Efficiency Program; High Efficiency Water Heating Program; Air Conditioning Program, Natural Gas Powered Vehicle Program; Industry Organization Dues/Company Memberships, Rate Case Expense; Employee Perks; FAS 106 Expense; FAS 112 Expense; Outside Services - Legal; Outside Services - Other, Outside Service Other - Management Audit, United Valley Insurance Company; Repairs to Gas Preparation Equipment, Payroll; Annual Bonus Plan, Injuries and Damages; Provision for Large Claims Paid; Small Claims; Insurance Expense, Economic Depreciation, Reading Service Building Renovations; Non-Qualified Executive Retirement Plan; Directors' Pension; Holding Company - Holiday Parties & Misc. Employee Activities, Holding Company - Depreciation/Amortization Credit, Holding Company - Membership Dues; Holding Company - Employee Business Expense; Holding Company - United Way Expenses, Relocation Expense; Employee Hiring Expense; Account 908 - Customer Assistance Expense; Customer Service Information Expenses Amortization; Storm Damage, Low Income Self Help Program, Uncollectibles; Payroll Taxes; PUC assessment; Interest Synchronization, and Competitive Adjustment.

Key Participants: Ralph C. Smith

Geographic Location: Harrisburg, PA

Contract Duration: 1995

CNG Transmission Corporation; Docket No. RP94-96

Client: State of Pennsylvania
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048

Contact: Linda Smith

Assignment: Larkin & Associates was employed by the Pennsylvania Office of Consumer Advocate ("OCA") to review the rate increase requested by CNG Transmission Corporation. The following services were provided to the Pennsylvania Consumer Advocate: Analysis of the Company's filing, preparation of interrogatories and participation in other discovery activities; Preparation of responses to interrogatories propounded upon the OCA by other parties; Analysis of the Company's direct and rebuttal testimony, assistance in preparing cross-examination and attendance during such cross-examination. Preparation of direct testimony and rebuttal testimony and submit to cross-examination thereon. Technical assistance in the preparation of briefs. Issues addressed in testimony included: ratemaking treatment of extraordinary gas loss at CNG Transmission Corporation; treatment of costs incurred by CNGT associated with the Company's violations of environmental laws, and; the amortization period to be applied to CNGT's FAS 106 regulatory asset.

Key Participants: Ralph C. Smith

Geographic Location: Harrisburg, Pennsylvania

Contract Duration: 1994-1995

The Peoples Natural Gas Company; Docket No. R-00922180

Client: Pennsylvania Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048

Contact: Kent Murphy

Assignment: Larkin & Associates was retained by the Pennsylvania Office of Consumer Advocate to review the Peoples Natural Gas Company's application for an increase in rates. We presented direct and rebuttal testimony addressing such issues as: Construction Work in Progress, cash working capital, accounts payable related to materials and supplies, post-retirements benefits other than pensions, payroll expense, employee benefits expense, uncollectibles, Pilot Customer Assistance Plan expenses, outside services expense, injuries and damages expense, and relocation expense.

Key Participants: Ralph C. Smith

Geographic Location: Harrisburg, Pennsylvania

Contract Duration. 1992

CONFLICT OF INTEREST

DISCLAIMER

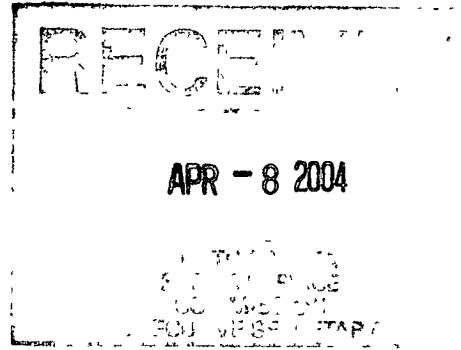
The undersigned does hereby certify there is no financial substantive interest in the utilities which are or may be parties in this proceeding. It is also certified that no business officer, partner, employee, agent, or any immediate family member has a substantive financial interest in the utilities which are or may be parties in this proceeding. It is further certified that, should a financial interest occur during the period of active involvement in the proceedings, the Commission will be immediately notified and shall have the right to terminate the contract.

Hugh Larkin, Jr.
Signature

4/7/04
Date

Partner
Title

LARKIN & ASSOCIATES, PLLC
Company Name



Proposal of
Snavely King Majoros O'Connor & Lee
to the North Dakota Public Service Commission
Case No. PU -04-97, MDU Gas Rate Case –
Compensation Issues

Snavely King Majoros O'Connor & Lee, Inc
1220 L Street, N.W., Suite 410
Washington, DC 20005

April 7, 2004

**Proposal of
Snavely King Majoros O'Connor & Lee
to the North Dakota Public Service Commission
Case No. PU -04-97, MDU Gas Rate Case – Compensation Issues**

This proposal is submitted by Snavely King Majoros O'Connor & Lee, Inc (“Snavely King”) in response to a Request for Proposals, dated March 31, 2004, for assistance to the North Dakota Public Service Commission in its investigation of issues relating to compensation in Case No. PU-47-97, the application of Montana-Dakota Utilities to increase gas distribution rates.

The Firm

Snavely King, formerly Snavely, King & Associates, Inc , was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. The firm has a professional staff of 12 economists, accountants, engineers and cost analysts. Most of its work involves the development, preparation and presentation of expert witness testimony before federal and state regulatory agencies. Over the course of its 34-year history, members of the firm have participated in over 1000 proceedings before almost all of the state commissions and all Federal commissions that regulate the utilities or transportation industries.

The firm’s address is:

Snavely King Majoros O'Connor & Lee, Inc
1220 L Street, N.W. Suite 410
Washington, DC 20005

Tel: (202) 371-1111
FAX: (202) 842-4966
Web site snavely-king.com

This proposal is submitted by

Charles W. King
President
(202) 371-9156
e-mail: charlieking@snavely-king.com

The Project

In this case, Montana-Dakota Utilities (“MDU” or “the Company”) is seeking a two step increase. The first step, based on alleged 2004 costs, is for an interim increase of \$1,869,539. The total increase request, based on a 2005 test year, is for \$3,337,000. The Company presents these increases as being only 1.6 and 2.8 percent, respectively. However, because 79 percent of the average residential customer’s bill is gas cost passed through to suppliers, the actual increase in revenue to MDU is 7.6 percent and 13.3 percent for the interim and final increases, respectively.

As noted in the RFP, the overwhelming majority of the proposed rate increases relate to compensation: wages, salaries, pensions, post-employment benefits, and health costs. The wage and salary increases substantially exceed the rate of inflation, and they appear to exceed the average increase in wages and salaries nationwide. MDU justifies these disproportionate increases as needed to catch up with the pay scales of its competitors.

The greatest single expense increase, however, is for pensions. The Company’s pension cost in 2003 was negative 201,000, and it projected 2005 costs is \$546,000, a difference of \$747,000. The Company is also seeking to incorporate into its revenue requirements \$243,000 in its Supplement Income Security Plan, a program that benefits only 48 very highly paid senior managers and directors. MDU has sought unsuccessfully to recover the costs of this plan in its last three rate cases.

This case presents the Commission with a situation of “perverse incentives.” The management of MDU has every incentive to be generous to its employees so long as it can recapture the costs of that generosity from its ratepayers. Higher pay for hourly employees justifies higher pay for salaried employees. Higher pay for salaried employees in turn justifies higher compensation and benefits for management and directors. For this reason, the Commission must be very circumspect in allowing

compensation increases that are above standard indices of regional wage and salary change to be passed through in the form of higher gas rates

Snavely King proposes a multi-pronged approach to this issue. First, we will compare MDU's compensation increases with those in industry and government in North Dakota to determine whether and to what extent the Company has been more generous than comparable employers. We will then extract from the Company any and all justification that it can muster for its disproportionate wage and salary increases. We will search out indicators of the extent to which MDU actually competes for employees with other utilities. Finally, we will compare the salary scales and living costs in North Dakota with those in "competitor" areas.

If Snavely King finds that the proposed compensation increases are overly generous, we will propose two mechanisms to adjust for this problem. The first is to disallow a portion of the increases from the revenue requirement. This approach is subject to appeal, however, when applied to union wage increases. Since these costs are already contracted, failure to pass them through into rates could be interpreted as confiscatory. For this reason, disallowance will probably be applied only to non-union salary increases, and then possibly only to compensation to senior employees.

The other approach is to assess a penalty in the rate of return. The value of this approach is that it passes the objectionable cost increases directly to the Company's owners, that is, its shareholders. It is the form of disallowance that attracts the attention of both management and investors.

Snavely King has had some experience with the issue of pensions and Other Post-Employment Benefits (OPEBs"). As defined in FSAS 87 and 106, these costs are highly volatile. In recent years, the combination of low interest rates and poor bond and stock markets have resulted in skyrocketing pension and OPEB costs. As discussed in the attached testimony on behalf of the Attorney General of Michigan, it appears that these costs may be peaking in 2004-2005. If so, then locking these temporarily high costs into

rates will yield a windfall to the utility in later years. If we can establish that trends beyond 2005 will reduce these costs, then we can argue for a “normalization” adjustment.

Work Plan

Snavely-King is already under contract to assist the Commission’s Adversary Staff on all issues in this case other than compensation. The addition of compensation will therefore involve only incremental effort in the form of additional data requests, further analyses of Company data, additional independent research, and more extensive testimony. Some tasks, such as attendance at the hearing, will be unaffected by the addition of compensation to the subjects covered.

Attached to this proposal is a task list and work hour budget. The task list is identical to that submitted in Snavely King’s proposal of March 25, 2004 to Jerry Lein. The work hours, however, are substantially less owing to the synergies between the two projects.

In order to achieve these synergies, Snavely King proposes that its President, Charles W King, be the witness on the topic of compensation as well as other issues. Mr. King will be assisted in the analysis and the preparation of his testimony by Snavely King’s Vice President, Michael J. Majoros, Jr., who is an accountant by training. Much of the background work, such as extracting data from the Bureau of Labor Statistics, will be conducted by Snavely King’s professional staff, consisting of David Geissler, Margaret Kenney, Trenise Queen, Edgar Bañuelos, and Kim Hillenbrand. Resumes of these personnel are attached to this proposal, as are the appearance lists of Charles W King and Michael J. Majoros, Jr.

Experience and Capabilities

As the Commission Staff is aware, Snavely King has participated on its behalf in the last two MDU rate cases, Case No. PU-399-02-183, gas rates, and PU-399-01-786,

electric rates. We also represented the Adversary staff in Excel Energy's most recent electric case, Case No. PU-400-00-521. These projects involved a range of issues, including the propriety of including the SISP program costs in MDU's revenue requirements.

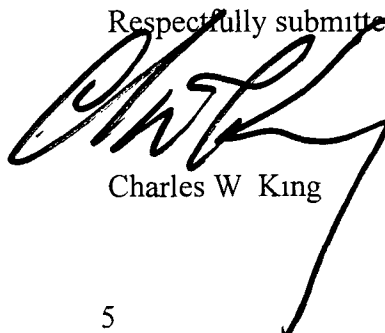
In the course of over three decades of representing ratepayer interests in rate cases, Snavelly King has encountered issues of employee compensation in electric, gas, water and telecommunications cases. Snavelly King's most recent exposure to these subjects has been in the on-going electric rate case of the Detroit Edison Company. On March 5, 2004, Charles W. King submitted testimony to the Michigan Public Service Commission on behalf of the Attorney General of that state dealing with pension and OPEB costs, among other issues. A copy of that testimony is attached to this proposal.

Budget

Attached hereto is Snavelly King's proposed budget for this project. Total effort is estimated at 113 work hours, of which 76 will be by Company principals, Charles W. King and Michael J. Majoros, Jr., and the remaining 40 hours by Snavelly King's professional staff. The total fee budget is \$13,260. Expenses are minimal at \$100. Mr. King will be attending the hearing anyway, so that his travel costs are already captured in the existing contract Snavelly King has with the Commission. It is understood that Snavelly King will bill the Commission only for time and expenses as incurred and that the budget of \$13,260 should be viewed as a "not-to-exceed" figure.

We would be happy to respond to any questions or comments you may have concerning this proposal or its attachments.

Respectfully submitted,



Charles W. King


Snively King Majoros O'Connor & Lee, Inc.
MDU Gas Case - Compensation Issues
Project Budget

	Task	Workhours		
		Principals	Staff	Total
1	Review Company Filing	0		
2	Prepare Initial Data Requests	3		
3	Evaluate Responses/Data Availability	6		6
4	Conduct Evaluation/Analyses	25	25	50
5	Prepare Direct Testimony	20	15	35
6	Respond to Data Requests	4		4
7	Review/Evaluate Rebuttal	8		8
8	Prepare Data Requests on Rebuttal	3		3
9	Prepare Oral Surrebuttal	2		2
10	Attend Hearing	0		0
11	Assist Counsel on Brief	5		5
	Total Workhours	76	40	113
	Rate Per Hour	\$ 135	\$ 75	
	Fees	\$ 10,260	\$ 3,000	\$ 13,260
	Expenses			
	Reproduction	50		
	Delivery and Postage	50		
	Total Expenses			\$ 100
	Total Costs			\$ 13,360

CONFLICT OF INTEREST

DISCLAIMER

The undersigned does hereby certify there is no financial substantive interest in the utilities which are or may be parties in this proceeding. It is also certified that no business officer, partner, employee, agent, or any immediate family member has a substantive financial interest in the utilities which are or may be parties in this proceeding. It is further certified that, should a financial interest occur during the period of active involvement in the proceedings, the Commission will be immediately notified and shall have the right to terminate the contract.



Signature

4/6/04

Date

President

Title

Snarely King Majors O'Connor & Lee, Inc

Company Name

Charles W. King

Experience

Snavelly King Majoros O'Connor & Lee, Inc. Washington, DC

*President (1989 to Present)
Vice President (1970 - 1989)*

Mr King, a founder of the firm and acknowledged authority on regulatory economics, brings over 35 years of experience in economic consulting to his direction of the firm's work in transportation, utility and telecommunications economics

Mr King has appeared as an expert witness on over 300 separate occasions before more than thirty state and nine U S Canadian federal regulatory agencies, presenting testimony on rate base calculations, rate of return, rate design, costing methodology, depreciation market forecasting, and ratemaking principles Mr King has also testified before House and Senate Committees on energy and telecommunications legislation pending before the U S Congress

In telecommunications, Mr King has testified before the Federal Communications Commission on a number of policy issues, service authorization, competitive impacts, video dialtone, and prescription of interstate depreciation rates Before state regulatory bodies, he has presented testimony in proceedings on intrastate rates, earnings and depreciation Mr King recently directed analyses of the prices of services under Federal Government's FTS2000 long distance system

In addition to his appearances as a witness in judicial and administrative proceedings, Mr King has negotiated settlements among private parties and between private parties and regulatory offices Mr King also has directed depreciation studies, investment cost benefit analyses, demand forecasts, cost allocation studies and antitrust damage calculations

In Canada, Mr King designed and directed an extended inquiry into the principles and procedures for regulating the telecommunication carriers subject to the jurisdiction of the Canadian Transport Commission He also was the principal investigator in the Canadian Transport Commission's comprehensive review of rail costing procedures

EBS Management Consultants, Inc., Washington, DC

*Director, Economic Development Department
(1966-1970)*

Mr King organized and directed a five-person staff of economists performing research, evaluation, and planning relating to economic development of depressed areas and communities within the U S Most of this work was on behalf of federal, state, and municipal agencies responsible for community or regional economic development

Principal Consultant (1966-1968)

Mr King conducted research on a broad range of economic topics, including transportation, regional economic development, communications, and physical distribution

W.B. Saunders & Company, Inc., Washington, DC

Staff Economist (1962-1966)

For this economic consulting firm, which later merged with EBS Management Consultants, Inc, Mr King engaged in numerous research efforts relating primarily to economic development and transportation

U.S. Bureau of the Budget, Office of Statistical Standards

Analytical Statistician (1961-1962)

Mr King was responsible for the review of all federal statistical and data-gathering programs relating to transportation

Education

Washington & Lee University, B A in Economics

*The George Washington University, M A in
Government Economic Policy*

Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AK	Exxon USA	P-89-1,2	Trans Alaska Pipeline System	October 18, 1990
AZ	Arizona Corporation Commission Arizona Retailers Association	U-1345-I U-1345-II	Arizona Public Service Co Arizona Public Service Co	December 16, 1980 January 15, 1981
CA	California Retailers Association California Retailers Association California Retailers Association California Retailers & California Manufacturers California Retailers Association	57666 57602 59351 59351 61138	Pacific Gas & Electric Co Southern California Edison Pacific Gas & Electric Co Southern California Edison Southern California Edison	March 6, 1978 April 25, 1978 June 12, 1981 May 20, 1982 May 28, 1982
CO	U S Department of Defense J C Penny Company U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense	I&S 1100 5693 I&S 1339 I&S 1540 C Council C Council C Council C Council	Colorado Springs (Elec) All Electric Utilities Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec)	June 14, 1977 March 8, 1978 October 18, 1979 February 9, 1982 September 30, 1984 June 6, 1985 May 19, 1986 June 30, 1987
CT	Retailers Merchants Association Division of Consumer Counsel Public Utilities Control Auto Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Coalition of Hotels, Alloys & Retailers Coalition of Hotels, Alloys & Retailers	72-0204 76-0604,5 78-0303 80-0403,4 81-0413 81-0602,4 82-0701 85-10-22 87-07-01	Various Electric Utilities CL&P and HELCO Bridgeport Hydraulic Co CL&P and HELCO United Illuminating Company CL&P and HELCO CL&P CL&P CL&P	July 22, 1976 November 10, 1977 (none) August 11, 1980 July 20, 1981 October 5, 1981 September 28, 1982 (none) April 25, 1988

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
DC	D C People's Counsel	685	Potomac Electric Power Company	March 6, 1978
	D C People's Counsel	715	Potomac Electric Power Company	(none)
	D C People's Counsel	725	Potomac Electric Power Company	April 4, 1980
	D C People's Counsel	737	Potomac Electric Power Company	January 1, 1981
	Washington Metro Area Transit Authority	748	Potomac Electric Power Company	June 26, 1981
	Washington Metro Area Transit Authority	758	Potomac Electric Power Company	December 15, 1981
	D C People's Counsel	785	Potomac Electric Power Company	September 21, 1982
	Washington Metro Area Transit Authority	759	Potomac Electric Power Company	March 29, 1984
	D C People's Counsel	685 Remand	Potomac Electric Power Company	June 10, 1985
	D C People's Counsel	905	Potomac Electric Power Company	August 20, 1991
	D C People's Counsel	912	Potomac Electric Power Company	May 7, 1992
	D C People's Counsel	834, III	Potomac Electric Power Company	May 22, 1992
	D C People's Counsel	917	Potomac Electric Power Company	September 24, 1992
	D C People's Counsel	922	Washington Gas Light Company	June 15, 1993
	D C People's Counsel	929	Potomac Electric Power Company	December 16, 1993
	D C People's Counsel	934	Washington Gas Light Company	Filed April 22, 1994
	D C People's Counsel	939	Potomac Electric Power Company	March 16, 1995
	D C People's Counsel	917	Potomac Electric Power Company	April 16, 1995
	D C People's Counsel	951	Potomac Electric Power Company	February 20, 1997
	D C People's Counsel	945	Potomac Electric Power Company	September 29, 1999
D C People's Counsel	847	Washington Gas Light Company	June 27, 2001	
D C People's Counsel	989	Washington Gas Light Company	May 22, 2002	
D C People's Counsel	1016	Washington Gas Light Company	September 23, 2003	
DE	Delaware PSC Staff	94-164	Artesian Water Company	Filed March 10, 1995
	Delaware PSC Staff	94-149	Wilmington Suburban Water Company	March 10, 1995
FL	Florida Retail Federation	790593-EU	All Electric Utilities	March 5, 1981
	Florida Retail Federation	810002-EU	Florida Power and Light Company	July 23, 1981
	Florida Retail Federation	820097-EU	Florida Power and Light Company	September 22, 1982
	Florida Retail Federation	820097-EU	Florida Power and Light Company	April 11, 1983
	Florida Retail Federation	830012-EU	Tampa Electric Company	August 19, 1983
	Florida Retail Federation	830465-EI	Florida Power and Light Company	April 19, 1984
Florida Retail Federation	830465-EI	Tampa Electric Company	(none)	

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
GA	Georgia Retail Federation Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission	3270-U 4007-U 4384-U 4755-U 4697-U 9355-U 14000-U 14618-U 14311-U 17066-U	Georgia Power Company Georgia Power Company All Electric Utilities Georgia Power Company All Utilities Georgia Power Company Georgia Power Company Savannah Electric & Power Company Atlanta Gas Light Company Georgia Power Company	September 3, 1981 August 21, 1991 August 1, 1993 January 25, 1994 May 10, 1994 November 4, 1998 October 23, 2001 March 27, 2002 April 8, 2002 July 31, 2003
HI	Public Utilities Department Hawaii Consumer Advocate	2793 4536	All Electric Utilities Hawaiian Electric Company	February 14, 1978 February 1, 1983
IL	Illinois Retail Merchants Association ("IRMA"/ Chicago Bldg Mgrs Association ("CBMA") IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA City of O'Fallon, IL	76-0698 76-0568 80-0546 82-0026 83-0537 87-0427 90-0169 02-0690	Commonwealth Edison All Electric Utilities Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Illinois-American Water Company	June 22, 1977 (none) March 5, 1981 July 22, 1982 March 19, 1984 March/April 22, 1988 October 29, 1990 Filed Feb 5, Apr 11, 2003
IN	Indiana Retail Council Indiana Retail Council Indiana Retail Council	35780-S2 35780-S1 36318	N Ind Public Service co Public Service of Indiana Public Service of Indiana	June 1, 1980 October 15, 1980 May 4, 1982
KS	J C Penny Company	115,379-U	All Kansas Utilities	January 22, 1981
KY	Seven Kentucky Retailers Attorney General of Kentucky Attorney General of Kentucky	7310 2002-145 2003-252	Louisville Gas & Electric Co Columbia Gas of Kentucky Union Heat Light & Power Co	April 25, 1979 Filed August 8, 2002 September 30, 2003

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MA	Coalition of Municipalities	20279	Western Massachusetts Electric	March 19, 1980
	Coalition of Municipalities	557/558	Western Massachusetts Electric	May 14, 1981
	Coalition of Municipalities	957	Western Massachusetts Electric	March 9, 1982
	Coalition of Municipalities	1300	Western Massachusetts Electric	January 1, 1983
	Coalition of Municipalities	85-270	Western Massachusetts Electric	March 26, 1986
MD	Maryland People's Counsel	6977	Washington Gas & Light Company	September 17, 1976
	Maryland People's Counsel	6814	Potomac Electric Power Company	
	Maryland People's Counsel	6807	All Electric Utilities	September 1, 1977
	Maryland People's Counsel	6882	Baltimore Gas & Electric Company	(none)
	Maryland People's Counsel	6985	Baltimore Gas & Electric Company	September 28, 1976
	Maryland People's Counsel	7070	Baltimore Gas & Electric Company	December 20, 1976
	Maryland People's Counsel	7149	Potomac Electric Power Company	April 18, 1978
	Maryland People's Counsel	7163	All Electric Utilities	January 17, 1979
	Maryland People's Counsel	7236	Delmarva Power & Light Company	October 23, 1978
	Retail Merchants of Baltimore	7397	Baltimore Gas & Electric Company	June 20, 1980
	Maryland People's Counsel	7427	Delmarva Power & Light Company	September 8, 1980
	Maryland People's Counsel	7574	Baltimore Gas & Electric Company	December 2, 1981
	Maryland People's Counsel	7597	Potomac Electric Power Company	February 18, 1982
	Organization of Consumer Justice	7604	Potomac Electric Power Company	April 20, 1982
	Maryland People's Counsel	7588	Baltimore Gas & Electric Company	October 19, 1982
	Maryland People's Counsel	7663	Potomac Electric Power Company	November 22, 1982
	Retail Merchants of Baltimore	7685	Baltimore Gas & Electric Company	April 12, 1983
	Genstar Stone Products, et al	7878	Potomac Electric Power Company	December 9, 1985
Industrial Intervenors	7878	Potomac Electric Power Company	June 28/July 1986	
Maryland People's Counsel	7983	Baltimore Gas & Electric Company	March 4, 1987	
Giant Foods, Inc	8855	Baltimore Gas & Electric Company	January 8, 2003	
MI	General Services Administration	U-10102	Detroit Edison Company	March 22, 1993
	Michigan Attorney General	U-11722	Detroit Edison Company	November 6, 1998
	Michigan Attorney General	U-11772	Consumers Energy/Detroit Edison	November 16, 1998
	Michigan Attorney General	U-11495	Detroit Edison Company	December 8, 1999
	Michigan Attorney General	U-11956	Consumer Energy/Detroit Edison	December 15, 1999
	Michigan Attorney General	U-12505	Consumers Energy Company	September 7, 2000
	Michigan Attorney General	U-12478	Detroit Edison Company	October 5, 2000
	Michigan Attorney General	U-12639	Consumers Energy/Detroit Edison	July 18, 2001
	Michigan Attorney General	U-13000	Consumers Energy Company	January 29, 2002
	Michigan Attorney General	U-13380	Consumers Energy Company	September 9, 2002
	Michigan Attorney General	U-13715	Consumers Energy Company	April 24, 2003

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Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utililty	
MN	Minnesota Retail Federation	EOO2/6R-77-611	Northern States Power	1979
MO	Missouri Retailers Association	EO-78-161	Kansas City Power & Light Company	February 19, 1981
NC	North Carolina Merchants Association	E-100	All Electric Utilities	December 18, 1975
ND	North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission	PU-400-00-521 PU-399-01-786 PU-399-02-183 PU-399-02-183 PU-399-03-296	Xcel Energy, Inc Montana-Dakota Utilities (Electric) Montana-Dakota Utilities (Gas) Montana-Dakota Utilities (Gas Depr) Montana-Dakota Utilities (Electric)	April 20, 2001 February 25, 2002 October 7, 2002 Filed April 7, 2003 Filed October 15, 2003
NH	Business & Industry Association of N H Business & Industry Association of N H Business & Industry Association of N H	79-187-II 80-260 82-333	Public Service of N H Public Service of N H Public Service of N H	February 6, 1981 February 5, 1981 November 2, 1983
NJ	N J Retail Merchants Association Department of Public Advocate Resorts International Hotel, Inc Dept of Public Advocate Dept of Public Advocate Dover Township Fire Chiefs	803-151 815-459 8011-827 822-116 355-87 88-080967	All New Jersey Utilities N J Natural Gas Company Atlantic City Sewerage Co Atlantic City Electric Co Elizabethtown Gas Tom's River Water Company	March 31, 1981 (none) (none) August 11, 1982 June 9, 1987 February 22, 1989

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AL	U S Department of Defense	24472	All Telephone Companies	June 14, 1995
AZ	Arizona Burglar & Fire Alarm Association	9981-E-1051-80-64	Mountain State Telephone	(none)
	Federal Executive Agencies U S Department of Defense	E-1051-88-146 T-01051B-99-0105	Mountain State Telephone US WEST Communications	(none) Filed July 26, Sept 8, 2000
CA	Western Burglar & Fire Alarm Association	59849	Pacific Telephone & Telegraph	March 25, 1981
	Western Burglar & Fire Alarm Association	5984cont	Pacific Telephone & Telegraph	June 23, 1982
	Western Burglar & Fire Alarm Association	A83-01-22	Pacific Telephone & Telegraph	June 29, 1983
	Western Burglar & Fire Alarm Association	A83-02-02	General Telephone of California	January 17, 1984
	Western Burglar & Fire Alarm Association	A82-11-07	Pacific Telephone & Telegraph	Jan 18, Oct 31 November 28, 1984
	Western Burglar & Fire Alarm Association	A85-01-034	Pacific Telephone & Telegraph	June 4, 1985 October 2, 1986
	Western Burglar & Fire Alarm Association	A87-01-02	General Telephone of California	October 22, 1987
	Western Burglar & Fire Alarm Association	A88-07-17019	Pac Bell Tel & GTE of CA	January 23, 1989
	California Cellular Resellers	A 88-11-1040	All Cellular Carriers	August 11, 1989
	Federal Executive Agencies	1 87-11-033	All Telephone Companies	March 6-7, 1991
California Cellular Resellers	1 88-11-040	All Cellular Carriers	August 19, 1991	
Cellular Services, Inc	1 88-11-040	All Cellular Carriers	October 3, 1991	
Federal Executive Agencies	A92-05-004	Pacific Telephone & Telegraph	June 9, 1993	
CO	U S Department of Defense	I&S 717	Mountain Bell Telephone Company	1972
	U S Department of Defense	I&S 1700	Mountain Bell Telephone Company	(none)
	U S Department of Defense	Appl	Mountain Bell Telephone Company	September 18, 1986
	U S Department of Defense	I&S 1766	Mountain Bell Telephone Company	November 28, 1988
	Colorado Municipal League	Appl 36883	Mountain Bell Telephone Company	December 13, 1988
	U S Department of Defense	I&S 891-082T	U S West Communications	February 21, 1990
	U S Department of Defense	905-544T	U S West Communications	July 17, 1991
	U S Department of Defense	90A-665T	U S West Communications	October 23, 1991
	U S Department of Defense	92M-039T	U S West Communications	February 24-24, 1992
	U S Department of Defense	92S-229T	U S West Communications	July 30-31, 1992
	U S Department of Defense	90A-665T	U S West Communications	November 6, 1996
	AT&T	96S-331T	U S West Communications	April 17, 1997

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
CT	Connecticut Consumer Counsel CT Cellular Resellers Assn CT Cellular Resellers Coalition AT&T Connecticut Consumer Counsel Connecticut Consumer Counsel	770526 89-12-05 94-03-27 AT&T/SNET Arbitration 96-04-07 00-07-17	Southern New England Telephone Co Southern New England Telephone Co Springwich Cellular/Bell Atlantic Southern New England Telephone Co Southern New England Telephone Co Southern New England Telephone Co	November 10, 1977 (none) May 16, June, 1994 Filed October 28, 1996 February 10, 1998 December 5, 2000
DC	D C People's Counsel D C People's Counsel General Services Administration General Services Administration General Services Administration General Services Administration	729 798 827 854 850 926	Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co	May 13, 1980 July 18, 1983 May 7, 1985 April 16, 1987 October 7, 1991 October 7, 1993
DE	Public Service Commission Federal Executive Agencies Public Service Commission	Depr Repre 86-20 Depr Repre	Diamond State Telephone Co Diamond State Telephone Co Diamond State Telephone Co	April 1, 1985 July 31, 1987 March 8, 1988
FL	GTE Sprint Communications Company Office of Public Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	720536-TP Depr Repre 880069-TL 880069-TL 880069-TL	All Telephone Companies Southern Bell Southern Bell Southern Bell Southern Bell	September 12, 1983 July 30, 1986 July 21, 1988 November 30, 1990 February 11, 1992
GA	Georgia Attorney General Federal Executive Agencies Federal Executive Agencies Georgia Public Service Commission	3893-U 3905-U 3987-U 4018-U	Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co	January 8, 1990 June 12, 1990 February 13, 1992 Jan 14, Feb 10, 1993
HI	Hawaii Public Utility Commission Four Hawaii Counties Department of Defense Department of Defense Department of Defense Department of Defense Department of Defense	1871 4588 7579 94-0093 7702 94-0298 7720	Hawaiian Telephone Company Hawaiian Telephone Company Hawaiian Telephone Company Oceanic Communications All Communications Carriers GTE Hawaiian Telephone Company Verizon-Hawaii	July 8, 1971 December 15, 1983 April 26, 1994 March 13, 1995 June 2, 1995 May 7, 1996 November 15, 2000

CHARLES W KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
ID	U S Department of Energy U S Department of Energy	U-1000-63 U-1000-70	Mountain Bell Telephone Co Mountain Bell Telephone Co	May 16, 1983 March 6, 1984
IL	Illinois Aalarm Companies Attorney General of Illinois GTE Sprint Communications Co Federal Executive Agencies	79-0143 81-0478 83-0142 89-0033	Illinois Bell Telephone Illinois Bell Telephone All Telephone Companies Illinois Bell Telephone	September 26, 1979 December 28, 1981 August 4, 1983 June 12, 1989
KS	State Corporation Commission Federal Executive Agencies Federal Executive Agencies	Depr Repr 166 856-U 190, 492	Southwestern Bell Southwestern Bell All Telephone Companies	May 12-14, 1986 November 7, 1989 November 4, 1994
KY	Kentucky Cable Telecommunications Assn Kentucky Cable Telecommunications Assn	2000-414 2000-39	Blue Grass Energy Cooperative Cumberlant Valley Electric, Inc	January 11, 2001 January 11, 2001
MD	Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	6813 6881 7025 7467 7851 8106 8274	C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company	1975 December 17, 1975 March 15, 1975 October 20, 1981 March 20, 1985 May 9, 1988 August 2, 1990
MI	Michigan Attorney General Michigan Attorney General	U-8911 U-9553	Michigan Bell Telephone Co AT&T Communications/MCI	November 7, 1988 December 4, 1990
MN	GTE Sprint Communications Co U S Department of Defense	83-102-HC 87-021-BC	All Telephone Companies Northwest Bell Telephone Co	August 5, 1983 (none)

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MO	GTE Sprint Communications Co Federal Executive Agencies Federal Executive Agencies	TR83-253 TC-89-14 TO-89-56	Southwestern Bell Tel Co Southwestern Bell Tel Co Southwestern Bell Tel Co	September 5, 1983 (none) November 7, 1990
MS	Federal Executive Agencies	U-5453	South Central Bell Tel Co	May 15, 1990
NJ	Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate	Depr Repr 815-458 Depr Repr Depr Repr T092030358	N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company	Mar-79 October 15, 1981 March 1, 1982 February 1, 1985 September 30, 1992
NM	New Mexico Corporation Commission New Mexico Corporation Commission	1032 86-151-TC	Mountain Bell Telephone Co General Telephone of Southwest	November 14, 1983 February 5, 1987
NV	Prime Cable of Las Vegas Prime Cable of Las Vegas	95-8034/8035 96-9035	Central Telephone - NV Sprint/Centel, Nevada Bell	Filed November 22, 1995 June 2, 1997
NY	Holmes Protection, Inc Holmes Protection, Inc 5 Alarm Companies GTE Sprint Communications Co	27350 27469 27710 28425	New York Telephone Company New York Telephone Company New York Telephone Company All Telephone Companies	October 17, 1978 May 17, 1979 July 24, 1980 July 8, 1983
PA	City of Philadelphia	R-832316	Pennsylvania Bell Telephone	September 20, 1983
SC	Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate	Depr Repr 86-511-C 86-541-C Depr Repr 89-180-C	Southern Bell Southern Bell General Telephone of South Southern Bell ALLTEL of South Carolina	July 1, 1986 December 11, 1986 April 8, 1987 July 10, 1989 September 26, 1989

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Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
TX	U S Department of Defense	8585/8218	Southwestern Bell Telephone Co	(none)
VA	U S Dept Of Defense, GSA, et Federal Executive Agencies	19696 PUC 890014	C&P Telephone Company All Telephone Companies	October 6, 1976 February 13, 1989
VI	VI Department of Commerce VI Public Service Commission	205 341	Virgin Islands Telephone Co Virgin Islands Telephone Co	April 29, 1980 March 20, 1991
WA	U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense WA Attorney General/TRACER U S Department of Defense U S Department of Defense WA Attorney General/TRACER WA Attorney General/TRACER U S Department of Defense	U-72-39 U-87-796-T U-88-20524 U-89-2698-F UT-940641 UT-941464 UT-951425 UT-961632 UT-021120	Pacific Northwest Bell Pacific Northwest Bell Pacific Northwest Bell US West Communications US West Communications US West Communications US West Communications US West Communications GTE Northwest, Inc Qwest Communications	1973 December 20, 1983 November 8, 1988 November 28, 1989 Filed October 14, 1994 June 22, 1995 January 22, 1996 Filed June 23, 1997 July 29, 1997 May 22, 2003
WI	GTE Sprint Wisconsin Consumers Utility Board Wisconsin Consumers Utility Board	6720-TR-38 2055-TR-102 5846-TR-102	All Telephone Companies CenturyTel of Central Wisconsin Telephone USA, LCC	October 20, 1983 June 26, 2002 June 26, 2002

Federal Communications Commission			
Client	Docket	Subject	Date of Cross-Examination
Department of Defense	16020	Consat Rate of Return	1973
Airline Parties	16258	Bell System Rates	July 22, 1968
Airline Parties	18128	TELPAC	3/22, 10/15 1971, Feb 22, 1972
National Data Corporation	19989	WATS	(none)
Press Wire Services	19919	Private Line Rates	(none)
Aeronautical Radio	20814	Private Line Rates	October 5, 1978
Department of Defense	20690	1,544 Mbps Service	January 30, 1979
State of Hawaii	21263	Interstate Separation	February 7, 1979
International Record Carriers	CC78-97	Telex/TWX Rates	March 6, 1980
ITT World Communications	CC84-633	Rate of Return	(none)
Aeronautical Radio	CC78-72	Access Line Charges	(none)
MCI	CC84-800	Rate of Return	(none)
Ind Data Com Mfg Assn	CC85-26	AT&T Accounting Plan	(none)
Tymnet, Inc	ENF84-22	Packet Switching Costs	(none)
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 7/29/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 8/23/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 2/21/95
Nuclear Regulatory Commission			
Fauquier League for Environment Protection	50-328 50-329	Va Electric Power Co	1976
Postal Rate Commission			
Association of Third Class Mail Users	R71-1	Rates	1970
Dow Jones & Company	R72-1	Rates	1972
Dow Jones & Company	R74-1	Rates	September 13, 1974
Dow Jones & Company	MC76-2	Rate Structure	January 6, 1979
Dow Jones & Company	MC79-3	Rate Structure	September 12, 1979
Dow Jones & Company	R80-1	Rates	November 25, 1980
Warshawsky & Company	C82-1	Rate Structure	(none)
Dow Jones & Company	R84-1	Postal Costs	June 14, 1984
Dow Jones & Company	R87-1	Rate Structure Costs	November 2, 1987
Dow Jones & Company	R90-1	Rate Structure Costs	Sept 12, Oct 10, 1990
Dow Jones & Company	MC91-1	Pre-barcoding Discounts	November 19, 1991
Dow Jones & Company	MC91-3	Palletization Discounts	March 2, 1992

Client	Docket	Subject	Date of Cross-Examination
U S Congress			
National Retail Merchants Association	House/Senate Hearings	Electric Rate Reform Legislation	1976, 1977 & 1979
National Wireless Resellers Association	House Commerce Committee	Interconnection & Resale of Wireless Services	October 12, 1995
Federal Maritime Commission			
State of Hawaii	71-18	Ocean Shipping Rates	October-71
Foss Alaska Line	79-54	Barge Rate Increase	July 1979
Palmetto Shipping and Stevedoring	85-20	Vessel Charge Liability	October 27, 1986
Interstate Commerce Commission			
Western Coal Traffic League	Ex Parte 349	R R Rate Increase	May-76
Western Coal Traffic League	Ex Parte 357	R R Rate Increase	Oct-78
Western Coal Traffic League	Ex Parte 375 (Sub1)	R R Rate Increase	June 1, 1980
Arkansas Power & Light Co	37276	Cost of Capital	(none)
Central Illinois Light Co	37450	Cost of Capital	March 10, 1981
Western Coal Traffic League	Ex Parte 347	Costing Methods	(none)
Civil Aeronautics Board			
Thomas Cook, Inc	36595	Air Fare Deregulation	(none)
Copyright Royalty Tribunal			
Public Broadcasting Service	88-2-86CD	Television Valuation	(none)
Federal Energy Regulatory Commission			
Exxon USA	OR89-2-000	Pipeline Quality Bank	October 18, 1990
Canadian Transport Commission			
Rail Costing Inquiry, 1967-1969 Telecommunications Costing Inquiry, 1972-1975			
Surface Transportation Board			
Williams Energy Services, Inc	Ex Parte 582 Sub 1	Rail Merger Guidelines	April 5, 2001

Experience

Snively King Majoros O'Connor & Lee, Inc.

Vice President and Treasurer (1988 to Present)
Senior Consultant (1981-1987)

Mr Majoros provides consultation specializing in accounting, financial, and management issues. He has testified as an expert witness or negotiated on behalf of clients in more than one hundred thirty regulatory proceedings involving telephone, electric, gas, water, and sewerage companies. Mr Majoros has appeared before Federal and state agencies. His testimony has encompassed a wide variety of complex issues including taxation, divestiture accounting, revenue requirements, rate base, nuclear decommissioning, plant lives, and capital recovery. Mr Majoros has also provided consultation to the U.S. Department of Justice.

Mr Majoros has been responsible for developing the firm's consulting services on depreciation and other capital recovery issues into a major area of practice. He has also developed the firm's capabilities in the management audit area.

Van Scoyoc & Wiskup, Inc., Consultant (1978-1981)

Mr Majoros performed various management and regulatory consulting projects in the public utility field, including preparation of electric system load projections for a group of municipally and cooperatively owned electric systems, preparation of a system of accounts and reporting of gas and oil pipelines to be used by a state regulatory commission, accounting system analysis and design for rate proceedings involving electric, gas, and telephone utilities. Mr Majoros also assisted in an antitrust proceeding involving a major electric utility. He submitted expert testimony in FERC Docket No. RP79-12 (El Paso Natural Gas Company). In addition, he co-authored a study entitled Analysis of Staff Study on Comprehensive Tax Normalization that was submitted to FERC in Docket No. RM 80-42.

Handling Equipment Sales Company, Inc. Treasurer (1976-1978)

Mr Majoros' responsibilities included financial management, general accounting and reporting, and income taxes.

Ernst & Ernst, Auditor (1973-1976)

Mr Majoros was a member of the audit staff where his responsibilities included auditing, supervision, business

systems analysis, report preparation, and corporate income taxes.

University of Baltimore - (1971-1973)

Mr Majoros was a full-time student in the School of Business.

During this period Mr Majoros worked consistently on a part-time basis in the following positions: Assistant Legislative Auditor – State of Maryland, Staff Accountant – Robert M. Carney & Co., CPA's, Staff Accountant – Naron & Wegad, CPA's, Credit Clerk – Montgomery Wards.

Central Savings Bank, (1969-1971)

Mr Majoros was an Assistant Branch Manager at the time he left the bank to attend college as a full-time student. During his tenure at the bank, Mr Majoros gained experience in each department of the bank. In addition, he attended night school at the University of Baltimore.

Education

University of Baltimore, School of Business, B.S. – Concentration in Accounting.

Professional Affiliations

American Institute of Certified Public Accountants
Maryland Association of CPAs
Society of Depreciation Professionals

Publications, Papers, and Panels

"Analysis of Staff Study on Comprehensive Tax Normalization," FERC Docket No. RM 80-42, 1980

"Telephone Company Deferred Taxes and Investment Tax Credits – A Capital Loss for Ratepayers," Public Utility Fortnightly, September 27, 1984

"The Use of Customer Discount Rates in Revenue Requirement Compansons," Proceedings of the 25th Annual Iowa State Regulatory Conference, 1986

"The Regulatory Dilemma Created By Emerging Revenue Streams of Independent Telephone Companies," Proceedings of NARUC 101st Annual Convention and Regulatory Symposium, 1989

"BOC Depreciation Issues in the States," National Association of State Utility Consumer Advocates, 1990 Mid-Year Meeting, 1990

"Current Issues in Capital Recovery" 30th Annual Iowa State Regulatory Conference, 1991

"Impaired Assets Under SFAS No. 121," National Association of State Utility consumer Advocates, 1996 Mid-Year Meeting, 1996

"What's 'Sunk' Ain't Stranded: Why Excessive Utility Depreciation is Avoidable," with James Campbell, Public Utilities Fortnightly, April 1, 1999

"Local Exchange Carrier Depreciation Reserve Percents," with Richard B. Lee, Journal of the Society of Depreciation Professionals, Volume 10, Number 1, 2000-2001

Michael J. Majoros, Jr.

Federal Regulatory Agencies

<u>Date</u>	<u>Agency</u>	<u>Docket</u>	<u>Utility</u>
1979	FERC-US <u>19/</u>	RR79-12	El Paso Natural Gas Co.
1980	FERC-US <u>19/</u>	RM80-42	Generic Tax Normalization
1996	CRTC-Canada <u>30/</u>	97-9	All Canadian Telecoms
1997	CRTC-Canada <u>31/</u>	97-11	All Canadian Telecoms
1999	FCC <u>32/</u>	98-137 (Ex Parte)	All LECs
1999	FCC <u>32/</u>	98-91 (Ex Parte)	All LECs
1999	FCC <u>32/</u>	98-177 (Ex Parte)	All LECs
1999	FCC <u>32/</u>	98-45 (Ex Parte)	All LECs
2000	EPA <u>35/</u>	CAA-00-6	Tennessee Valley Authority
2003	FERC <u>48/</u>	RM02-7	All Utilities
2003	FCC <u>52/</u>	03-173	All LECs

State Regulatory Agencies

1982	Massachusetts <u>17/</u>	DPU 557/558	Western Mass Elec Co.
1982	Illinois <u>16/</u>	ICC81-8115	Illinois Bell Telephone Co
1983	Maryland <u>8/</u>	7574-Direct	Baltimore Gas & Electric Co
1983	Maryland <u>8/</u>	7574-Surrebuttal	Baltimore Gas & Electric Co
1983	Connecticut <u>15/</u>	810911	Woodlake Water Co
1983	New Jersey <u>1/</u>	815-458	New Jersey Bell Tel. Co.
1983	New Jersey <u>14/</u>	8011-827	Atlantic City Sewerage Co.
1984	Dist Of Columbia <u>7/</u>	785	Potomac Electric Power Co
1984	Maryland <u>8/</u>	7689	Washington Gas Light Co
1984	Dist Of Columbia <u>7/</u>	798	C&P Tel. Co.
1984	Pennsylvania <u>13/</u>	R-832316	Bell Telephone Co of PA
1984	New Mexico <u>12/</u>	1032	Mt. States Tel & Telegraph
1984	Idaho <u>18/</u>	U-1000-70	Mt States Tel. & Telegraph
1984	Colorado <u>11/</u>	1655	Mt. States Tel. & Telegraph
1984	Dist Of Columbia <u>7/</u>	813	Potomac Electric Power Co
1984	Pennsylvania <u>3/</u>	R842621-R842625	Western Pa. Water Co
1985	Maryland <u>8/</u>	7743	Potomac Electric Power Co
1985	New Jersey <u>1/</u>	848-856	New Jersey Bell Tel. Co
1985	Maryland <u>8/</u>	7851	C&P Tel Co.
1985	California <u>10/</u>	I-85-03-78	Pacific Bell Telephone Co.
1985	Pennsylvania <u>3/</u>	R-850174	Phila Suburban Water Co
1985	Pennsylvania <u>3/</u>	R850178	Pennsylvania Gas & Water Co
1985	Pennsylvania <u>3/</u>	R-850299	General Tel Co. of PA
1986	Maryland <u>8/</u>	7899	Delmarva Power & Light Co
1986	Maryland <u>8/</u>	7754	Chesapeake Utilities Corp
1986	Pennsylvania <u>3/</u>	R-850268	York Water Co.
1986	Maryland <u>8/</u>	7953	Southern Md Electric Corp

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1986	Idaho <u>9/</u>	U-1002-59	General Tel. Of the Northwest
1986	Maryland <u>8/</u>	7973	Baltimore Gas & Electric Co
1987	Pennsylvania <u>3/</u>	R-860350	Dauphin Cons. Water Supply
1987	Pennsylvania <u>3/</u>	C-860923	Bell Telephone Co. of PA
1987	Iowa <u>6/</u>	DPU-86-2	Northwestern Bell Tel. Co
1987	Dist Of Columbia <u>7/</u>	842	Washington Gas Light Co.
1988	Florida <u>4/</u>	880069-TL	Southern Bell Telephone
1988	Iowa <u>6/</u>	RPU-87-3	Iowa Public Service Company
1988	Iowa <u>6/</u>	RPU-87-6	Northwestern Bell Tel Co
1988	Dist Of Columbia <u>7/</u>	869	Potomac Electric Power Co
1989	Iowa <u>6/</u>	RPU-88-6	Northwestern Bell Tel Co
1990	New Jersey <u>1/</u>	1487-88	Morris City Transfer Station
1990	New Jersey <u>5/</u>	WR 88-80967	Toms River Water Company
1990	Florida <u>4/</u>	890256-TL	Southern Bell Company
1990	New Jersey <u>1/</u>	ER89110912J	Jersey Central Power & Light
1990	New Jersey <u>1/</u>	WR90050497J	Elizabethtown Water Co
1991	Pennsylvania <u>3/</u>	P900465	United Tel. Co of Pa.
1991	West Virginia <u>2/</u>	90-564-T-D	C&P Telephone Co.
1991	New Jersey <u>1/</u>	90080792J	Hackensack Water Co.
1991	New Jersey <u>1/</u>	WR90080884J	Middlesex Water Co
1991	Pennsylvania <u>3/</u>	R-911892	Phil Suburban Water Co
1991	Kansas <u>20/</u>	176, 716-U	Kansas Power & Light Co
1991	Indiana <u>29/</u>	39017	Indiana Bell Telephone
1991	Nevada <u>21/</u>	91-5054	Central Tele Co – Nevada
1992	New Jersey <u>1/</u>	EE91081428	Public Service Electric & Gas
1992	Maryland <u>8/</u>	8462	C&P Telephone Co.
1992	West Virginia <u>2/</u>	91-1037-E-D	Appalachian Power Co
1993	Maryland <u>8/</u>	8464	Potomac Electric Power Co
1993	South Carolina <u>22/</u>	92-227-C	Southern Bell Telephone
1993	Maryland <u>8/</u>	8485	Baltimore Gas & Electric Co
1993	Georgia <u>23/</u>	4451-U	Atlanta Gas Light Co
1993	New Jersey <u>1/</u>	GR93040114	New Jersey Natural Gas Co
1994	Iowa <u>6/</u>	RPU-93-9	U S West – Iowa
1994	Iowa <u>6/</u>	RPU-94-3	Midwest Gas
1995	Delaware <u>24/</u>	94-149	Wilm. Suburban Water Corp
1995	Connecticut <u>25/</u>	94-10-03	So New England Telephone
1995	Connecticut <u>25/</u>	95-03-01	So New England Telephone
1995	Pennsylvania <u>3/</u>	R-00953300	Citizens Utilities Company
1995	Georgia <u>23/</u>	5503-0	Southern Bell
1996	Maryland <u>8/</u>	8715	Bell Atlantic
1996	Arizona <u>26/</u>	E-1032-95-417	Citizens Utilities Company
1996	New Hampshire <u>27/</u>	DE 96-252	New England Telephone
1997	Iowa <u>6/</u>	DPU-96-1	U S West – Iowa
1997	Ohio <u>28/</u>	96-922-TP-UNC	Ameritech – Ohio
1997	Michigan <u>28/</u>	U-11280	Ameritech – Michigan

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1997	Michigan <u>28/</u>	U-112 81	GTE North
1997	Wyoming <u>27/</u>	7000-ztr-96-323	US West – Wyoming
1997	Iowa <u>6/</u>	RPU-96-9	US West – Iowa
1997	Illinois <u>28/</u>	96-0486-0569	Ameritech – Illinois
1997	Indiana <u>28/</u>	40611	Ameritech – Indiana
1997	Indiana <u>27/</u>	40734	GTE North
1997	Utah <u>27/</u>	97-049-08	US West – Utah
1997	Georgia <u>28/</u>	7061-U	BellSouth – Georgia
1997	Connecticut <u>25/</u>	96-04-07	So New England Telephone
1998	Florida <u>28/</u>	960833-TP et al.	BellSouth – Florida
1998	Illinois <u>27/</u>	97-0355	GTE North/South
1998	Michigan <u>33/</u>	U-11726	Detroit Edison
1999	Maryland <u>8/</u>	8794	Baltimore Gas & Electric Co
1999	Maryland <u>8/</u>	8795	Delmarva Power & Light Co
1999	Maryland <u>8/</u>	8797	Potomac Edison Company
1999	West Virginia <u>2/</u>	98-0452-E-GI	Electric Restructuring
1999	Delaware <u>24/</u>	98-98	United Water Company
1999	Pennsylvania <u>3/</u>	R-00994638	Pennsylvania American Water
1999	West Virginia <u>2/</u>	98-0985-W-D	West Virginia American Water
1999	Michigan <u>33/</u>	U-11495	Detroit Edison
2000	Delaware <u>24/</u>	99-466	Tidewater Utilities
2000	New Mexico <u>34/</u>	3008	US WEST Communications, Inc
2000	Florida <u>28/</u>	990649-TP	BellSouth -Florida
2000	New Jersey <u>1/</u>	WR30174	Consumer New Jersey Water
2000	Pennsylvania <u>3/</u>	R-00994868	Philadelphia Suburban Water
2000	Pennsylvania <u>3/</u>	R-0005212	Pennsylvania American Sewerage
2000	Connecticut <u>25/</u>	00-07-17	Southern New England Telephone
2001	Kentucky <u>36/</u>	2000-373	Jackson Energy Cooperative
2001	Kansas <u>38/39/40/</u>	01-WSRE-436-RTS	Western Resources
2001	South Carolina <u>22/</u>	2001-93-E	Carolina Power & Light Co
2001	North Dakota <u>37/</u>	PU-400-00-521	Northern States Power/Xcel Energy
2001	Indiana <u>29/41/</u>	41746	Northern Indiana Power Company
2001	New Jersey <u>1/</u>	GR01050328	Public Service Electric and Gas
2001	Pennsylvania <u>3/</u>	R-00016236	York Water Company
2001	Pennsylvania <u>3/</u>	R-00016339	Pennsylvania America Water
2001	Pennsylvania <u>3/</u>	R-00016356	Wellsboro Electric Coop
2001	Florida <u>4/</u>	010949-EL	Gulf Power Company
2001	Hawaii <u>42/</u>	00-309	The Gas Company
2002	Pennsylvania <u>3/</u>	R-00016750	Philadelphia Suburban
2002	Nevada <u>43/</u>	01-10001 &10002	Nevada Power Company
2002	Kentucky <u>36/</u>	2001-244	Fleming Mason Electric Coop
2002	Nevada <u>43/</u>	01-11031	Sierra Pacific Power Company
2002	Georgia <u>27/</u>	14361-U	BellSouth-Georgia
2002	Alaska <u>44/</u>	U-01-34,82-87,66	Alaska Communications Systems
2002	Wisconsin <u>45/</u>	2055-TR-102	CenturyTel

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2002	Wisconsin 45/	5846-TR-102	TelUSA
2002	Vermont 46/	6596	Citizen's Energy Services
2002	North Dakota 37/	PU-399-02-183	Montana Dakota Utilities
2002	Kansas 38/	02-MDWG-922-RTS	Midwest Energy
2002	Kentucky 36/	2002-00145	Columbia Gas
2002	Oklahoma 47/	200200166	Reliant Energy ARKLA
2002	New Jersey 1/	GR02040245	Elizabethtown Gas Company
2003	New Jersey 1/	ER02050303	Public Service Electric and Gas Co
2003	Hawaii 42/	01-0255	Young Brothers Tug & Barge
2003	New Jersey 1/	ER02080506	Jersey Central Power & Light
2003	New Jersey 1/	ER02100724	Rockland Electric Co
2003	Pennsylvania 3/	R-00027975	The York Water Co
2003	Pennsylvania /3	R-00038304	Pennsylvania-American Water Co
2003	Kansas 20/ 40/	03-KGSG-602-RTS	Kansas Gas Service
2003	Nova Scotia, CN 49/	EMO NSPI	Nova Scotia Power, Inc
2003	Kentucky 36/	2003-00252	Union Light Heat & Power
2003	Alaska 44/	U-96-89	ACS Communications, Inc
2003	Indiana 29/	42359	PSI Energy, Inc.
2003	Kansas 20/ 40/	03-ATMG-1036-RTS	Atmos Energy
2003	Florida 50/	030001-E1	Tampa Electric Company
2003	Maryland 51/	8960	Washington Gas Light

Michael J. Majoros, Jr.

**PARTICIPATION AS NEGOTIATOR IN FCC TELEPHONE DEPRECIATION
RATE REPRESRIPTION CONFERENCES**

<u>COMPANY</u>	<u>YEARS</u>	<u>CLIENT</u>
Diamond State Telephone Co <u>24/</u>	1985 + 1988	Delaware Public Service Comm
Bell Telephone of Pennsylvania <u>3/</u>	1986 + 1989	PA Consumer Advocate
Chesapeake & Potomac Telephone Co - Md <u>8/</u>	1986	Maryland People's Counsel
Southwestern Bell Telephone – Kansas <u>20/</u>	1986	Kansas Corp Commission
Southern Bell – Florida <u>4/</u>	1986	Florida Consumer Advocate
Chesapeake & Potomac Telephone Co -W Va <u>2/</u>	1987 + 1990	West VA Consumer Advocate
New Jersey Bell Telephone Co <u>1/</u>	1985 + 1988	New Jersey Rate Counsel
Southern Bell - South Carolina <u>22/</u>	1986 + 1989 + 1992	S Carolina Consumer Advocate
GTE-North – Pennsylvania <u>3/</u>	1989	PA Consumer Advocate

Michael J. Majoros, Jr.

**PARTICIPATION IN PROCEEDINGS WHICH WERE
SETTLED BEFORE TESTIMONY WAS SUBMITTED**

<u>STATE</u>	<u>DOCKET NO.</u>	<u>UTILITY</u>
Maryland <u>8/</u>	7878	Potomac Edison
Nevada <u>21/</u>	88-728	Southwest Gas
New Jersey <u>1/</u>	WR90090950J	New Jersey American Water
New Jersey <u>1/</u>	WR900050497J	Elizabethtown Water
New Jersey <u>1/</u>	WR91091483	Garden State Water
West Virginia <u>2/</u>	91-1037-E	Appalachian Power Co
Nevada <u>21/</u>	92-7002	Central Telephone - Nevada
Pennsylvania <u>3/</u>	R-00932873	Blue Mountain Water
West Virginia <u>2/</u>	93-1165-E-D	Potomac Edison
West Virginia <u>2/</u>	94-0013-E-D	Monongahela Power
New Jersey <u>1/</u>	WR94030059	New Jersey American Water
New Jersey <u>1/</u>	WR95080346	Elizabethtown Water
New Jersey <u>1/</u>	WR95050219	Toms River Water Co
Maryland <u>8/</u>	8796	Potomac Electric Power Co
South Carolina <u>22/</u>	1999-077-E	Carolina Power & Light Co
South Carolina <u>22/</u>	1999-072-E	Carolina Power & Light Co
Kentucky <u>36/</u>	2001-104 & 141	Kentucky Utilities, Louisville Gas and Electric
Kentucky <u>36/</u>	2002-485	Jackson Purchase Energy Corporation

Michael J. Majoros, Jr.

Clients

<u>1/</u> New Jersey Rate Counsel/Advocate	<u>22/</u> SC Dept. of Consumer Affairs
<u>2/</u> West Virginia Consumer Advocate	<u>23/</u> Georgia Public Service Comm.
<u>3/</u> Pennsylvania OCA	<u>24/</u> Delaware Public Service Comm.
<u>4/</u> Florida Office of Public Advocate	<u>25/</u> Conn Ofc. Of Consumer Counsel
<u>5/</u> Toms River Fire Commissioner's	<u>26/</u> Arizona Corp Commission
<u>6/</u> Iowa Office of Consumer Advocate	<u>27/</u> AT&T
<u>7/</u> D.C. People's Counsel	<u>28/</u> AT&T/MCI
<u>8/</u> Maryland's People's Counsel	<u>29/</u> IN Office of Utility Consumer Counselor
<u>9/</u> Idaho Public Service Commission	<u>30/</u> Unitel (AT&T – Canada)
<u>10/</u> Western Burglar and Fire Alarm	<u>31/</u> Public Interest Advocacy Centre
<u>11/</u> U S Dept. of Defense	<u>32/</u> U S General Services Administration
<u>12/</u> N.M State Corporation Comm.	<u>33/</u> Michigan Attorney General
<u>13/</u> City of Philadelphia	<u>34/</u> New Mexico Attorney General
<u>14/</u> Resorts International	<u>35/</u> Environmental Protection Agency Enforcement Staff
<u>15/</u> Woodlake Condominium Association	<u>36/</u> Kentucky Attorney General
<u>16/</u> Illinois Attorney General	<u>37/</u> North Dakota Public Service Commission
<u>17/</u> Mass Coalition of Municipalities	<u>38/</u> Kansas Industrial Group
<u>18/</u> U S. Department of Energy	<u>39/</u> City of Wichita
<u>19/</u> Arizona Electric Power Corp	<u>40/</u> Kansas Citizens' Utility Rate Board
<u>20/</u> Kansas Corporation Commission	<u>41/</u> NIPSCO Industrial Group
<u>21/</u> Public Service Comm – Nevada	<u>42/</u> Hawaii Division of Consumer Advocacy
	<u>43/</u> Nevada Bureau of Consumer Protection
	<u>44/</u> GCI
	<u>45/</u> Wisc Citizens' Utility Rate Board
	<u>46/</u> Vermont Department of Public Service
	<u>47/</u> Oklahoma Corporation Commission
	<u>48/</u> National Association of Utility Consumer Advocates ("NASUCA")
	<u>49/</u> Nova Scotia Utility and Review Board
	<u>50/</u> Florida Office of Public Counsel
	<u>51/</u> Maryland Public Service Commission
	<u>52/</u> MCI

David R. Geissler

Experience

Snavely King Majoros O'Connor & Lee, Inc. Washington, DC

Senior Consultant (2001-Present)

Mr Geissler is an information technologies expert, who has developed and implemented telecommunications upgrades, database management systems, and data tracking software

On behalf of a newly merged manufacturing client, Mr. Geissler successfully managed the system design, bid package and bid evaluation process for over 10,000 routes offered to 240 trucking companies. Using Microsoft Access, he evaluated almost 500,000 individual bids, supporting various intermodal and truck sizes among 60 plant or distribution locations.

Mr. Geissler has also assisted in the preparation of expert witness testimony on behalf of the State of Kansas concerning the plans by a regulated telecommunications carrier to outsource its IT functions

UUNET ***Contacto (1996-2001)***

Mr. Geissler successfully upgraded this telecommunications company's invoicing system. This involved designing and building the Electronic Data Interface capability, creating the accounting interfaces and automating the invoice management process. It also required the merging of data from two data centers.

SAIC McLean, VA ***Senior Systems Engineer (1991-1996)***

Mr Geissler provided technical and project management support for a variety of projects, including the design of a client server application for an automated tracking system for the Conrail transportation system; the implementation of software for risk assessment for nuclear cleanup of Energy Department sites; and the development of system architecture for integrating the FAA's advanced automated systems

Fairchild Industries Germantown, MD ***System Engineer (1988-1991)***

Mr Geissler co-designed and developed a microprocessor-based test bed for low-level integration of small satellite systems on behalf of the Air Force. He developed real-time commercial software for a 1553 data logger/processor and supported ground system telemetry and commanding on a UNIX based microprocessor.

SpaceCom/Contel Gaithersburg, MD ***Software Engineer (1985-1988)***

Mr Geissler led an effort to design and implement a discrete event simulator for analyzing a multiple satellite communications system.

Vitro Silver Spring, MD ***(Engineer 1983-1983)***

Mr Geissler supported the proposal phase of the Advanced Automated System of the Air Traffic Control System

Education

Bachelor of Science in Physics
University of New Hampshire

Margaret Kenney

Experience

Snively King Majoros O'Connor & Lee, Inc. Washington, DC

Consultant (1995-Present)

Analyst (1995-Present)

Administrative Assistant (1994-1995)

Ms Kenney provides analytical support to SK clients and senior consultants. Her responsibilities include cost modeling, operations simulation, financial analysis and reporting, database management and research. She has experience in a variety of projects in the transportation and telecommunications areas.

Her transportation projects have included extensive cost and revenue analyses of rail freight movements, along with preparation of databases for use in rate negotiations with the railroads. Using a Geographic Information System, Ms Kenney prepares rail system maps for use in negotiations as well as use in statements filed before the Surface Transportation Board. These maps depict traffic volumes and flows and various merger scenarios.

Her telecommunications and public utility experience includes the preparation of complex regulatory reports for submission to state and federal regulatory agencies. Ms Kenney also supports company witnesses and prepares exhibits for use in the depreciation aspects of regulatory proceedings. These exhibits range from a comparison of the depreciation reserves for various accounts to the generation of life curves using in-house developed software.

As an Administrative Assistant Ms Kenney assisted with the preparation of testimony, exhibits, briefs and other supporting documentation for proceedings before state and federal regulatory bodies. Ms Kenney also performed the firm's accounting functions using JURIS and other software systems, and maintained the firm's accounting database. Her responsibilities included accounts receivable, accounts payable and payroll.

U.S. Air Force, Hickam AFB, HI

***Intelligence Quality Control Specialist
(1988 to 1991)***

Ms Kenney maintained and operated a data base with world wide scope, containing complex and constantly changing intelligence information. Calling on this data base and other resources, Ms Kenney was responsible for the accurate and timely dissemination of intelligence reports in support of the U.S. Commander-in-Chief, Pacific, CINCPACAF, CINCPACFLT, as well as operational units throughout the Pacific theater. She performed Quality Control for a staff of 10 analysts editing their reports for accuracy and standardization. She compiled Top Secret reports and

transmitted these reports to users via Autodin, a secure communications network. Ms Kenney performed data base updates and catalogued incoming film products. She produced statistical data outlining areas requiring training and performed such training. Ms Kenney also directed rapid response data base and information system trouble shooting efforts when Imagery Division personnel experienced problems with the Computer-Aided Tactical Information System.

U.S. Air Force, Hickam AFB, HI

Imagery Analyst (1988 to 1991)

Accessing large and inter-related data bases, Ms Kenney analyzed imagery from national reconnaissance platforms and prepared imagery intelligence reports for the U.S. Pacific Command. She nominated significant intelligence items for briefing to the HQ PACAF staff. Responding to changing requirements, Ms Kenney retrieved target information from national intelligence data bases and updated and maintained in-house target reference material.

Education

*University of South Florida, Tampa, FL
B S in Business Administration, 1992*

*Edison Community College, Fort Myers, FL
A A in Business Administration 1991*

*Community College of the Air Force,
Montgomery, AL*

A A S in Intelligence and Imagery Analysis 1991

Edgar Bañuelos

Experience

Snavely, King & Associates, Inc. Washington, DC

Cost Analyst (2003 to Present)

Mr Bañuelos prepares and implements spreadsheet analyses, transportation route and cost modeling and financial analyses for clients and senior executives. Clients include Shell, Vulcan, Monsanto, and Chevron.

Health Plus New York, NY

Community Health Associate (2002)

On behalf of the Health Education and Community Outreach Department of Health Plus, Mr Bañuelos conducted educational workshops and bilingual outreach to indigent Health Plus members.

Mexican Consulate New York, NY

Health Project Researcher/Organizer (2001-2002)

Mr Bañuelos designed and executed rights and obligations contracts between the Consulate and health plan providers, hospitals, community-based organizations (CBOs), educational and legal services. He established over 50 committed contacts for an online directory of 100 of the most active Hispanic-serving NGOs. He also organized two large health fairs for the Hispanic community.

As a volunteer teacher and consular assistant, Mr Bañuelos was active in the Consulate's program for adult immigrants. In that role, he assisted in processing passport applications, taught two classes in natural and social sciences to immigrants toward completion of their secondary education, and conducted computer and English classes.

Lutheran Medical Center New York, NY

Medical Health Project Field Researcher (2002)

Mr Bañuelos extensively interviewed over 500 Mexican men and women regarding their health care practices.

Comercializadora Contry Monterrey, Mexico

Executive Manager (1995-2001)

Mr Bañuelos negotiated sales and production of up to \$25,000 per sale for uniform-making company. He worked effectively with clients and suppliers, planned weekly objectives and monthly budgets, managed and supervised human resources and the maintenance of the work environment. He designed and implemented winter sales program and increased client base and revenue by 40%.

Education

Georgetown University

Executive Legal Assistant Certification Program
(2003)

New York University

Certificate in US Law Systems and
Methodologies (2003)

University of Monterrey, Mexico

Bachelor of Business Administration (1999)

Languages

Fluent in Spanish

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of THE DETROIT EDISON COMPANY to increase rates, amend its rate schedules governing the distribution and supply of electric energy, implement Power Supply Cost Recovery plans, factors and reconciliations in its rate schedules for jurisdictional sales of electricity and for miscellaneous accounting authority and regulatory asset recovery.

MPSC Case No. U-13808

Direct Testimony and Exhibits of Charles W. King Concerning Final Rates

March 4, 2004

1 **Q. Please state your name, position and business address.**
2
3 A. My name is Charles W. King. I am President of the economic consulting firm of
4 Snavelly King Majoros O'Connor & Lee, Inc ("Snavelly King") My business
5 address is 1220 L Street, N.W., Suite 410, Washington, D C 20005
6
7 **Q. For whom are you testifying in this proceeding?**
8
9 A. I am testifying on behalf of the Attorney General of Michigan
10
11 **Q. Are you the same Charles W. King who submitted prefiled testimony**
12 **concerning interim rate relief on December 12, 2003?**
13
14 A. Yes. I am.
15
16 **Q. Did that testimony have attachments that described your qualifications and**
17 **prior appearances before regulatory bodies?**
18
19 A. Yes. Attachment A to that testimony is a resume of my experience and education
20 Attachment B is a list of my appearances before regulatory agencies as an expert
21 witness.
22
23 **Q. Were any of the issues you discussed in your earlier testimony relevant to the**
24 **determination of final rates for the Detroit Edison Company?**
25
26 A. Yes. In my earlier testimony, I argued that most of the issues presented by the
27 application of the Detroit Edison Company ("Edison" or "the Company") for
28 immediate and partial relief were not appropriate for that phase of the proceeding
29 because they were controversial or inconsistent with prior Commission practice.
30 However, since I did not know whether the Commission would agree with my
31 position on this matter, I presented the Attorney General's position with respect to

1 a number of the fundamental revenue requirements issues of this case. The
2 Commission has not yet issued its order in the interim phase, so I still do not
3 know which issues will remain relevant in the final rates phase.
4

5 **Q. Please review the positions you put forward in your earlier testimony that**
6 **should be relevant to the establishment of final rates.**
7

8 A. The following are positions in my earlier testimony that should be relevant to the
9 establishment of final rates.
10

11 First, Act 141 and 142 have significant impact upon this rate case. Those two acts
12 justify and require some actions that differ from typical decisions in a general rate
13 case.¹
14

15 Second, the increases proposed by Edison reflect the total Company jurisdictional
16 revenue requirements and revenue deficiency as claimed by Edison. Since rates
17 for residential and small commercial customers are statutorily capped, the
18 Commission should at least limit the level of any approved interim increases to
19 the portion of any revenue deficiency that is attributable only to customers whose
20 rates are not statutorily capped. Rate increases for customers with capped rates
21 should not be established in this case because test year information applicable to
22 capped customers during 2004 will probably change by the future years when
23 their rates are no longer capped.
24

25 Third, by proposing to increase rates based on overall Company costs, Edison is
26 shifting costs among customer classes contrary to Sections 10d(2) and 10d(5) of

¹ Section 10d(2) in Act 141 imposes a rate cap upon the rates Edison can charge to residential customers and to commercial and manufacturing customers having an annual peak load of less than 15 kW during 2004. During 2005, Section 10d(2) imposes a rate cap upon the rates Edison can charge to residential customers. Section 10d(2) and 10d(5) in Act 141 bar reallocation of costs by the MPSC. Beginning January 1, 2004, Section 10d(3) requires accrual and deferral of amounts for capital expenditures and expenses so long as the amount satisfy the conditions specified in that statute. Finally, as a result of the Commission's order in Case No. U-12478, Act 142 requires removal of certain assets from Edison's ratebase and base rates because those assets have been securitized.

1 Act 141. When the costs specifically attributable to the classes are compared with
2 those classes' revenue, there appears to be no justification for any increase to the
3 General Service or Large Customer Contract classes, and only a small increase is
4 justified for the Primary Service customers.

5
6 Fourth, the allocation of costs to customers whose rates are not statutorily capped
7 in 2004 should reflect the fact that the Company's base load plants provide the
8 power to serve the base loads of the respective customer classes, while cycling
9 and peaker plants serve their peak loads

10
11 Fifth, including transmission costs in Edison's PSCR cost recovery is not
12 appropriate because (1) transmission charges do not fall within the definitions of
13 Section 6j(1) of 1982 PA 304, (2) the MISO transmission charges do not fit the
14 unpredictable characteristics of costs that are conventionally recovered through
15 periodic cost adjustment clauses, and (3) the MISO charges are not based on
16 energy consumption, which is the basis for the PSCR charges, but rather on
17 aggregate demand, that is, maximum consumption in any one hour.

18
19 Sixth, in Case No. U-12639, the Commission explicitly rejected a "lost revenues"
20 methodology for calculating stranded costs. That rejected method was similar to
21 the procedure Edison is proposing in this case to identify stranded costs. In Case
22 No. U-12639, the Commission adopted Staff's proposal that stranded costs should
23 be based on a finding that retrospective generation-related bundled service
24 revenues plus wholesale revenues do not recover the generation-related revenue
25 requirement. Using this methodology, it appears that Edison did not have
26 stranded costs in 2002 and will not have them in 2004.

27
28 **Q. Will you expand upon these points in this testimony?**
29

1 A. No I have already provided testimony in these matters. To the extent they
2 continue to be relevant to the establishment of final rates, I incorporate that
3 testimony into this phase of the proceedings.
4

5 **Q. What issues will you discuss in this testimony?**
6

7 A. I propose to discuss the following issues.

- 8 • employee benefits, specifically pensions, other post employment benefits
9 (“OPEBs”), and non-qualifying retirement benefits;
- 10 • the control premium, and
- 11 • the Earnings Sharing Mechanism.
12

13 **Q. Please summarize your recommendations with respect to these issues.**
14

15 A. Pension and OPEB costs appear to be “spiking” during the forecast year 2004. I
16 therefore recommend that pension and OPEB costs be averaged for the three years
17 2002, 2003, and 2004. The effect is to reduce pension expense from \$111 7
18 million to \$74.2 million and OPEB expense from \$109 6 million to \$86 8 million
19

20 Non-qualifying pension benefits are awarded to the very individuals who decide
21 how generous these benefits should be, and who are also the direct representatives
22 of the Company’s shareholders I recommend that the \$4.1 million cost of these
23 benefits be removed from the Company’s revenue requirement.
24

25 The premium paid by DTE Energy to acquire MCN, which is predominantly a gas
26 distribution company, has nothing to do with the generation, transmission and
27 distribution of electricity. I recommend that the \$85.2 million sought by Edison
28 for this premium should be excluded from the revenue requirement
29

30 Finally, I recommend that the earnings sharing mechanism proposed by Edison be
31 rejected. First, it is unnecessary if there are to be rate cases during each of the

1 remaining years of the rate freeze. Second, it is a device to recapture earnings lost
2 due to the rate freeze by retrospectively recovering the previous year's under-
3 earnings.
4

5 **Employee Benefits – Pensions**

6
7 **Q. What is Edison seeking to recover for employee pensions?**

8
9 A. Edison is seeking to recover \$111.7 million in pension costs for the year 2004
10

11 **Q. What are the components of this \$111.7 million?**

12
13 A. The \$111.7 million consists of the following components.²
14

- 15 • \$47.7 million in “service costs,” which are benefits earned by active
16 employees during the current period on a present value basis,
- 17 • \$131.5 million in “interest costs,” representing the year’s accretion in the
18 present value of the Project Benefit Obligation (“PBO”),
- 19 • \$8.8 million in amortization of “prior service costs,” that result from changes
20 in the benefit plans that increase the PBO for existing employees and that are
21 amortized over the remaining service years of the affected employees,
- 22 • \$44.7 million, described in Mr. Brudzynski’s testimony as the amortization of
23 the net loss in the value of the assets in the pension fund. More specifically,
24 Mr. Brudzynski testified at the hearing that it is the amortization over 12 years
25 of the difference between the current value of the fund assets and the present
26 value of the Accumulated Benefit Obligation (“ABO”),³
- 27 • Offset by \$121 million in the expected return on the assets in the pension
28 fund.
29

² See Testimony of D G Brudzynski 7 T 901-903 and Exhibit A-16, Schedule F5-20

³ 8 T 1087

1 **Q. What were the pension costs during the two previous years, 2002 and 2003?**

2

3 A. In 2002, pension costs were \$31.4 million. In 2003 they were \$79.5 million.⁴
4 This means that the 2004 pension cost is 40 percent greater than that for 2003 and
5 3.5 times the cost for 2002.

6

7 **Q. What accounts for the apparent volatility of Edison's pension costs?**

8

9 A Two factors account for this extreme volatility in pension costs The first is the
10 current interest rate, and the second is the value of the assets in the pension fund

11

12 **Q. Why does the current interest rate create volatility in pension costs?**

13

14 A. Edison uses the December 31 yield on Moody's AA corporate bonds as the
15 interest rate for discounting the PBO and the ABO to their present value for the
16 next year. The lower the interest rate, the higher the present value. The higher
17 the present value of the PBO, the greater the service costs The higher the present
18 value of the ABO, the more likely is it to exceed the asset value of the pension
19 fund, thereby requiring an amortization of any shortfall in pension funding. Also,
20 a lower interest rate has the counter-intuitive effect of increasing the interest costs
21 on the ABO. That is because as present value of the ABO increases, the annual
22 accretion in that value is correspondingly larger.

23

24 **Q. What has been the recent history of the interest rates used to calculate the
25 present value of the PBO and the ABO?**

26

27 A. During the January hearings, Edison witness Brudzynski testified that the 2002
28 interest rate was 7.25 percent, the interest rate used in his June 2003 filing was
29 6.75 percent, but that the expected 2004 interest rate is likely to be approximately

⁴ Exhibit A-16, Schedule F-20

1 6.25 percent ⁵ These declining values reflect the reduction in yields on Moody's
2 AA corporate bonds.

3
4 **Q. Why does the asset value of the pension fund create volatility in pension**
5 **costs?**

6
7 A. As the asset value of the pension fund changes, the differential between that value
8 and the present value of the ABO changes correspondingly. If the asset value
9 falls, that differential increases, and if it results in a shortfall, the pension fund is
10 determined to be under-funded. The greater the under-funding, the larger the
11 annual amortization of that under-funding.

12
13 **Q. What has been the recent history of the asset value of the pension fund?**

14
15 A. According to Mr. Brudzynski, the pension fund lost \$261 million in value in 2001
16 and another \$222 million in 2002. Through November of 2003, it had gained
17 \$161 million in value.

18
19 **Q. How does the pension fund compare with the present value of the ABO as of**
20 **the end of 2003?**

21
22 A. Exhibit A-16, Schedule F5-22 indicates that, based on year-end 2002 factors, the
23 value of the pension fund was \$540 below the ABO as then calculated. During
24 the January hearings, he testified that updating the interest rate and the gain in the
25 value of the pension fund results in an increase in pension expense of \$20 million
26 While the market value of the pension fund increased by \$191 million, this
27 increase had the effect of reducing expense by only \$9 million. Meanwhile, the
28 drop in interest rates to 6.25 percent resulted in an increase in the ABO of \$221
29 million, which translates into an increase in pension expense of \$29 million.⁶

⁵ 7 T 893, 905

⁶ 7 T 892, 893

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34

Q. What is the likely future trend in interest rates?

A. Interest rates on high-grade corporate bonds are currently at a 37-year low⁷. Given the size of both the Federal budget deficit and the national trade deficit, it is unlikely that these very low interest rates can continue. On December 9, the economic research firm Macroeconomic Advisors released its 10-year forecasts of national product, income, inflation and interest rates. It forecasts a slow but steady increase in interest rates throughout the coming decade, as follows:

	Bond Yields	
	10-year Treasury Bonds	Aaa Corporate Bonds
2003	4.01%	5.66%
2004	4.56%	5.74%
2005	5.27%	6.36%
2006	5.75%	6.84%
2007	5.86%	6.95%
2008	5.97%	7.06%
2009	6.01%	7.10%
2010	6.09%	7.18%
2011	6.11%	7.20%
2012	6.14%	7.23%

Q. What is the likely trend in the value of Edison’s pension fund assets?

A. During the coming two years, that value will almost certainly increase. That is because Edison does not fully revalue its pension assets each year. Rather, it uses a “smoothing” technique in which only one-third of each year’s gain or loss is recognized in the annual valuation of the pension fund. The remaining two-thirds are amortized into the revaluation over the next two years.

This smoothing process explains why, even though the fund increased in value by \$161 million during 2003, the effect of that gain on pension costs is only \$9

⁷ See <http://www.federalreserve.gov/releases/h15/data/m/aaa.txt>

1 million. The revaluation at the end of 2003 will recognize only one-third of this
2 increase, or \$54 million. Meanwhile, it is still recognizing one third of the \$222
3 million decline in value in 2002 and one-third of the \$261 decline in 2003

4
5 Even if there is no further increase in the value of the pension assets during 2004
6 and 2005, the valuation of the pension fund for purposes of computing pension
7 expense will increase. At the end of 2004, the 2001 loss will have been fully
8 amortized, and at the end of 2005, the 2002 loss will have been fully recognized
9 Meanwhile, the \$54 million one-third of the 2003 gain will continue to be
10 incorporate into the restated pension fund value.

11
12 Only if the securities markets decline to the same extent as they did during 2001
13 and 2002 will Edison's pension fund fail to display a gain for purposes of
14 calculating pension expense at the end of 2004 and 2005.

15
16 **Q. What do you conclude as regards the future of Edison's pension expense?**

17
18 A. I conclude that if interest rates begin to rise as predicted, the present value of
19 Edison PBO and ABO will decline, reducing both service costs and interest costs
20 and closing the gap between the ABO and the pension fund asset value. That gap
21 will also reduce owing to the increase in the computed value of the asset value of
22 the pension fund resulting from the full amortization of losses inherited from 2001
23 and 2003. It appears that the pension costs computed for 2004 are possibly the
24 peak pension costs that Edison has experienced and that they will experience in
25 the immediate future.

26
27 **Q. What is the relevance of these observations for this rate case?**

28
29 A. The Commission allows adjustments for known and certain changes from the
30 historical test year to a future test year. Those changes, however, should
31 recognize a reasonable level of steady-state costs. They should not capture one-

1 time spikes in cost that are unlikely to continue into subsequent years Edison's
2 2004 calculation of pension costs appears to be just such a one-time spike in cost.

3
4 **Q. What is your recommendation with respect to pension costs?**

5
6 A. My recommendation is that the Commission use an average of the three most
7 recent years' pension costs as calculated by Edison, as follows:

8

9	2002	\$31,352,000
10	2003	79,500,000
11	2004	<u>111,700,000</u>
12	Total	\$222,552,000
13	Average	\$74,184,000

14
15

16 **Other Post-Employment Benefits**

17
18 **Q. What are Other Post-Employment Benefits?**

19
20 A. Other Post-Employment Benefits ("OPEBs") are principally the health insurance
21 that the Company provides to its employees after they retire. In this regard they
22 are very much like pensions.

23
24 **Q. What is Edison seeking for OPEBs in its revenue requirement calculation?**

25
26 A. Edison is seeking \$109.4 million in OPEB costs.

27
28 **Q. What are the elements of Edison claimed OPEB cost?**

29
30 A. The elements are the same as those described for pensions, with one addition, as
31 follows⁸

32

Element	2004 Cost in Millions
---------	-----------------------

⁸ Exhibit A-16, Schedule F-23

1	Service Cost	\$40.5
2	Interest Cost	75.0
3	Less Expected Return on Assets	(38.3)
4	Amortization	
5	Transition	8.5
6	Prior Service Costs	.3
7	(Gain) Loss in Asset Value	<u>23.3</u>
8	Total	\$109.4
9		

10 The one addition is the amortization of “transition cost.” This element arises
11 because the treatment of OPEBs in similar manner as pensions began only in the
12 early 1990s with the promulgation of Statement of Financial Accounting
13 Standards No. 106 (“SFAS 106”). Prior to that time, these benefits were
14 expensed as they were incurred. SFAS 106 required all companies to establish
15 funded reserves against their future obligations to incur these costs. Since no
16 company had such reserves, SFAS 106 allowed companies to amortize the present
17 value of the required reserves over the estimated remaining service time of the
18 affected employees. As employees retire, these transition costs should decline.

19
20 **Q. Do the OPEBs present the same problems as pensions?**

21
22 A Yes. Since OPEB expense is calculated in virtually the same manner as pension
23 expense, it faces the same volatility. Since the same drivers – interest rate and
24 asset value – affect OPEB cost, this cost has shown a similar dramatic increase.
25 The year 2002 OPEB cost of \$58.2 million has almost doubled to \$109.4 million
26 in 2004.

27
28 **Q. Do you recommend the same three-year average for OPEB expense as you**
29 **recommended for pension expense?**

30
31 A. Yes. I do, but with two exceptions. As noted earlier, the amortization of
32 transition cost should decline over the years as the affected employees retire. For
33 this reason, I recommend using the 2004 transition cost for this component of
34 expense. Also, in 2002 there was a prior period adjustment of \$3,037,000 that is

1 not representative of any on-going quantification of OPEB expense. This element
2 should be excluded from the expense calculation.

3
4 **Q. What OPEB expense do you recommend?**

5
6 A. I recommend \$86.8 million, as follows:

7	2002	\$42,208,000
8	2003	91,800,000
9	2004	<u>100,900,000</u>
10	Total	\$234,908,000
11	Average	\$78,302,667
12	Transition Amortization	<u>8,500,000</u>
13	Total Expense	\$86,802,667

14
15
16 **Management Retirement Benefit Plans**

17
18 **Q. What do you mean by “management retirement benefit plans?”**

19
20 A. These are compensation plans that apply only to the Company’s officers,
21 managers and directors. They are “non-qualified” plans in that they do not
22 qualify under the Employee Retirement Income Security Act (“ERISA”). They
23 are therefore not deductible as Company expenses for purposes of computing
24 income taxes.⁹

25
26 **Q. Please describe these plans.**

27
28 A There are five management retirement benefit plans:¹⁰

29
30 Executive Supplemental Retirement Plan All Vice Presidents and a select group of
31 Directors who are designated as participants by the Organization and

⁹ It is my understanding that payments into these plans are not deductible for income tax purposes, but payments out of them to retired employees are deductible. The earnings of the retirement funds are also taxable to the Company.

1 Compensation Committee of the DTE Energy Company Board of Directors are
2 eligible to participate in this plan.

3
4 Supplemental Retirement Plan Employees at the Director level and above or
5 other highly compensated employees who have their benefits under that DTE
6 Energy Company Retirement Plan limited by provision of the Internal Revenue
7 Code, are eligible to participate in this Plan.

8
9 Supplemental Savings Plan All employees at the Director level or above are
10 eligible to participate in this plan.

11
12 Executive Post-Employment Benefit Plan A select group of management or
13 highly compensated employees are eligible to participate in this plan. This plan
14 became effective January 1, 2003.

15
16 Deferred Stock Compensation Plan for Non-Employee Directors Any Director
17 of DTE Energy Company who is not a Company employee or an employee of any
18 affiliate is eligible for this plan.

19
20 **Q. Has the Company included the cost of any of these plans in its revenue**
21 **requirement in this case?**

22
23 A. Yes. The Company has included costs for three of these plans in its claimed
24 revenue requirement in this case, as follows.¹¹

25	Executive Supplemental Retirement Plan	\$3,000,000
26	Supplemental Retirement Plan	600,000
27	Non-Employee Directors Plan	<u>500,000</u>
28	Total	\$4,100,000

29
30 **Q. Should these costs be allowed in the Company's revenue requirement?**

¹⁰ Data Request No AGDE 1 35/125

¹¹ Response to Data Request No 1 36/126

1
2 A. No. The Internal Revenue Services regards that payments into the plans for these
3 highly-paid senior executive managers and directors, most of whom are probably
4 also stockholders, are taxable income of the Company. If these costs were
5 allowed to be deductible, the managers and directors would have an incentive to
6 hide corporate income by paying benefits to themselves through these plans

7
8 The same principle applies to the establishment of the regulated revenue
9 requirement. The personnel who receive the benefits are the same personnel who
10 receive them. If those benefits (along with associated income taxes) are
11 incorporated into the revenue requirement, then the incentive will be make them
12 very, very generous. That generosity will be entirely at the expense of the
13 ratepayers.

14
15 Even if the managers and directors exert self-control and avoid overly generous
16 benefits, the benefits should still be paid by shareholders. That is because these
17 senior personnel are direct representatives of the shareholders and are directly
18 beholden to them. These are the employees who are entrusted with the obligation
19 to maximize shareholder value. At least some of their compensation should be
20 paid for by shareholders.

21
22 **Q. What is your recommendation?**

23
24 A. I recommend that the \$4.1 million represented by senior management and director
25 retirement benefits should be excluded from the revenue requirements?

26
27 **Control Premium**

28
29 **Q. What is the control premium?**

30

1 A. The control premium refers to the acquisition by DTE Energy, Edison's parent
2 company, of MCN Energy, the parent of Michigan Consolidated Gas Company
3 The Control Premium is the premium that DTE paid over the market value of
4 MCN's stock. The market value of MCN's stock just prior to the announcement
5 of the acquisition was \$1,595.4 million, and Edison paid \$2,488.1 million for it
6 DTE's premium to obtain control of MCN was therefore \$892.7 million
7

8 **Q. What is Edison's proposal with respect to this control premium?**
9

10 A. Edison argues that the synergies that result from combining the two companies
11 more than outweigh the cost of the control premium. Specifically, Edison
12 estimates the operating and maintenance savings attributable to the merger to
13 have been \$80 million in 2002 and to be \$112.6 million in 2004.¹² Edison then
14 computes a revenue requirement associated with the control premium of \$85.2
15 million for 2004. It proposes to add this amount to its overall revenue
16 requirement.
17

18 **Q. How does Edison calculate this \$85.2 million in control premium revenue
19 requirement?**
20

21 A. Edison treats this control premium as a fully taxable regulatory asset to be
22 amortized over 40 years. The 40-year recovery period is based on the
23 proposition that the merger savings continue indefinitely. The amortization is
24 \$14.7 million annually, but that is grossed up for income taxes to \$23.2 million.
25 The pre-tax return on the unamortized balance of the control premium begins at
26 \$62 million in 2004. By 2008, it will have declined to \$55.7 million. These two
27 elements, return of and return on the control premium, come to \$85.2 million in
28 2004¹³
29

¹² Exhibit A-16, Schedule F5-8

¹³ Exhibit A-16, Schedule F5-9

1 **Q. Is this control premium an appropriate adder to the revenue requirement?**

2
3 A. No. It is not. The revenue requirement is supposed to compensate the Company
4 for the generation, transmission and distribution of electricity. The control
5 premium has nothing to do with any of these functions. To the contrary, it is a
6 cost incurred to acquire a gas company.

7
8 **Q. Are there any other objections to including the recovery of the control**
9 **premium in the revenue requirement?**

10
11 A. Yes. First, there is an element of double recovery in this proposal, particularly for
12 the previous stockholders of MCN. MCN stockholders enjoyed a substantial
13 capital gain when they exchanged their MCN stock for that of DTE Energy. Now,
14 Edison proposes that they be compensated again by means of a supra-competitive
15 rate of return on the Detroit Edison component of their DTE stock.

16
17 This double recovery arguably applies to Edison's original stockholders as well.
18 The reason DTE was able to buy MCN is that it received \$1.774 billion in cash
19 when it securitized Edison's stranded costs in 2000. The costs of that
20 securitization are being borne entirely by ratepayers. The Company now proposes
21 that ratepayers again pay for the application of that cash to acquire MCN

22
23 Additionally, I question whether the merger of the gas distribution and electric
24 utilities represents an unalloyed benefit to consumers in the Detroit area. Gas and
25 electricity are competing energy sources for space heating, water heating and
26 cooking. To the extent that this competition encourages the respective gas and
27 electric utilities to minimize their costs, enhance their service, and encourage the
28 efficient use of their energy, it represents a public benefit. The loss of this benefit
29 serves to offset the savings that Edison claims it has achieved from the merger of
30 these competing utilities.

31

1 Finally, this proposal, if approved, would set a very undesirable precedent. The
 2 Commission played no part whatever in the initiation, negotiation and
 3 consummation of the merger. It was never asked to weigh the public benefits and
 4 costs of the merger or to approve its price and terms. If the Commission accepts
 5 Edison's proposal in this case, then it will be under heavy precedential pressure to
 6 approve similar merger premium compensation arrangements in the future. These
 7 arrangements shift the entire cost of acquisition from shareholders to ratepayers.
 8 All that is required is for the utility to show that the savings from the merger
 9 exceed the cost of the premium. Since most mergers result in some savings, this
 10 showing may not be difficult. The Commission will then be cast in the role of
 11 passing on to ratepayers a cost incurred entirely outside of the regulatory purview
 12

13 **Earnings Sharing Mechanism**

14
 15 **Q. What does Edison propose as an earnings sharing mechanism?**

16
 17 A. Edison's proposed earnings sharing mechanism ("ESM") would establish a
 18 "deadband" of 100 basis points (one percent) around its authorized rate of return
 19 on common equity. Using the currently approved rate of return of 11.5 percent,
 20 the deadband would be from 10.5 percent to 12.5 percent. If the Company's
 21 earned return on equity falls within that deadband, there would be no adjustments
 22 to the rates. As the earned returns depart from that deadband, ratepayers would
 23 share in the shortfall or the surplus in increasing proportions as the departure from
 24 the deadband increases. Again using 11.5 percent as the approved return to
 25 equity, the division between ratepayers and shareholders would be as follows:
 26
 27

Under-earnings			Over-earnings		
ROE Range	To Shareholders	To Ratepayers	ROE Range	To Shareholders	To Ratepayers
10.5%-11.5%	100%	0%	11.5%-12.5%	100%	0%
10.0%-10.5%	80%	20%	12.5%-13.0%	80%	20%
9.5%-10.0%	60%	40%	13.0%-13.5%	60%	40%

9.0%-9.5%	40%	60%	13.5%-14.0%	40%	60%
Below 9.0%	20%	80%	Over 14.0%	20%	80%

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Edison proposes that this mechanism operate for the remaining years of the rate freezes established by PA 141, that is, until the end of 2006 when residential rates will be unfrozen.

Q. What is your recommendation with regard to this earnings sharing mechanism?

A. The mechanism should be rejected. First, it is unnecessary. Second, it is a device to recapture the earnings otherwise lost due to the rate freeze.

Q. Why is the ESM unnecessary?

A. As I testified during the interim rates phase of this case, there should be two more cases to reset rates when the next two rate freezes expire. Specifically, there should be a rate case based on 2005 revenue requirements to be effective when the freeze on rates to commercial customers expires at the end of 2004. Then there should be another rate case based on 2006 costs when the residential rate freeze expires at the end of 2005. If there are to be rate cases each year, then there is no need for an ESM to capture departures from the authorized rate of return during those years.

Q. Why is the ESM a device for recapturing earnings otherwise lost during the rate freeze?

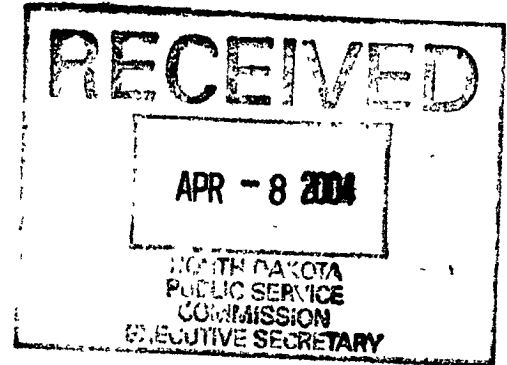
A. The ESM proposed by Edison compares actual return on equity with authorized return on equity. Obviously, Edison will not know its actual return on equity until after the end of the year, so the mechanism will operate retrospectively. This means that if the rate freeze on residential and small commercial customers during

1 2004 results in an inadequate rate of return – which it will if Edison’s case has
2 any merit – then Edison will be able to recover a portion of the lost earnings the
3 next year, 2005. By then, of course, the small commercial customers’ rates will
4 have been unfrozen, so that a portion of this recapture will be from the very
5 customers whose frozen rates gave rise to the earnings shortfall. The same thing
6 will happen in 2006. Edison will be able to recover a portion of the lost earnings
7 in 2005 due to the continue freeze on residential customers, and those residential
8 customers will contribute to that recovery.

9
10 **Q. Does this conclude your testimony?**

11
12 **A. Yes. It does.**

April 7, 2004



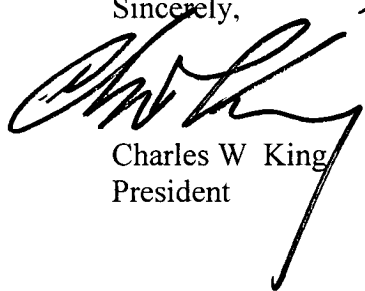
Illona A. Jeffcoat-Sacco, Executive Secretary
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismarck, ND. 58505-0480

Dear Ms. Jeffcoat-Sacco:

Enclosed herewith is the original and five copies of the proposal of Snavely King Majoros O'Connor & Lee, Inc. in response to your Request for Proposal for expert consulting assistance in connection with compensation issues in Case No. PU-04-97, Application of Montana-Dakota Utilities Co. for an increase in gas distribution rates.

I believe this proposal is responsive to your request. However, if you have any questions or comments, please feel free to call me at (202) 371-9156 or by e-mail at charlieking@snavely-king.com.

Sincerely,



Charles W King
President

33 PU-04-97

Pages 1

Cover letter re Response to Request for
Proposal
by Snavely King Majoros O'Connor & Lee Inc

04/08/2004 CC Comm Legal PUD (3) Mike ALJ



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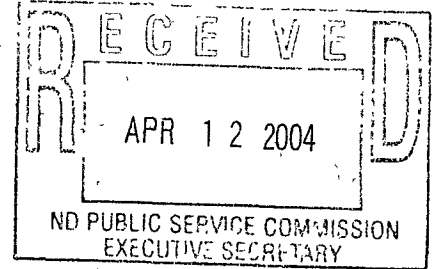
Barrington-Wellesley Group, Inc.

Management Consultants

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April 12, 2004

Ms. Illona A. Jeffcoat-Sacco
North Dakota Public Service Commission
State capitol, 12th Floor
Bismarck, North Dakota 58505-0480



Re: RFP, Case No. PU-04-97

Dear Ms. Jeffcoat-Sacco;

The Barrington-Wellesley Group (BWG) is pleased to submit a proposal to assist the North Dakota Public Service Commission (NDPSC or Commission) staff with its investigation of Montana-Dakota Utilities Co.'s (MDU's) gas rate case increase request. Specifically, the commission staff seeks assistance in evaluating the overall reasonableness of employee compensation and applicable company decisions regarding wages and fringe benefits. The scope of this investigation includes the following costs:

- Salary Expense
- Pension Expense
- Medical Insurance
- Supplemental Pension Expense of Key Employees
- Other Labor Costs

About the Barrington-Wellesley Group

The Barrington-Wellesley Group, Inc. is a general management consulting firm providing high quality management consulting services to public utilities, regulatory agencies and other professionals serving the public utilities industry. The firm specializes in assisting regulatory agencies discharge their oversight responsibilities by performing management and regulatory audits and providing other services to help formulate-regulatory policy and test compliance.

Partners in the firm are recognized experts in the public utilities industry. We have a dedicated group of full time employees and augment our capabilities through use of a number of independent consultants with whom we have established relationships. We combine the advantages of large firm expertise needed to successfully perform complex and sensitive assignments with small firm responsiveness, competitiveness and creativity. We have substantial experience in strategic planning, organizational planning and development, corporate performance improvement, management and operational auditing, and litigation support. We have the specialized consulting skills and experience necessary to evaluate all aspects of our client's operations effectively and objectively.

- *We know the utilities industry.* Through past studies and prior work experience, our consultants have gained a thorough understanding of the utilities business, as well as the nature, strengths, and limitations of utility regulation.

- *We have a reputation for objectivity.* We have a broad management perspective and have worked with clients on a wide range of performance, organizational and management issues. We apply our knowledge of business practices in the utilities and other industries in our search for effective solutions to our client's problems.
- *We seek pragmatic solutions.* Our conclusions and recommendations are tailored to the realities of the client's situation. They are practical, action-oriented, and aimed at improving management effectiveness, operational efficiency and service levels.
- *We have the skills and experience our clients require.* Our professional staff has the diversity of technical training, skills and experience that enables us to serve our clients across a broad range of their business needs. We have successfully performed a large number of utility organization studies and have helped clients implement performance improvement programs in all areas of their management and operations.

Whenever possible, the firm plans and conducts its assignments to maximize client participation. The firm emphasizes team building within the client organization and believes that teamwork in the client-consultant relationship is most effective in finding workable solutions to many problems.

Since its founding in 1990, BWG has performed over thirty-five independent management and operational audits and regulatory compliance reviews of utility companies for regulatory commissions, governing boards and other clients. These audits are listed in **Appendix A**. Additional information and references are available upon request.

Consulting on the pension expense, postretirement medical expense and the supplemental pension expense will be provided by Chicago Consulting Actuaries (CCA), our partners for this project.

CCA was formed in 1991 with the goal of consulting to complex organizations, leveraging technology to the greatest extent possible. They are dedicated to discovering and developing the full value and potential of the clients' information.

CCA provides valuation, compliance, financing, design and administration of defined benefit and postretirement welfare plans. They consult for a wide range of clients, including BellSouth Corporation, Blue Cross Blue Shield Association (including Blue Cross Blue Shield of Montana and North Dakota), Cingular Wireless, Easter Seals, Inc. and SBC Communications. CCA is also the actuary for quasi-public utilities like Telefonos de Mexico, Belgacom and Telkom South Africa.

CCA's reputation for innovation, creativity and insight has grown together with the firm. Today, they have over 65 actuaries in six offices around the country.

Background

On March 3, 2004, Montana Dakota Utilities Co. filed an application to increase its rates for natural gas service by an amount sufficient to provide increased total annual revenue of \$3,334,226. As proposed, distribution delivery charges for residential service will increase 3.5 percent and firm general service rates will increase 2.3 percent. No increases are proposed for rates for service to interruptible customers or the Minot air force base.

Most of the proposed increase relates to costs of employee wages and benefits. MDU projects increased wages of 6.82% and 5.35%; medical and dental insurance of 23% and 8%; and pension expense of 246% and 85% for the projected years ending 2004 and 2005, respectively. This contrasts, for example, with projected labor cost increases of 3.15% and 3% for 2002 and 2003,

respectively, included in MDU's natural gas rate increase application, Case No. PU-399-02-183, approved by the Commission in its December 18, 2002 Order.

This application comes on the heels of the settlement agreement reached in connection with MDU's electric rate application in Case No. PU-399-03-296, which was approved by the Commission on December 18, 2003. In this case, MDU settled for a \$1,000,000 increase in rates compared to its proposed \$7.8 million increase.

Work Plan

BWG's detailed work plan will be based on discussions with Commission Staff regarding specific issues, concerns and risks and our review of the filing. However, our initial review of related documents and prior experience suggests the issues listed below will likely to be addressed. We also expect to review the appropriateness of the methodology used to assign costs to gas operations as part of this investigation.

Salary expense – how much is driven by increases in staffing levels? Are these actual positions filled or positions to be filled? If to be filled, is the company actively attempting to fill these positions? How were salaries determined for positions to be filled? For shared services, how were salary expenses allocated between electric and gas and non-regulated ventures? Is the allocation of shared salaries consistent with MDU's recently settled electric general rate case.

How much of the increase is due to negotiated bargaining unit-related wage increases? If union wage increases are higher than average for the industry and region, were there changes in work rules or reductions in benefit costs that levelized the total cost of the approved labor agreement? If so, have the related efficiencies or benefit cost savings been properly projected?

Is the calculation of bonuses and commissions reasonable and consistent with prior periods, and result in total compensation that is reasonable and appropriate.

Bruce Imsdahl's direct testimony states that both union and non-union wage levels were below competitive market rates. We will examine the Hay Group and other studies completed to support this representation, including consideration given to the competitiveness of total compensation (base wages, incentives, and benefits).

Pension Expense – we will analyze the pension calculations for both technical accuracy and appropriateness of assumptions.

Medical Insurance – we will review company support for the projected amounts, compare projections to actual costs for 2003, and review the appropriateness of the Company's efforts to control medical insurance expenses.

Supplemental Pension – we will review the competitive executive compensation studies completed by Towers Perrin and the Total Compensation Plan developed by the Compensation Committee of MDU's Board of Directors. In addition, we will also look at the technical accuracy and the appropriateness of the assumptions used in the calculation of the supplemental pension expense.

Other Labor Expenses – we will perform tests and analyses as required based on the nature of these expenses

Project Team

Joel F. Jeanson, CPA, is a BWG Principal with over twenty-four years of diversified utility financial management and auditing experience, predominately in the gas distribution industry. In eighteen years with Vectren Corporation and its predecessor organization (Indiana Gas Company), he served as director of accounting, budgeting and management reporting, director of

corporate performance, financial director of marketing and operations, and director of auditing. Jeanson was the lead member of the finance merger integration team when Indiana Energy, Inc. merged with SIGECO in 2000. Prior to joining Indiana Gas, he was a senior auditor with Arthur Andersen. He is a member of the AICPA and the Indiana CPA Society and a past president of the Indianapolis Chapter of the Institute of Internal Auditors. Mr. Jeanson has a B.S. in business, with distinction, from Indiana University majoring in accounting.

Brian Donohue, F.S.A., E.A., F.C.A., is a Principal with Chicago Consulting Actuaries LLC. Mr. Donohue has extensive experience in pension design consulting, actuarial assumption setting, non-discrimination testing, benefit calculation spreadsheets, pension administration, early retirement windows, plan terminations, retiree medical valuations, Social Security calculations, CAS reimbursement calculations, asset/liability modeling, and non-qualified pension valuations. He earned his B.S. from the University of Chicago, majoring in economics.

See **Appendix C** for detailed project team resumes.

Time and Fee Estimate

Exhibit A below provides the estimate of hours by task area and activity. **Exhibit B** provides our estimate of professional fees and expenses by consultant and task area. Please note that the hours assigned to Supplemental Pension Expense will be reduced if the scope of the work to be performed does not include a review of the technical accuracy and the appropriateness of the assumptions used in the calculation of the supplemental pension expense.

**Exhibit A
Hours Estimate**

Expense	Salary Expense	Pension Expense	Medical Insurance	Supplemental Pension Expense	Other Labor Costs
Task					
Analysis of Filing	50	30	30	10	20
Discovery	50	50	30	30	20
Monthly Reporting	20	20	15	20	10
Written Testimony	20	30	15	10	10
Oral Testimony	20	30	20	10	10
Staff Assistance – Cross-examination	20	20	10	10	10
Staff Assistance – Proposed Findings of Fact	20	20	10	10	10
Total	200	200	130	100	90

**Exhibit B
Fee Estimate**

	Joel F. Jeanson, Principal, BWG	Brian Donohue, Principal, CCA	Administrative	Total
Salary Expense	200			200
Pension Expense	10	200		210
Medical Insurance	130			130
Supplemental Pension Expense	10	100		110
Other Labor Costs	90			90
Total Hours	440	300	50	790
Rate per Hour	\$150	\$275	\$50	
Total Fee Estimate	\$66,000	\$82,500	\$2,500	\$151,000
Expenses @ 20%	13,200	16,500	\$0	\$29,700
Total Fees and Expenses	\$79,200	\$99,000	\$2,500	\$180,700

Other

BWG agrees to comply with all applicable Equal Employment Opportunity laws and regulations as well as the applicable provisions of the Americans with Disabilities Act of 1991.

See **Appendix B** for BWG's Conflict of Interest Statement.

Joel F. Jeanson
4/10/04

APPENDIX A

Comprehensive List of Management Audits Completed by BWG

Since its founding in 1990, BWG has performed over thirty-five independent management and operational audits and regulatory compliance reviews of utility companies for regulatory commissions, governing boards and other clients. These audits are briefly described below.

- PSE&G/JCP&L/Atlantic City Electric--Deferred Balances Audit – NJBPU (2003)
- Duke Power – T&D, Ice Storm Damage – SC PSC (2003)
- LG&E / KU – Earnings Sharing Mechanism – Kentucky PSC (2003)
- California IOU Electric Companies – Energy Efficiency Audit – CPUC (2003)
- United Illuminating – Comprehensive – CT DPUC (2002)
- Philadelphia Gas Works - Comprehensive-- Pa PUC (2001)
- Pacific Gas & Electric - Financial Condition -- California PUC (2001)
- SBC/Ameritech - Cost Allocations and Merger Savings -- Illinois Commerce Commission (2001)
- California Electric Utilities - PX Prices -- California PUC (2001)
- Southern Connecticut Gas - Affiliate Relations -- Connecticut DPUC (2000)
- Nevada Power - Power Systems -- Nevada PSC (1994 and 1999)
- Department of Public Works - Comprehensive -- LA Board of Supervisors (1999)
- Connecticut Light & Power - Financial Viability -- Connecticut DPUC (1998)
- California Electric Utilities - Transition Cost Balancing Account -- CPUC (1998)
- PG&E - Diablo Canyon Financial Verification - California PUC (1998)
- Atlantic City Electric - Industry Restructuring Filings -- New Jersey BPU (1998)
- Maine Yankee Atomic Power - Prudence -- Maine PUC (1997)
- California Electric Utilities-Stranded Cost Filings -- California PUC (1997)
- Connecticut Yankee Atomic Power - Economic Viability -- Connecticut DPUC and Connecticut Attorney General (1997)
- Northeast Utilities - Nuclear Operations -- Connecticut DPUC (1996)
- Connecticut Light & Power-Diagnostic -- Connecticut DPUC (1996)
- Burbank (CA) Public Service Department - Comprehensive -- City Council (1996)
- Mountain Water District - Comprehensive -- Kentucky PSC (1996)
- Pacific Bell - Customer Service -- California PUC (1995)
- US West - Affiliate Transactions -- Oregon, Washington, Idaho and Minnesota Commissions (1995)
- Pacific Gas & Electric - Pipeline Expansion -- California PUC (1995)
- LA Department of Water and Power - Diagnostic -- LA City Council (1994)
- Pacific Gas & Electric - Demand-Side Management -- California PUC (1994)
- Peoples Natural Gas - Comprehensive -- Pennsylvania PUC (1994)
- Southern California Water - Comprehensive -- California PUC (1994)
- Southern California Edison – RD&D -- CPUC (1993)
- New Jersey Natural Gas - Comprehensive -- New Jersey BRC (1993)
- Delta Natural Gas - Comprehensive -- Kentucky PSC (1992)

APPENDIX B

Conflict of Interest Policy

Neither BWG nor any member of the proposed project team have any current or past relationship with MDU Resources, Montana-Dakota Utilities, or their affiliates that represents a conflict of interest.

During the course of this assignment, BWG and its employees will be in strict compliance with our internal policies concerning conflict of interest on management audits and related assignments. These policies include the following:

1. No Solicitation or Acceptance of Gifts or Favors

Neither BWG nor any of its employees or subcontractors will solicit or accept anything of value to the recipient, including a gift, loan, reward, meal, promise of future employment, favor, or service from employees or representatives of the Company or its affiliates.

2. No Conflicting Employment or Contractual Relationship

Neither BWG nor any of its employees or subcontractors will have or acquire any employment or contractual relationship with the Company or its affiliates during the course of this audit.

3. No Disclosure or Use of Proprietary Information

Neither BWG nor any of its employees will disclose or use any proprietary information concerning operations of the Company or its affiliates which has been gained by reason of its/his position on the audit and which is not available to the general public, for corporate or personal gain or benefit, or for the gain or benefit of any other business entity or person.

4. No Financial Positions in Public Utilities

Neither BWG nor any of its employees currently hold or will acquire any interest (financial or otherwise) in the Company or its affiliates. It is BWG's policy that its employees will not invest directly in any public utilities.

APPENDIX C

JOEL F. JEANSON, CPA

BARRINGTON-WELLESLEY GROUP

PRINCIPAL

Summary of Qualifications

Joel F. Janson, CPA, is a BWG Principal with over twenty-four years of diversified utility financial management and auditing experience, predominately in the gas distribution industry. In eighteen years with Vectren Corporation and its predecessor organization (Indiana Gas Company), he served as director of accounting, budgeting and management reporting, director of corporate performance, financial director of marketing and operations, and director of auditing. Janson was the lead member of the finance merger integration team when Indiana Energy, Inc. merged with SIGECO in 2000. Prior to joining Indiana Gas, he was a senior auditor with Arthur Andersen. He is a member of the AICPA and the Indiana CPA Society and a past president of the Indianapolis Chapter of the Institute of Internal Auditors. Mr. Janson has a B.S. in business, with distinction, from Indiana University majoring in accounting.

Utility Consulting Experience

- Reviewed accounting and budgeting issues in connection with the assessment of the effectiveness of the earnings sharing mechanism implemented by the KPSC as an alternative ratemaking plan for Louisville Gas & Electric and Kentucky Utilities.
- Reviewed financial, human resources, information technology, and customer service functions in connection with the comprehensive management study of a large municipal water and wastewater utility.
- Identified regulatory compliance issues required to assess the reasonableness of the fuel procurement processes in connection with the audit of the fuel cost-related deferred balances of Atlantic City Electric resulting from the implementation of electric restructuring in the State of New Jersey for the NJ Board of Public Utilities.
- Completed compliance reviews and evaluations of energy efficiency program expenditures for two large investor owned utilities.
- Assessed the financial management and control environment for a large municipal electric utility.
- Assisted with the review of workforce planning policies and procedures for a large municipal water and power utility.

Utility Industry Experience

- Developed responsibility reporting process, budgets and management reports for Vectren Corporation (capital and O&M) for first year post-merger that reflected merger-related costs and savings.
- Financial lead in Vectren merger integration efforts for the various financial areas, including identification of staffing levels and cost savings opportunities and making recommendations to provide structure and direction for the company's financial organization.

- Project director for activity-based management initiative focused on internal products and services. ABM used to assess performance against other service providers, measure improvement, and improve decision-making.
- Updated and enhanced monthly financial report used to review actual and projected operating results, and set direction as to action required to meet corporate financial objectives.
- Directed team that established capital expenditure guidelines, policies and procedures for new business capital investments. Introduced discounted cash flow modeling to decision-making process.
- Developed a process to link corporate strategic objectives to departmental plans, budgets and performance measures which helped assure the accomplishment of corporate objectives.
- Developed quarterly performance measurement reports that included non-financial as well as financial measures which tracked performance over time and across operating regions as well as against external benchmarks.
- Facilitated a cross-functional team of operations and engineering managers that developed a distribution system safety and reliability performance objective and measurement reporting process.
- Led customer service business process improvement initiative that assessed performance and made recommendations for improvement of all customer service processes, leading to improved customer service and reduced costs. Facilitated the development of customer service standards.

Work Experience

- Principal, Barrington-Wellesley Group (2001 - present)
- Director of Accounting, Budgeting and Managing Reporting, Vectren and predecessor companies. (1996 - 2001)
- Director of Corporate Performance, Indiana Gas (1992 - 1996)
- Financial Director of Marketing and Operations, Indiana Gas (1989 - 1992)
- Director of Internal Audit. (1983 - 1989)
- Senior Auditor, Arthur Andersen (1979 - 1983)

Brian C. Donohue
Principal
Chicago Consulting Actuaries LLC
216 South Jefferson, Suite 600
Chicago, IL 60661

Education

B.S. — University of Chicago, 1987
Major in Economics

Professional

Chicago Consulting Actuaries LLC, (1994 to Present)

- Promoted to Principal in 1996
- Firm of ninety-five professionals with offices in Boston, Chicago, Dallas, Denver, Jacksonville and San Francisco
- Extensive experience in pension design consulting, actuarial assumption setting, non-discrimination testing, benefit calculation spreadsheets, pension administration, early retirement windows, plan terminations, retiree medical valuations, Social Security calculations, CAS reimbursement calculations, asset/liability modeling, and non-qualified pension valuations.
- Clients include Blue Cross and Blue Shield Association, TruServ Corporation, and IDEAL Industries, Inc.
- Developed and administered training syllabus, covering all aspects of pension actuarial consulting, for junior staff.
- Managed continuation education program for actuarial consultants.

Hewitt Associates (1988 to 1994)

- Consulting Actuary
- More than two thousand actuaries and employee benefits professionals world-wide

Professional Memberships

Fellow of the Society of Actuaries (1994)

Enrolled Actuary (1995)

Fellow of the Conference of Consulting Actuaries (2003)

Professional Activity

SOA Course 8-R Committee Member: 2000-2003

Enrolled Actuaries Meeting Committee Member: 2003-2004

Speeches, Papers, and Panels

Pension Funding Targets and Strategies

Enrolled Actuaries Meeting, March 2004

The Importance of Defined Benefit Plans

Chicago Bar Association Employee Benefits Committee, February 2004

Understanding 1 417(a)(3)-1 Relative Value Regulations

Chicago Consulting Actuaries Continuing Education Program, February 2004

Major Provisions of the Pension Stability Act

Chicago Consulting Actuaries Continuing Education Program, January 2004

FAS 132 Revised Disclosure Requirements for Retirement Plans

Chicago Consulting Actuaries Continuing Education Program, January 2004

Retirement Benefits Update

Blue Cross and Blue Shield Association Webcast, December 2003

Is Pension Accounting Broken?

Article published in *The Actuary*, October 2003

Creative Approaches to Defined Benefit Plan Funding

Chicago Chapter of WEB Network May 2003

Retirement Nondiscrimination Testing

Blue Cross and Blue Shield Association Annual Benefits Conference, April 2002

Actuarial Aspects of QDROs

Chicago Consulting Actuaries Continuing Education Program, January 2002

Phased Retirement

Chicago Consulting Actuaries Continuing Education Program, October 2001

FICA Taxation of Non-qualified Deferred Compensation

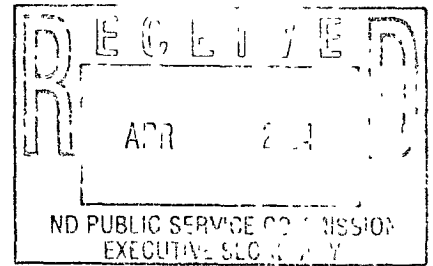
Chicago Consulting Actuaries Continuing Education Program, February 2001

Lump Sum Calculations under IRC Section 415

Chicago Consulting Actuaries Continuing Education Program, July, 2000

RESPONSE TO

REQUEST FOR PROPOSAL



FREE STATE SYNERGIES

REVIEW OF SALARIES, PENSION MEDICAL AND OTHER BENEFITS OF
MONTANA DAKOTA UTILITIES

ON BEHALF OF NORTH DAKOTA PUBLIC SERVICE COMMISSION

APRIL 12, 2004

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Response to Request for Proposal

Free State Synergies

Free State Synergies
James M. Proctor
4803 Hallbrook Dr.
Lawrence, KS 66047

April 12, 2004

Ms. Illona A. Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismark, North Dakota 58505-0480

Dear Ms. Illona A. Jeffcoat-Sacco:

On behalf of Free State Synergies (FSS), I am pleased to respond to the Request for Proposal (Case No. PU-04-97) issued by the Staff of the North Dakota Public Service Commission (NDPSC), seeking regulatory expertise to address the reasonableness of Montana-Dakota Utilities Co's (MDU) proposed labor and related benefit costs within the context of its gas rate increase request.

FSS has substantial regulatory and expert witness experience and is well positioned to successfully complete this project on behalf of the NDPSC Staff. Both David Dittmore (Project Manager for this engagement) and James Proctor have addressed payroll and benefit issues in testimony on numerous occasions. For your convenience I have attached a copy of testimony I submitted in July, 2003 on behalf of the Staff of the Kansas Corporation Commission addressing recovery of post-retirement benefits other than pensions and post-employment benefits, pension expense and employee medical benefits for a large natural gas utility.

Resumes for Mr. Dittmore and Mr. Proctor are contained within this proposal. As you will note, Mr. Dittmore and Mr. Proctor have approximately fifteen and twenty years of regulatory experience respectively. Each has served as Director of Utilities and Chief Auditor for a state regulatory commission.

The task and responsibilities of the FSS team members are as follows:

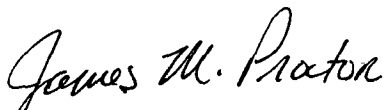
David Dittmore -- Mr. Dittmore will serve as Project Manager for this engagement. He will analyze and submit expert witness testimony in the area of Salary Expense Supplemental Pension Expense for Key Employees and Other Labor Costs proposed by MDU.

James Proctor - Mr. Proctor will analyze and submit expert witness testimony in the areas of Pension and post-retirement Medical Insurance.

FSS has submitted a proposed work plan for this engagement and has included it within this proposal. FSS states that neither Mr. Proctor nor Mr. Dittmore have any conflicts which would disqualify them from participation in this proceeding and will promptly sign any required statement confirming this fact. Further, FSS is in compliance with the Americans with Disabilities Act of 1991.

A Cost Proposal is also included within this response. The proposal of FSS encompasses the entire scope of work requested by the NDPSC. For purposes of this proposal, the bid should not be considered separable between the individual tasks set forth in the RFP. If FSS has misjudged the work scope for this project envisioned by NDPSC Staff, the final bid price may be negotiated. The FSS bid encompasses the entire work scope set forth within the RFP. If you have any questions concerning this Response, please do not hesitate to contact me at 785-550-4774.

Sincerely,



James M. Proctor
President
Free State Synergies

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Background

On March 3, 2004 MDU filed a rate increase proposal with the NDPSC seeking an overall increase in excess of \$3.3 Million which, if adopted would result in an increase for Residential and General Service customers of 3.5% and 2.3%, respectively. MDU serves approximately 85,600 customers in 76 communities throughout the state. This filing is made just 14 months after the NDPSC approved a \$1.9 Million increase. Subsequently rates were reduced in September, 2003 to resolve the outstanding issue of depreciation.¹

In the present filing, MDU is using a 2005 projected test period as permitted by state law. MDU sites rising labor and benefit costs as the primary driver for the requested increase. In pre-filed testimony, Mr. Imsdahl indicates union wage increases reflect a recent wage agreement for union employees, designed to raise wages to market levels by 2006. For non-union employees, Mr. Imsdahl indicates pay wage increases were increased over a phase in approach beginning in 2003, based upon the results of a study by the Hay Group. Ms. Mulkern supports an expense adjustment to increase 2003 labor costs by 6.82% and 5.35% for 2004 and 2005, respectively.

Mr. Conley of Tower Perrin has submitted testimony supporting the existing levels of executive compensation. Mr. Conley identifies a number of reference sources relied upon in developing his conclusion that executive compensation of MDU is just and reasonable. Mr. Conley also advocates for the recovery of MDU's Supplemental Income Security Plan (SISP), a plan designed to supplement the retirement income of executive employees that is otherwise subject to IRS limitations within the traditional "Qualified" Pension plans.

The NDPSC is seeking consulting services to assist Staff with its review of the prudence of Salary Expense, Pension Expense, Medical Insurance, Supplemental Pension Expense for Key Employees and Other Labor Costs.

FSS will work closely with NDPSC Staff in its investigation and will provide monthly reports identifying the progress of the investigation. FSS will also participate in conference calls as requested by NDPSC Staff. For purposes of developing the Work Plan, FSS has assumed it will have off-site access to all underlying studies and reports supporting MDU's recommended labor and benefit costs. FSS will promptly execute any necessary confidentiality agreements in order to promptly obtain this information. FSS will initiate a comprehensive set of discovery shortly after execution of a consulting agreement. FSS will issue as much discovery as necessary to obtain the data and information required to present comprehensive report of the issues in this proceeding.

In conjunction with input and advise from NDPSC Staff, FSS analysis of Labor, Pension, Medical, Supplemental Pension Expense and Other Labor Costs will culminate in expert

¹ FSS also notes that MDU's electric utility was granted a \$1.0 Million increase effective January, 2004.

witness testimony. Both Mr. Dittmore and Mr. Proctor will support their pre-filed written testimony in a technical hearing before the NDPSC.

The procedural schedule calls for written testimony to be filed July 6th. Both Mr. Dittmore and Mr. Proctor have extensive experience reviewing technical testimony and therefore both understand the need to submit draft testimony to NDPSC Staff sufficiently early to permit their review prior to the July 6th deadline. FSS will assist the NDPSC Staff in the preparation of cross-examination questions and in the drafting of post-hearing briefs.

Work Plans

**Salary Expense
Supplemental Pension Expense for Key Employees
Other Labor Costs
(RFP Items 1, 4 and 5) David Dittmore
Purpose of Audit Program**

The purpose of this portion of the audit program is to; a) identify the compensation elements for executive management and their respective costs, b) identify and evaluate the reasonableness of existing and forecasted compensation and non-pension/medical benefit costs for non-executive employees (union and non-union), c) evaluate the reasonableness of executive compensation salary, Supplemental Income Security Plan (SISP) and Other executive benefits in the context of MDU's existing operating environment.

The assessment of the adequacy of compensation is somewhat subjective, but is a task that must be carefully considered to ensure just and reasonable rates for consumers. MDU has sponsored the testimony of Mr. Paul W. Conley of Tower Perrin (TP) in support of its executive compensation costs. Mr. Conley cites a number of studies and (TP) data base information indicating MDU executive compensation approximates the industry average. MDU witness Ms. Mulkern supports the adjustment to forecast payroll for the 2005 test period. Ms. Mulkern indicates that the 2004 budget was used to estimate 2004 labor costs, plus a three year average for bonuses, resulting in a 6.82% increase over 2003 labor costs. Ms. Mulkern does not indicate how she arrived at the 2005 projected labor costs, however she indicates a 5.35% increase is used in her calculations.

With respect to all labor (executive and non-executive) costs it is important to gain a historical perspective on such costs and changes in management philosophy (if any) that have resulted in significant changes in such costs. The justification for any significant executive compensation increase should be carefully examined to determine whether such increase is premised upon utility performance both from a stockholder and ratepayer perspective. TP studies should be evaluated to determine whether utilities may be omitted from its executive studies.

Bonuses should be evaluated to determine the corporate philosophy for this compensation element and to evaluate whether the prerequisites for issuing bonuses is consistent with the interests of ratepayers. For example, if meeting earnings targets are the only criteria for issuing executive bonuses, increased costs could result, putting pressure on the company to seek yet another rate increase. The criteria for issuing bonuses should be carefully evaluated in the context of MDU's ability to manage costs and its recent history of seeking rate increases and other readily available performance measures that may be available at the NDPSC.

By definition, Supplemental Pension such as the SISP plan briefly discussed in Mr. Conley's testimony represent benefits beyond those generally available to the majority of employees under qualified pension plans. Unqualified plans, such as the SISP have different characteristics than the more traditional qualified plans. Funding requirements do not exist for nonqualified plans, nor are benefits generally guaranteed to recipients. Costs of such plans also do not carry the same tax advantages as qualified plans.

MDU's 2003 10K indicates the company has benefit plans that provided a defined benefit payment to key employees upon retirement or to beneficiaries upon death for a fifteen year period. The total cost of this plan was \$5.3 Million in 2003.

Audit Steps

Labor Costs

1. Projected labor rate increases for union employees should be traced to existing union agreements.
2. Labor costs within the operating budgets should be obtained and traced to the labor data within the application.
3. The assumptions within the 2004 and 2005 budgets should be identified and evaluated for reasonableness with historical benchmarks.
4. The projected labor distribution will be compared with prior years' labor distribution.
5. With respect to labor allocated between jurisdiction, evaluate the reasonableness of the allocation methodology and confirm the data used in developing the ratios.
6. Obtain and evaluate reports contained within the testimony of Mr. Conley. Identify and evaluate any assumptions used in Mr. Conley's report and consider their application to MDU.

7. Identify utilities not incorporated within Mr. Conley's report(s) and obtain publicly available executive compensation and compare with the average compensation of comparable executives contained within Mr. Conley's studies.
8. Obtain any publicly available information on utility performance on file with the NDPSC and evaluate in the context of executive management compensation.
9. Identify executive compensation increases over the past five years to gain a historical perspective of such costs.
10. Evaluate executive compensation increases relative to attaining innovative cost reductions and/or operational efficiencies.
11. Prepare Testimony

Other Labor Costs

FSS notes that MDU has a stock incentive compensation plan and that it has adopted SFAS 123. FSS will discuss the historical regulatory treatment afforded these costs by the NDPSC. Based upon this discussion, and once the relative magnitude of stock incentive compensation costs are determined within this proceeding, FSS will develop more specific audit steps to evaluate stock incentive plans.

With respect to Bonuses provided to employees, FSS will perform the following audit steps;

1. Obtain a copy of internal MDU documentation discussing the rationale and prerequisites for issuing bonuses to the various employee classifications.
2. Evaluate whether the criteria is consistent with ratepayer interests.
3. Determine the historical level of bonuses issued by employee classification over the past five years.
4. Consider the implications for issuing bonuses relative to MDU's ability to achieve rate stability.
5. Evaluate the allocation methodology used to assign bonuses to MDU's North Dakota jurisdiction.
6. Prepare written testimony.

Supplemental Pension Expense for Key Employees (Supplemental Income Security Plan)

1. Gain an understanding of the nature of the benefit and the assumptions inherent in the computation of annual expense. FSS will evaluate the assumptions for reasonableness.
2. Evaluate the potential volatility of such costs and consider whether the proposed test year expense reflects a normalized level of such costs.
3. Obtain written copies of the benefit plans and evaluate the likelihood that such benefits will actually be provided to key executives.
4. Examine the level of funding of these benefits and the implications of the funding on the appropriate regulatory treatment for these costs.
5. Review TP reports relative to non-qualified plans.
6. Evaluate any eligibility requirements for receiving the benefits.
7. Consider whether such costs should be eligible for ratepayer recovery given MDU's overall operating environment.
8. Prepare Testimony.

Postretirement and Pension Benefits (RFP Items 2, and 3) James Proctor Purpose of Audit Program

The purpose of the audit program is to gain an understanding of the company's pension and postretirement benefit plans, the extent of employees covered by the plans, a history of the plans, and the increase over time of the plans' costs to the company.

There are many factors that drive the cost of health care. If a health plan is self insured, an auditor needs to know what factors may be causing the rise in health care to determine if the cost of health care cost in the test year is reasonable compared to prior years. The factors causing the rise in health care and the demographics of the company's retired employees will help in explaining the causes of the increase in postretirement benefits and whether the test year postretirement benefit costs are reasonable.

Knowing when the company began amortizing the Transition Benefit Obligation and for how long helps in determining whether the amortization will end sometime soon

(causing postretirement benefit costs to decrease) or whether the company has years of amortization remaining.

In January 2004, the FASB tentatively decided to allow a company to recognize the benefits from the 2003 Medicare Act all at once or over a period of years. Knowing which method the company adopted might help explain for a large decrease in its postretirement benefit obligation at the end of 2003 or 2004. The decrease in the benefit obligation would have to be examined to see if it influenced current year postretirement benefit costs and an adjustment may need to be made to make the test year more representative of a normal year.

Knowing whether the company records the difference between the expected return on assets and actual return on assets or uses the mark to market method (amortization of the difference over a period of up to five years) is needed to determine whether the current test year pension or postretirement benefit costs need to be adjusted to make the test year more representative of a normal year.

Preparing a multi year spreadsheet of pension and postretirement costs helps in determining the trend of costs and whether the test year costs are reasonable.

Audit Steps

1. Review a copy of the filing, applicable company testimony, and the pension and postretirement benefit adjustments.
2. Issue data requests requesting general ledgers, actuarial reports, general ledger accounts the pension and postretirement costs are recorded in, etc.
3. Determine when various plan amendments went into effect over the last five years.
4. Determine if the health plan is self-insured.
5. If health plan is self insured, issue data requests specifically for self-insured health plans.
6. Determine what percentage of health plan expense is paid by employer, employee, and retired employee.
7. Determine if the entire company is being examined. If no, determine what divisions are to be examined. Issue data requests asking for allocation percentages for divisions that are being examined.
8. Determine when the company adopted FASB 106.

9. Determine when the Transition Benefit Obligation was recorded on the books and over what period of time it is being amortized.
10. Determine if the company recorded a one-time adjustment to reflect a reduction in prescription costs because of the Medicare Act Congress passed in December 2003 or whether the company amortizes the reduction to the postretirement benefit obligation.
11. Determine if the difference between expected return on assets and actual return on assets are booked in the year it occurs or amortized. If amortized, tie in the amortized amount for each year on the actuarial reports.
12. Tie in pension and postretirement benefit cost and amortization of the Transition Benefit Obligation from general ledger to actuarial reports and to the filing.
13. Prepare a spreadsheet for pension and postretirement benefit cost, plan assets, and discount rate that covers the test year and the four preceding years.
14. Do a trend analysis of the pension and postretirement benefit costs. Obtain an understanding of the pension and health plans, and determine if the test year costs are reasonable.
15. Issue data requests asking the company for explanations of questions that arise from performing the trend analysis.
16. Issue follow up data requests.
17. Prepare testimony.

Resume of James M. Proctor

Section I: General Qualifications

Mr. Proctor has twenty years experience in regulating public utility companies for two state utility commissions and as a regulatory consultant primarily to state regulatory agencies. As Director of the Public Utility Division of the Oklahoma Corporation Commission ("OCC"), as Chief of Accounting and Financial Analysis for the Kansas Corporation Commission ("KCC") and as a consultant to other state utility commissions, Mr. Proctor has been instrumental in formulating regulatory policy. While Director of the OCC Staff he directed staff's development and presentation of technical and policy recommendations before the OCC in the regulation of natural gas, electric and telecommunication utilities. As Chief of Accounting and Financial Analysis for the KCC, he managed the preparation of testimony and communication before the commission related to regulatory matters involving accounting, financial analysis and quantitative analysis. As Director, Regulatory Policy and Analysis of EnerTran Technology Company, Mr. Proctor was responsible for developing strategic regulatory policy and assisting EnerTran's principles in various aspects of the development of non-utility power generation projects. Most recently, Mr. Proctor has been providing consulting services to primarily regulatory agencies as a regulatory consultant. As a consultant, he provides financial, accounting and policy consulting services regarding the regulation of electric, gas and telecommunications utilities. This consulting experience includes several assignments involving mergers and acquisitions of utilities, generally, and more specifically regarding identifying and quantifying merger synergies and evaluating acquisition premiums.

Mr. Proctor has substantial experience over his career in the regulation of telecommunication utilities. This experience includes rate making, alternative forms of regulation, estimating the market value of telecommunications assets, developing rules for the implementation of local telephone competition and the unbundling of costs and rates.

Section II: Education

BBA Washburn University of Topeka, Kansas
Majors: Accounting and Mathematics, 1978

MBA University of Kansas
Majors: Corporate Finance and Operations Research, 1984

Section III: Work Experience

COMMISSION EXPERIENCE 1984-1993

Kansas Corporation Commission, 1984 -1990 Served as an expert staff witness before the Kansas Corporation Commission in numerous proceedings concerning financial and accounting and regulatory policy issues for electric, natural gas and telecommunication utilities. Some of those cases are provided below.

Kansas City Power and Light Company, 1985 (Kansas) Testimony concerning adjustments to rate base and operating income statement, and evaluation of company's economic forecasting models.

Peoples Natural Gas Company, 1986 (Kansas). Testimony concerning the determination of hypothetical capital structure.

Union Gas Systems, Inc., 1987 (Kansas) Testimony concerning adjustments to operating income statement and estimation of return on equity.

Kansas Power and Light Company, 1988 (Kansas) Testimony concerning a cash working capital lead-lag study and weather normalization.

Kansas City Power and Light Company, 1988 (Kansas) Testimony concerning policy matters including: adjustments to rate base and income statement; recoverability of cost deferrals on excess investment in Wolf Creek Nuclear Plant; and, SFAS No. 71 issues related to phase-in of plant costs.

Kansas Gas and Electric Company, 1989 (Kansas) Testimony concerning the impact on ratepayers and shareholders from orders issued relative to the commercial operation of Wolf Creek Nuclear Plant including the: present value of rate increase to customers; present value impact to shareholder equity from orders; and, comparison of market returns for company equity and utility industry during commercial operation of Wolf Creek.

Kansas Gas and Electric Company, 1989 (Kansas) Testimony concerning a cash working capital lead-lag study, weather normalization and capital structure.

Kansas Gas and Electric Company, 1989 (Kansas) Testimony for quantifying excessive fuel costs during unscheduled outages at Wolf Creek.

Oklahoma Corporation Commission, 1990 -1993 Served as an expert staff witness before the Oklahoma Corporation Commission in numerous proceedings concerning financial and accounting and regulatory policy issues for electric, natural gas and telecommunication utilities. Some of those cases are provided below.

Southwestern Bell Telephone Company, 1991 (Oklahoma) Testimony concerning rate reduction, rate refunds, network modernization investments and policy.

Oklahoma Gas and Electric Company, 1991 (Oklahoma) Testimony concerning return on equity.

Southwestern Bell Telephone Company, 1991 (Oklahoma) Testimony concerning return on equity.

Arkansas Louisiana Gas Company, 1992 (Oklahoma) Testimony concerning interim rate relief regarding revenue requirements, return on equity and policy.

Oklahoma Gas and Electric Company, 1992 (Oklahoma). Testimony concerning policy matters including the following: motivation for show-cause investigation into rates; allocation of Cogeneration Capacity Related Costs; treatment of costs for acquisition premium related to Enogex pipeline; financial integrity and quality of service; retroactive ratemaking and interim rates; and, impact of rate decrease on market value of common stock.

Oklahoma Natural Gas Company, 1992 (Oklahoma) Testimony concerning interim rate relief regarding revenue requirements, return on equity and policy.

CONSULTING EXPERIENCE 1993 – Current

Cincinnati Bell Telephone Company, 1993 (Ohio). Served as project manager and provided testimony for a review of a proposed alternative regulatory plan on behalf of the City of Cincinnati.

Arizona Property Taxation Laws, Valuation of Telecommunications Property, 1993 (Arizona) Performed financial analysis for the Arizona Department of Revenue (ADOR) to review the current definitions of telecommunications companies in Arizona, and issues related to the valuation of telecommunications properties based upon such definitions.

US West Telephone Company, 1993 (Minnesota). Managed a staff of consultants in the review of the financial impact of alternative forms of regulation on the rates and earnings for a three period for the Minnesota PUC (1991-1993)

Cincinnati Bell Telephone Company, 1994 (Ohio). Served as project manager and filed testimony at the Ohio Commission regarding the review of alternative forms of regulation on behalf of the City of Cincinnati.

Citizens Utilities, 1994 (Arizona) Managed the review and preparation of a report regarding the financial valuation of utility investment in telecommunication assets on behalf of the Arizona Department of Revenue.

EnerTran Technology Company, 1994 (Illinois). Managed the development of regulatory strategy at the Illinois Commerce Commission and Federal Energy Regulatory Commission for implementation of an independent power project for Corn Products Corporation.

Ener Tran Technology Company, 1995 (Illinois). Managed the development of regulatory strategy at the Illinois Commerce Commission and Federal Energy Regulatory Commission for implementation of an independent power project for Mobil Oil Corporation.

Southwestern Bell Corporation, 1995 (Oklahoma). Advised the Oklahoma Corporation Commission regarding the resolution and settlement of a rate case involving Southwestern Bell Telephone Company. Settlement involved customer refunds of \$175 million and rate reductions of \$90 million.

Local Telephone Competition, 1996 (Oklahoma). Prepared recommendations for the Oklahoma Corporation Commission concerning rules for the implementation of local telephone competition.

Kansas Gas and Electric Company, 1996 (Kansas). Audited electric rate case application and filed revenue requirement testimony at the Kansas Corporation Commission on behalf of Commission Staff.

Kansas Power and Light Company, 1996 (Kansas). Audited electric rate case application and filed revenue requirement testimony at the Kansas Corporation Commission on behalf of Commission Staff.

Oklahoma Natural Gas Company, 1997 (Oklahoma). Audited gas contracts for prudence and prepared a series of reports for the Oklahoma Corporation Commission concerning findings.

Kansas City Power and Light Company, 1997 (Kansas). Audited electric rate case application and filed revenue requirement testimony at the Kansas Corporation Commission on behalf of Commission Staff.

Merger of Western Resources and Kansas City Power and Light Company, 1997-1998 (Kansas). Managed the Commission Staff financial and accounting review of a merger application before the Kansas Corporation Commission. Issues involved all matters related to accounting and financial analysis of corporate restructuring and merger synergy analysis for regulated and unregulated operations.

Local Natural Gas Distribution and Transportation Competition, 1998 (Oklahoma). Prepared recommendations for the Oklahoma Corporation Commission concerning rules for the implementation of local competition for natural gas.

Amended Merger of Western Resources and Kansas City Power and Light Company, 1998-1999 (Kansas). Managed the Commission Staff financial and accounting review of a merger application before the Kansas Corporation Commission and filed testimony concerning recommendations. Issues involved all matters related to accounting and financial analysis of corporate restructuring and merger synergy analysis for regulated and unregulated operations.

Merger Agreement of Utilicorp United, Inc. and Empire District Electric Company 1999-2000 (Missouri) Consulting to Utilicorp United, Inc. to advise them on identifying and quantifying merger synergies; and to advise them on state and federal regulatory policy issues related to electric utility mergers, generally.

Merger Agreement of Utilicorp United, Inc. and Saint Joseph Light and Power Company, 1999-2000 (Missouri) Consulting to Utilicorp United, Inc. to advise company on identifying and quantifying merger synergies and other financial matters; and to advise them on state and federal regulatory policy issues related to electric utility mergers, generally.

Merger Proposal of Southern Union Gas Company for Southwest Gas Company 1999-2000 (Texas, Arizona, California and Nevada) Consulted to Southern Union Gas Company on state and federal regulatory policy issues related to gas utility mergers, generally.

Aquila Energy Corporation, 2000 Provided consulting services to Aquila Energy regarding utility regulation, generally, and specifically with regard to competitive gas businesses. Also, advised company regarding acquisitions of electric generation facilities.

Kansas Power & Light Company, 2000-2001 (Kansas) Audited electric rate case application and filed revenue requirement testimony at the Kansas Corporation Commission on behalf of Commission Staff.

Kansas Gas & Electric Company, 2000-2001 (Kansas) Audited electric rate case application and filed revenue requirement testimony at the Kansas Corporation Commission on behalf of Commission Staff.

Merger Agreement of Western Resources, Inc. and Public Service of New Mexico, 2001 (Kansas) Includes financial and accounting review of merger application. Issues involved include matters related to accounting and financial analysis of corporate restructuring and merger synergy analysis for regulated and unregulated operations.

Oklahoma Natural Gas Company, 2001-2002 (Oklahoma) Consulted to consumer group seeking relief from improper and excessive gas contract costs due to gas contract entered into above market prices for natural gas. Consumer group received refunds and other benefits of \$48 million.

Westar Energy, Inc., 2001-2003 (Kansas) Provided comprehensive testimony over a series of regulatory proceedings regarding diversified corporate structure and affiliate issues. Largely, the KCC relied on my testimony of financial analysis of Westar's diversified corporate structure to prepare its findings and conclusions in its review. I conducted financial analyses including studies of Westar and its non-utility affiliates' cash flow, to determine debt and assets properly attributable to utility and non-utility businesses.

Utilicorp, Inc / Aquila, Inc., 2001-2003 (Kansas) Provide advisory services to the Kansas Corporation Commission concerning the corporate structure and reorganization of Utilicorp Inc. and Aquila, Inc. Included financial analysis and affiliate/utility issues regarding non-utility subsidies and inter-affiliate allocations and transactions.

Kansas Gas Service Company, 2003 (Kansas) Audit and provide testimony on retail rate case issues.

Haviland Telephone Company, 2003 (Kansas) Audit and provide testimony on retail rate case issues.

Advisor on General Commission Caseload, 2001-ongoing (Kansas) Provide on-going consulting services to the Kansas Corporation Commission Advisory Council regarding financial, accounting and regulatory policy matters related to commission proceedings.

Section IV: Work History

1984-1987 **Kansas Corporation Commission**
Senior Auditor and Financial Analyst, Responsibilities involved supervising audits of utilities, preparing return on equity analysis

and provision of written and oral testimony in regulatory proceedings.

1987-1990

Kansas Corporation Commission

Chief of Accounting and Financial Analysis, Responsibilities involved hiring, training and supervising accounting and finance staff. Also, prepared expert testimony regarding complex accounting, financial and policy matters before the Commission.

1990-1993

Oklahoma Corporation Commission

Director of the Public Utility Division, Responsibilities involved administering division operations, developing regulatory policy and testifying before the Commission and legislature regarding utility regulation.

1993-1994

Overland Consulting, Inc.

Director of Financial Analysis, Primary responsibilities included being the project manager for consulting engagements involving telecommunications utilities and directing the financial analysis used in the firm's consulting projects.

1994-1995:

EnerTran Technology Company

Director, Regulatory Policy and Analysis, Responsible for developing and directing regulatory strategy and financial analysis relating to competition in the generation and transmission of electricity. Also, responsible for developing initiatives to implement regulatory policy change at state commissions.

1995-Present:

Regulatory Consultant Provides financial, accounting and policy consulting services regarding the regulation of electric, gas and telecommunications utilities.

Section V: References

Mr. Scott Hempling, Attorney
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Phone: (301) 681-4669

Chairman Bob Anthony
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405-521-2262

Commissioner Brian Moline
Kansas Corporation Commission
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Susan Cunningham
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Kansas Corporation Commission
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John McNish
Chief Advisory Council
Kansas Corporation Commission
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David Dittimore
President, Strategic Regulatory Solutions LLC
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ddittimore@cox.net

Areas of Expertise

- Analysis of Utility Revenue Requirement Proposals
- Analysis of Utility Mergers and Acquisitions
- Expert Witness Testimony
- Regulatory Accounting and Finance Issues

Qualifications

My tenure with the KCC included holding the positions of Director of Utilities as well as Chief Auditor. In these positions, I directed the efforts of other regulators and gained a great deal of experience in conducting investigations, issuing discovery, conducting interviews designed to elicit information, identifying relevant regulatory issues, preparing testimony and defending the testimony in often contentious regulatory proceedings. I have experience as an expert witness, testifying an estimated 15 times on a number of topics, including revenue requirements, finance issues, regulatory accounting proposals, and general regulatory policy issues to name a few. I also have experience evaluating regulatory merger applications and developing associated policy recommendations. My regulatory experience encompasses the Electric, Natural Gas and Telecommunication industries.

Experience

Strategic Regulatory Solutions; 3/03 – Current

President; Provide written testimony on behalf of clients on a variety of regulatory issues. Perform prudence reviews on selected relevant issues as identified from review of utility operations. Conduct comprehensive revenue requirement analysis of utilities seeking rate increases. Analyze cost allocations and other affiliate transactions for reasonableness and consistency with established costing principles.

The Williams Companies; 2000 – 3/03

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

Worked with Business Development group on a number of focused projects to identify potential acquisition targets. Internal customers served included Legal, Business Development, Origination, Structure and Governmental Affairs.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Managed a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year. Interfaced with executive management in resolving disputes as well as communicating quarterly results through verbal presentation. Participated significantly in employee recruiting activity on behalf of Revenue Services.

Kansas Corporation Commission; 1984- 1995, 1996-1999 –

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Missouri Gas Energy (a division of Southern Union) 1995 - 1996

Senior Rate Manager 1995- 1996; Responsible for assembling all necessary data for first ever rate case filing by MGE; responded or reviewed hundreds of company responses to Missouri regulatory requests; directed and trained two regulatory analysts on rate case issues; developed revenue requirement model used in rate case filing; interfaced with on site regulatory auditors and coordinated all verbal requests for information;

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University; 1982
- Passed CPA exam; 1984 (Oklahoma certificate # 7562)

Personal Experience of David Dittmore

Sample of Revenue Requirement Analysis

Haviland Telephone Company (Docket No. 03-HVDT-664-RTS) - Performed a revenue requirement analysis of Haviland Telephone Company for purposes of determining the level of necessary intrastate subsidy. Areas of adjustment included rate base and various income statement issues. I also provided policy testimony on the issue of the applicant's proposed use of a hypothetical capital structure in the context of determining an appropriate level of income tax expense. Other issues included corporate overhead allocations and affiliated transactions.

CenturyTel Rate Case (Docket 03-041) - Provided testimony on behalf of the Arkansas Public Service Commission on corporate cost allocation ratios used to assign corporate costs to CenturyTel's Arkansas operations.

KGS Rate Case (Docket 03-KGSG-602-RTS) Performed a comprehensive analysis of affiliated transactions, including significant asset transfers resulting in prudence adjustments on behalf of the Staff of the Kansas Corporation Commission. This review also focused on corporate costs, and various other income statement issues. KGS is an operating division of OneOk.

Kansas Pipeline Partnership Rate Case As Chief Auditor, I was the lead witness in this highly controversial case involving an intrastate pipeline attempting to recover extended startup costs.

Peoples' Natural Gas Rate Case As Chief Auditor, I was the lead Staff witness supporting accounting and finance adjustment to the rate increase request of People's, a division of UtiliCorp. My analysis included a review of affiliated transactions.

Southwestern Bell Telephone As Chief Auditor, I supervised the work of Staff in its joint review (along with the FCC and other SBC State PUC Staffs), of SBC affiliate transactions.

Kansas Power and Light Gas Rate Case As Chief Auditor, I was the lead staff witness providing revenue requirement testimony. My analysis included an analysis of prudence of the company's offering discounts to retail customer load

Wholesale and Retail Open Access

While employed by The Williams Companies, I had occasion to provide due diligence on a number of investor owned utility companies, reporting on the regulatory environment in which they operated. I was responsible for identifying any roadblocks or opportunities for prospective structured wholesale power transactions.

In addition, I have and reported on a number of retail open access legislation and corresponding regulatory unbundling orders in various states of interest to The Williams Companies. Through this experience, I am very familiar with the variety of issues which surround open access implementation.

Cost Benefit Analysis

KG&E/KCPL Coal Settlement Litigation (2 Cases) As the Managing Auditor for the Kansas Corporation Commission, I performed a review of complex production cost models in order to determine the cost and benefits of KG&E buying out of long-term coal contracts. The project involved evaluating sensitivity analysis using probability studies.

Merger of Western Resources, Inc. and Kansas City Power and Light Company, 1997-1998 (Kansas). As Director of Utilities, I led the Staff investigation into the proposed WRI and KCPL merger, believed to be the first hostile takeover attempt in the utility industry. I presented the KCC Staff recommendation (lead Staff witness) and participated in a settlement agreement which resulted in a near unanimous settlement. The transaction was not consummated as a result of Western Resources' deteriorating financial condition.

Merger of Kansas Power and Light and Kansas Gas and Electric (1991) As Chief Auditor, I was the lead Staff witness and withstood cross examination on a number of issues, including acquisition premium recovery, estimated synergies from the transaction and a host of other accounting and policy issues.

Merger of UtiliCorp United (now Aquila) and Centel Electric (1991) As Chief Auditor, I provided staff testimony in the application of UtiliCorp to acquire the assets of Centel Electric. The impact of my testimony resulted in a refund to Centel customers.

References

Don Low
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Tim Thuston
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Mr. Bill Dennis
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Arkansas Public Service Commission
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Bill_Dennis@psc.state.ar.us

**Free State Synergies
Cost Proposal**

Case No PU-04-97

Before the North Dakota Public Service Commission

Evaluation of Salaries, Pensions, Medical Insurance, Supplemental Pension Expense and Other Labor Costs.

The bid shown below encompasses the provision of professional services as referenced in the RFP, including analysis, testimony (written and oral) and assistance with cross-examination and post-hearing brief preparation.

<u>Description</u>	<u>Hours</u>	<u>Rate</u>	<u>Cost</u>
James Proctor	112	175 \$	19,600
David Dittmore	225	125 \$	28,125
Travel Costs			
One Flight to Bismark for both Mr Proctor and Mr. Dittmore - Technical Hearing			
R/T Kansas City to Bismark			\$ 600
R/T Tulsa to Bismark			\$ 600
Lodging - Estimate 4 nights each consultant @ \$80			\$ 640
Per Diem (Will abide by N D rules) Estimate @ \$35/day - 4 days each			\$ 280
Incidentals, Fed Ex, Parking			\$ 75
Total Cost Proposal			\$ 49,920

Qualifications.

If a trip to Bismark is required to review discovery, the travel costs identified above shall be increased to compensate for the additional trip. The costs identified above assume all discovery requests will be shipped to the respective offices of Mr. Proctor and Mr. Dittmore. The bid is submitted as an offer for all services FSS reserves the right to modify the individual cost elements of this bid if the NDPSC desires that only certain tasks be contracted.

In the Matter of the Application of Kansas Gas)
Service, a Division of ONEOK, Inc. for Adjustment of)
its Natural Gas Rates in the State of Kansas)

Docket No.
03-KGSG-602-RTS

STATE CORPORATION COMMISSION

JUL 11 2003

 Docket
Room

REDACTED

DIRECT TESTIMONY

PREPARED BY

JAMES M. PROCTOR

ON BEHALF OF THE

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION STAFF

JULY 11, 2003

****CONFIDENTIAL INFORMATION HAS BEEN REMOVED****

1 **Q. Would you please state your name?**

2 A. My name is James M. Proctor.

3 **Q. What is your business address?**

4 A. My business address is 4803 Hallbrook Drive, Lawrence, Kansas 66047.

5 **Q. What is your occupation?**

6 A. I am a self-employed consultant.

7 **Q. What is your educational background?**

8 A. I have a Bachelor of Business Administration degree from Washburn University
9 with concentrations in Mathematics and Accounting. Also, I have a Masters of
10 Business Administration degree from the University of Kansas with
11 concentrations in Corporate Finance and Operations Research.

12 **Q. Would you please summarize your professional business experience?**

13 A. Yes. I have more than twenty years of experience in regulating public utility
14 companies for two state utility commissions and as a regulatory consultant
15 primarily to state regulatory agencies. This experience includes two and one-half
16 years as Director of the Public Utility Division Staff of the Oklahoma Corporation
17 Commission, and three and one-half years as Chief of Accounting and Financial
18 Analysis of the Kansas Corporation Commission ("Commission") Staff. I have
19 been actively involved in directing and managing investigations of the financial
20 books and records of telecommunications, electric, gas and water utilities. Also, I
21 have directed and managed other investigations related to special projects in
22 utility regulation, and directed, managed and performed various economic
23 analyses.

1 My consulting experience includes performing as Senior Manager and Director of
2 Financial Analysis for Overland Consulting, Inc. ("Overland") and as Director,
3 Regulatory Policy and Analysis for Enertran Technology Company ("Enertran").
4 While at Overland, my responsibilities included being the project manager for
5 consulting engagements involving telecommunications utilities and directing
6 financial analysis used in the firm's projects. While at Enertran, I provided
7 consulting services to Central and Southwest Company's unregulated energy
8 affiliate and to large industrial users of electricity in Minnesota, Wisconsin,
9 Illinois and Ohio. These responsibilities involved developing regulatory strategy
10 optimizing the client's likelihood of successful independent power project
11 development.

12 **Q. Have you previously testified before regulatory commissions and state**
13 **legislatures?**

14 A. Yes. I have testified on many occasions before this Commission and the
15 Oklahoma Corporation Commission. In addition, I have testified before the
16 Kansas and Oklahoma legislatures regarding public utilities regulation. I have
17 also directed and managed testimony presented before the Federal Energy
18 Regulatory Commission ("FERC") and other state regulatory commissions.

19 **Q. For what topics have you previously offered testimony?**

20 A. Topics and issues covered in my testimony before regulatory commissions have
21 included mergers and acquisitions, corporate structure, affiliate relationships, rate
22 base, operating income, actual and hypothetical capital structures, return on equity

1 estimation, applied regression and time series analysis, incentive regulation and
2 other alternative forms of regulation.

3 **Q. Mr. Proctor, for whom do you testify in this proceeding?**

4 A. I am testifying on behalf of the Utilities Division Staff (“Staff”) of the
5 Commission.

6 **Q. What is the purpose of this testimony?**

7 A. The purpose of this testimony is to support certain adjustments and other
8 recommendations that I propose for the Commission’s consideration in this
9 proceeding. Specifically, I am proposing adjustments and recommendations
10 concerning:

- 11 1) The post-retirement benefits other than pensions and post-employment
12 benefits;
- 13 2) pension expense;
- 14 3) employee medical benefits;
- 15 4) ONEOK, Inc. (“ONEOK”)’s general corporate overhead allocation
16 percentage used to allocate a portion of the corporate headquarters’
17 costs to its affiliate Kansas Gas Service Company (“KGS”); and,
- 18 5) interest synchronization.

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23 **Post-retirement Benefits Other Than Pensions and Post-employment**

Benefits

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Q. Please discuss the adjustment to operating expenses for post-retirement benefits other than pensions and post-employment benefits.

A. For reasons I describe later, an allowable level of operating expense for post-retirement benefits other than pensions and for post-employment benefits (“PBOP”) consists of the sum of a ten-year amortization of a Commission authorized regulatory asset and a normal level, prospectively, for PBOP expense.¹ Through Staff Adjustment No. 20 to operating income, I decrease KGS’ proposed operating expenses by \$4,055,851 to represent an allowable level for ratemaking purposes.²

Q. Please explain why a regulatory asset was created with respect to PBOP expense.

A. In 1990 and 1992, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 106 and SFAS No. 112, respectively. These standards required employers who offer PBOPs for employees to account for expenses incurred for such PBOP plans using accrual accounting instead of cash basis accounting.³

It was generally expected that upon implementation of SFAS No. 106 and SFAS

¹ In my testimony I will refer to post-retirement benefits other than pensions and post-employment benefits, collectively, as PBOP for simplicity

² The calculation of the adjustment is attached to my testimony as Exhibit No. JMP-1, Schedule No.1. Staff witness Mr. Duzel Yates supports and explains an adjustment to the provision for deferred income tax expense related to this adjustment.

³ Prior to FASB issuing SFAS No. 106 and SFAS No. 112, many employers including regulated utilities accounted for PBOPs on a cash basis for financial reporting purposes. Also, utility rates for public utilities were set using a cash basis for PBOP expense

1 No. 112, the expenses recognized under the accrual accounting method would be
2 greater than those expensed under the cash basis accounting. Because utility rates
3 were set based on a cost of service incorporating cash basis accounting for PBOP
4 expense, it was common for regulated utilities to seek permission to establish
5 regulatory assets for future recovery for the sum of the differences, annually,
6 between the PBOP expense to be recorded on an accrual basis and the cash basis
7 level incorporated in their utility rates.

8 Western Resources, Inc., ("WRI") the predecessor of KGS, sought and received
9 authority from the Commission to establish a regulatory asset for future recovery
10 for the sum of the differences, annually, between the PBOP expense to be
11 recorded on an accrual basis and the cash basis level.⁴ These orders instructed the
12 company as to the proper costs and benefits to be deferred in the regulatory asset
13 account. KGS sought and received Commission authority for the same regulatory
14 treatment granted to its predecessor, WRI, for the deferral and recovery of the
15 differences, annually, between the PBOP expense to be recorded on an accrual
16 basis and the cash basis level.⁵

17 **Q. Please explain how you calculated the adjustment to PBOP expense of**
18 **\$4,055,851.**

19 **A. The adjustment to PBOP expense consists of the sum of two components. That is,**
20 **the adjustment consists of: (1) one component related to the determination of and**
21 **the amortization for the Commission authorized regulatory asset accrued**
22 **historically (i.e., the recovery for past expenses in rates); and, (2) another**

⁴ Please see orders issued in Docket No. 184,753-U on June 28, 1993, and Docket No. 190,352-U on May 3, 1994

⁵ Please see Order No 13 in Docket No. 97-WSRG-486-MER issued October 22, 1997

1 component related to determining a normal level of PBOP expense, prospectively
2 (i.e., the recovery of a normal level of future expenses in rates). The first
3 component of the \$4,055,851 adjustment to operating expenses decreases KGS'
4 proposed operating expense by \$2,100,383 and the second component of the
5 adjustment decreases KGS' proposed operating expense by \$1,955,468

6 **Regulatory Asset Component of PBOP Expense Adjustment**

7 **Q. Please explain the first component of your adjustment to PBOP expense**
8 **related to the regulatory asset.**

9 A. KGS seeks to recover \$3,860,259 annually through rates to account for the
10 amortization of the regulatory asset accumulated over time. Staff proposes to
11 decrease this annual collection to \$1,759,876. The difference between KGS'
12 proposal and Staff's proposal amounts to the \$2,100,383 adjustment mentioned
13 above.

14 Staff is proposing three changes to the amortization expense proposed by KGS.
15 The three changes include:

- 16 1) The cut-off date at which the regulatory asset is measured for
17 determination of the adjustment;
- 18 2) the cumulative net loss from WRI's Company Owned Life Insurance
19 ("COLI") program; and,
- 20 3) the amortization period for the regulatory asset.

21 **Q. What is the difference in the cut-off dates used by KGS and Staff for**
22 **determining the regulatory asset?**

23 A. In calculation of the amortization expense for the regulatory asset, KGS and Staff

1 used the accumulated balance for the regulatory asset at September 30, 2003, and
2 December 31, 2002, respectively.⁶ KGS selected this cut-off date because it
3 reasoned that under its proposal, it could be made whole for the additions to the
4 regulatory asset up through the time new rates would be implemented.

5 Under ordinary circumstances, Staff believes it is reasonable to allow the
6 additions to the regulatory asset only through December 31, 2002. This is a
7 generous allowance, given that it allows KGS to accumulate balances in the
8 regulatory asset account for four months beyond the end of the test year.

9 However, in KGS' case, Staff asserts the Commission absolutely cannot allow
10 additions to the regulatory asset for purposes of this adjustment past December
11 31, 2002. Further additions cannot be allowed because Staff learned that certain
12 changes are being made to decrease the benefits provided and increase premiums
13 charged retirees under ONEOK's benefit plans for current retirees and for new
14 hires retiring in the future.⁷

15 These changes to the retirees' benefit packages are important because the
16 determination of additions to the regulatory asset account beyond December 31,
17 2002, depend on the accuracy of the "Postretirement Benefit Valuation Report

⁶ Even though KGS proposes to use September 30, 2003, as the cut-off date for determination of the balance for the regulatory asset, it made a calculation error in its adjustment work papers. The net effect of its error was to exclude two months of cumulative debits to the regulatory asset balance (\$480,806)

⁷ Please see Exhibit No. JMP-2 for the letter sent to a KGS retiree in May 2003, announcing that KGS was placing a freeze on new retirees enrolling in its postretirement plan effective July 1, 2003. Staff issued certain data requests to examine the impact of the information contained in the letter on PBOP cost, but because of the discovery cut-off, was unable to fully explore the issues. It appears that KGS' responses to these data requests may conflict with the information enclosed with the attached letter. Because Staff was not able to fully discover and review the apparent conflicts, Staff based its adjustment to PBOP expense, discussed later in my testimony, on the information supplied in the letter. Staff will have additional opportunity to investigate and discover the "conflicts" in response to KGS' rebuttal testimony, should the company respond to the Staff adjustment. If KGS rebuts Staff's proposed adjustment to the Commission's satisfaction, the Commission should accept Staff's alternate proposal for PBOP expense explained later in my testimony

1 Under SFAS 106" ("Valuation Report") prepared for ONOEK for the calendar
2 year 2003. The Valuation Report, among other information, includes the
3 determination of the net periodic postretirement benefit cost for 2003. The
4 additions to the regulatory asset for 2003 are based on the difference between the
5 cash basis level of benefit costs and the net periodic postretirement benefit cost
6 calculated in the Valuation Report. Because the benefit packages for current
7 retirees and for new hires who will retire in the future are being decreased and
8 these reduced benefits are not incorporated in the Valuation Report for 2003, the
9 estimate for the net periodic postretirement benefit cost calculated in the
10 Valuation Report is inaccurate and likely excessive. Therefore, additions to the
11 regulatory asset beyond December 31, 2002 based, in part, on the Valuation
12 Report would be in error and should not be allowed for ratemaking purposes.

13 **Q. What effect does WRI's COLI program have on the regulatory asset?**

14 A. Pursuant to the Commission orders issued to WRI and ONEOK granting the
15 authority for establishing the regulatory asset, KGS is required to adjust the
16 additions, annually, to the regulatory asset to account for the net income or loss
17 from WRI's COLI program.⁸ The cumulative loss for WRI's COLI program was
18 \$10,582 as of the date of ONEOK's acquisition of KGS. Therefore, the regulatory
19 asset needs to be increased by \$10,582 to comply with the commission's
20 requirements.

21 **Q. Please explain the effect the regulatory asset's amortization period has on the**
22 **adjustment.**

⁸ The orders issued in Docket No. 184,753-U on June 28, 1993, and Docket No. 190,352-U on May 3, 1994 extensively discuss the COLI program

1 A. KGS and Staff propose amortization periods for the regulatory asset of five and
2 ten years, respectively. Increasing the amortization period from five to ten years,
3 as proposed by Staff, decreases the annual expense level incorporated into the
4 KGS cost of service.

5 **Q. Does increasing the amortization period harm KGS?**

6 A. No, but it does decrease the impact of the amortization on the rates of KGS'
7 customers. It is common for commissions to grant utilities authority for regulatory
8 assets because a utility incurs some level of cash expenditure for which recovery
9 is delayed into the future. Usually, but not always, these expenditures are deferred
10 for future recovery without allowing for interest or other cost of capital charges to
11 be accrued for the utility during the deferral and amortization period. When the
12 recovery of cash expenditures is delayed into the future without allowing interest
13 or other cost of capital charges to be accrued during the deferral and amortization
14 period, the length of the amortization period is crucial for the utility being made
15 nearly whole for the economic cost incurred for the cash expenditure.

16 In this case, KGS has been allowed to establish a regulatory asset for future
17 recovery for the sum of the differences, annually, between the PBOP expense to
18 be recorded on an accrual basis and the cash basis level.⁹ That is, the sum of the
19 annual deferrals creating the regulatory asset represents the difference between
20 the PBOP expense level and a cash expense level. As a result, the incremental
21 amount deferred, annually, and added to the regulatory asset's balance is for non-
22 cash expenses. Because the amortization expense allows for the recovery of a

⁹ A cash basis level represents the retiree health, dental and life insurance claims KGS pays in the current year. Among other factors, the accrual basis considers the health, dental, and life insurance claims that retirees will incur and KGS will pay in the future.

1 non-cash expense, KGS is not harmed from increasing the amortization period
2 from five to ten years. The Commission should adopt the longer amortization
3 period in order to minimize the impact on ratepayers for such expenses caused,
4 solely, from the recording of non-cash expenses required by SFAS No.106 and
5 SFAS No.112

6 **Q. Do you have any other comments about the component of this adjustment**
7 **relating to the determination of and recovery for the regulatory asset?**

8 A. Yes. The amount of amortization expense for the regulatory asset determined to
9 be appropriate by the Commission should only be recovered through KGS' rates
10 if, and only if, KGS establishes an external funding mechanism for these non-cash
11 expenses.¹⁰ To do otherwise would permit KGS to recover, through the collection
12 of the amortization for non-cash expenses in rates, cost free capital from
13 ratepayers and then use that capital to benefit shareholders of ONEOK.¹¹
14 Also, pursuant to ¶11 of the Commission order issued in Docket No. 184,753-U
15 on June 28, 1993, the Commission found "...Western Resources [KGS] shall be
16 required to externally fund..." the costs allowed to be deferred and recovered
17 pursuant to commission authority.

18 **Prospective Component of PBOP Expense Adjustment (Proposed Scenario)**

19 **Q. Please discuss the component of Staff's adjustment for PBOP expense related**
20 **to determining a normal level of PBOP expense, prospectively.**

¹⁰ KGS and Staff propose amortization expense of \$3,860,259 and \$1,759,876, respectively. Neither amount should be collected through KGS' rates unless the amount is deposited in an external fund.

¹¹ If the recovery of non-cash expenses were not placed in an external fund, KGS would be able to use the cash for various purposes, benefiting shareholders, until the retirees claims were incurred and paid-out in the future. Placing the proceeds from the recovery of non-cash expenses in an external fund allows ratepayers to benefit from the investment of and return on their contributions to fund assets

1 A. KGS seeks to recover an additional \$2,699,276, annually through rates to account
2 for the difference, prospectively, between the net periodic postretirement benefit
3 cost determined in the Valuation Report for 2003 and the cash basis amount of
4 PBOP expense for the test year. Staff proposes to decrease this collection
5 annually to an additional \$743,808. The difference between KGS' proposal and
6 Staff's proposal amounts to the \$1,955,468 adjustment mentioned earlier in my
7 testimony.

8 **Q. What accounts for the difference between KGS' and Staff's adjustments for**
9 **PBOP expense related to determining a normal level of PBOP expense,**
10 **prospectively?**

11 A. Staff asserts that the estimate of net periodic postretirement benefit cost
12 determined in the Valuation Report for 2003 is in error due to the changes in
13 assumptions regarding future retirees' decreased eligibility, and the greater
14 premiums and reduced benefits discussed above for current retirees. Because of
15 these factors, the Commission should not rely on KGS' estimate of that expense
16 for ratemaking purposes. Instead, Staff proposes to allow recovery, prospectively,
17 of the adjusted actual cash basis level of PBOP expense through current rates.
18 In that vein, as mentioned above, Staff proposes to increase the recorded test year
19 cash basis level of PBOP expense by \$743,808. Staff's adjustment to increase the
20 recorded test year cash basis level of PBOP expense by \$743,808 corrects the
21 company's recorded balance of PBOP expense for certain recording errors during
22 the test year.¹²

23 **Q. Under Staff's proposal, is there a need to allow KGS to defer and accumulate**

¹² The bookkeeping errors are discussed and quantified in Exhibit No JMP-1, Schedule No.1

1 costs in a “new” regulatory asset account for review in the next rate case?

2 A. Yes. Staff is proposing that KGS incorporate, prospectively, \$3,760,240 of test
3 year adjusted PBOP expense in rates.¹³ If the Commission adopts Staff’s
4 recommendation, KGS should be allowed to continue use of the previously
5 granted authority to defer certain costs in a “new” regulatory asset account,
6 prospectively, for review and potential recovery through rates in its next rate
7 case.¹⁴ This treatment would allow KGS to continue to be made whole for
8 recovery of the difference between PBOP expense recorded on an accrual basis
9 and a cash basis.

10 The “new” regulatory asset should begin accounting for the difference between
11 the accrual basis and cash basis with the calendar year 2003, and continue through
12 the test year for the next KGS rate case. However, because KGS does not have an
13 accurate Valuation Report for 2003, the deferral recorded to the “new” regulatory
14 asset for 2003 should be based on the positive or negative difference between the
15 actual cash basis level of PBOP expense and the \$3,760,240 level allowed in
16 current rates. That is, if the actual cash basis level of PBOP expense for 2003 is
17 greater than \$3,760,240, KGS should be allowed to debit the “new” regulatory
18 asset for the difference. Alternatively, if the actual cash basis level of PBOP
19 expense for 2003 is less than \$3,760,240, KGS should be required to credit the
20 “new” regulatory asset for the difference. For years after 2003, the deferral added

¹³ Staff’s proposal of \$3,760,240 for prospective PBOP costs includes an actual amount recorded for the test year of \$3,016,432, and Staff’s adjustment for bookkeeping errors of \$743,808 ($\$3,760,240 = \$3,016,432 + \$743,808$).

¹⁴ I refer to the regulatory asset, here, as “new” in order to distinguish the current proposal to establish a regulatory asset from the authority granted KGS in previous Commission orders. Also, the “new” regulatory asset should be recorded in a separate sub-account from the “old” regulatory asset for tracking and ratemaking purposes

1 to the “new” regulatory asset should be the differences, annually, between the
2 PBOP expense to be recorded on an accrual basis and the cash basis level. The
3 PBOP expense to be recorded on an accrual basis for years after 2003 should be
4 based on externally developed valuation reports.

5 **Prospective Component of PBOP Expense Adjustment (Alternate Scenario)**

6 **Q. Does Staff have an alternative proposal for the component of Staff’s**
7 **adjustment for PBOP expense related to determining a normal level of PBOP**
8 **expense, prospectively, if the Commission does not want to continue the use**
9 **of the regulatory asset going forward?**

10 A. Yes. If the Commission does not adopt Staff’s preferred recommendation for the
11 allowance of a normal level of PBOP expense, prospectively, then the
12 Commission should adopt a scenario using the net periodic postretirement benefit
13 cost based on the Valuation Reports for the test year months instead of the
14 Valuation Report for 2003. Under this approach, Staff recommends KGS should
15 recover an additional \$1,850,332 annually through rates to account for the
16 difference, prospectively, between net periodic postretirement benefit cost for the
17 test year months, as determined using the Valuation Report(s) for 2001 and 2002,
18 and the cash basis amount of PBOP expense actually recorded for the test year.¹⁵
19 Using this method, Staff’s adjustment to the KGS recommendation for the
20 allowance of a normal level of PBOP expense, prospectively, is decreased from
21 the \$1,955,468 adjustment mentioned earlier in my testimony to \$848,944.

¹⁵ The calculation for net periodic postretirement benefit cost for the test year months, as determined using the Valuation Report(s) for 2001 and 2002, is presented in Exhibit No. JMP-1, Schedule No. 2, page 2 and then used in Exhibit No. JMP-1, Schedule No. 2, page 1 to compute the adjustment to decrease PBOP expense, prospectively, by \$848,944

1 **Q. Why use the net periodic postretirement benefit cost for the test year months**
2 **instead of the KGS proposal to use the amount as determined in the**
3 **Valuation Report for 2003?**

4 A. There are two reasons. First, based on the testimony I provided above, the net
5 periodic postretirement benefit cost as determined in the Valuation Report for
6 2003 and used by KGS for its adjustment, is not reliable. Therefore, it should not
7 be used as a basis for calculating this adjustment

8 Second, the net periodic postretirement benefit cost estimated for 2003 appears to
9 be abnormally high when compared to the amounts calculated for the years 1999-
10 2002. For the years 1999-2002, the amounts are \$6,839,359, \$7,010,893,
11 \$6,866,197 and \$7,285,229, respectively. However, for 2003 the net periodic
12 postretirement benefit cost is estimated at \$8,175,071.¹⁶ The percentage increase
13 in net periodic postretirement benefit cost for the three-year period from 1999 to
14 2002 is only 6.5%, or only 2.1% per year, and the increase for the one-year period
15 from 2002 to 2003 is 12.2%.¹⁷ It appears that the increase in net periodic
16 postretirement benefit cost for the one-year period for 2002 to 2003 of 12.2% may
17 be excessive compared to the three-year change of only 6.5%. One might argue
18 that medical costs and other postretirement benefit costs are increasing and the
19 KGS work force is aging. However, because that argument holds also for the
20 period of 1999 to 2002, it does not explain what appears to be an excessive and

¹⁶ These amounts for net periodic postretirement benefit cost are based on the total amount for KGS. Unless specified otherwise, other numerical values listed in my testimony for KGS are for only the Kansas portion of KGS. To derive the Kansas portion of these amounts, one needs to multiply the gross amounts by 93.3%. I used the gross amounts, here, to simplify the discussion. However, there is no impact to the percentage relationships discussed because of the simplification

¹⁷ The calculation for the percentage increase in the net periodic postretirement benefit cost from 1999 to 2002 is $[(\$7,285,229 - \$6,839,359) - 1 = 6.5\%]$ and for 2002 to 2003 is $[(\$8,175,071 - \$7,285,229) - 1 = 12.2\%]$

1 abnormal increase in costs from 2002 to 2003.

2 **Q. Do you have a concern about using the net periodic postretirement benefit**
3 **cost as calculated for the test period using the Valuation Reports for 2001**
4 **and 2002?**

5 A. Yes, I do. Because of my concern, this alternative proposal for determining an
6 adjustment to incorporate a normal level of PBOP expense, prospectively, in
7 KGS' rates is inferior to the preferred approach discussed above.

8 My concern is that the Valuation Reports for 2001 and 2002 must not incorporate
9 the recent initiatives of ONEOK to decrease eligibility, increase premiums and
10 reduce benefits for retirees as discussed above. Therefore, Staff believes that
11 using the net periodic postretirement benefit cost as calculated in those reports
12 should not be used for determining this adjustment. Though, having said that,
13 Staff believes its alternative approach will not overstate net periodic
14 postretirement benefit cost and, thus, a normal level of PBOP expense,
15 prospectively, as much as that proposed by KGS.

16 **Q. If the Commission adopts either Staff's alternative approach or the KGS**
17 **approach for computing a normal level of PBOP expense, prospectively, will**
18 **there be a need to establish a "new" regulatory asset for the years 2003**
19 **forward?**

20 A. No. If the Commission adopts either Staff's alternative approach or the KGS
21 approach for determining a normal level of PBOP expense, prospectively, there
22 will not be a need to establish a "new" regulatory asset. That is so because, under
23 either of these approaches, the PBOP expense, prospectively, is set using the

1

2 **Q. Please summarize your adjustment to operating expenses to normalize test**
3 **year pension expense.**

4 A. Through Staff Adjustment No. 21 to operating income, I decrease operating
5 expenses for KGS by \$1,806,777.¹⁸ The adjustment results from a difference
6 between the positions of Staff and KGS regarding a normalized level of pension
7 expense. KGS proposes to increase the test year pension expense by \$2,562,682,
8 based on an externally prepared actuarial study for 2003. Staff proposes to limit
9 the increase in pension expense to \$755,905 based on externally prepared
10 actuarial studies for the years 2001 through 2003. Thus, Staff's adjustment to
11 decrease the amount of pension expense allowed for ratemaking purposes is
12 \$1,806,777 ($\$2,562,682 - \$755,905 = \$1,806,777$).

13 **Q. What accounts for the difference between the proposals by Staff and KGS?**

14 A. Staff proposes to base its estimate of pension expense on the three-year average
15 for net periodic pension cost for the years 2001 through 2003. That average
16 amount of pension expense equals \$(2,821,983).¹⁹ KGS proposes to base its
17 estimate of pension expense on the net periodic pension cost for the year 2003.
18 That amount of pension expense KGS proposes equals \$(1,015,206).²⁰

19 **Q. Why does Staff believe it is more reliable to normalize pension expense based**
20 **on the three-year average of the net periodic pension cost for the years 2001**

¹⁸ The calculation of the adjustment is attached to my testimony as Exhibit No. JMP-3, Schedule No.1.

¹⁹ The three-year average of net periodic pension cost for the years 2001 through 2003 is \$(3,865,730). Only 73% of that amount is expensed. The remainder is capitalized. Therefore, the three-year average pension expense for the years 2001 through 2003 is [$\$(3,865,730) * 73\% = \$(2,821,983)$].

²⁰ The net periodic pension cost for the year 2003 is \$(1,390,693). Only 73% of that amount is expensed, the remainder is capitalized. Therefore, the pension expense for the year 2003 is [$\$(1,390,693) * 73\% = \$(1,015,206)$].

1 **through 2003 instead of the net periodic pension cost for the year 2003?**

2 A. The estimate for any particular year's net periodic pension cost is based largely on
3 the past and expected performance of the invested assets of the pension plan. In
4 recent years, there has been significant variability in the performance of the
5 capital asset markets, particularly with regards to the equity markets. As a result
6 of the capital markets' variability, the difference between the expected and actual
7 performance of the asset investments in ONEOK's pension plan has been
8 significant. In calendar years 2001 and 2002, the asset investments in ONEOK's
9 plan significantly under-performed expectations. The capital markets' volatility
10 and the underperformance of the assets in ONEOK's pension plan have been, in
11 part, responsible for the significant increase in the estimate for the net periodic
12 pension cost for 2003.²¹

13 When normalizing expenses for ratemaking purposes, one should attempt to
14 estimate a level of expense that is representative of that level of expense to be
15 incurred prospectively. In this particular case, KGS proposes to base a normal
16 level of pension expense on an estimate of net periodic pension cost for the year
17 2003. Yet, the estimate of net periodic pension cost for the year 2003 is not
18 representative of the level of net periodic pension cost ONEOK will incur on
19 average, prospectively, for the years rates set in this proceeding are effective. For
20 that matter, if the capitals markets begin performing better than expected in the

²¹ For the years 1999 through 2002, the net periodic pension cost was \$(5,807,000), \$(6,063,000), \$(6,097,000) and \$(4,879,000), respectively. For the year 2003, the net periodic pension cost is \$(1,454,000). These amounts for net periodic pension cost are based on the total amount for KGS. To derive the Kansas portion of these amounts, one needs to multiply the gross amounts by 93.3%. I used the gross amounts, here, to simplify the discussion. However, there is no impact to the percentage relationships discussed because of the simplification.

1 assumptions used by ONEOK's consultant for developing estimates for 2003, the
2 net periodic pension cost could be significantly lower (i.e., a larger negative
3 expense) than that level advocated by KGS.

4 **Q. Why did you choose to normalize pension expense by using a three-year**
5 **average of net periodic pension cost instead of some other period?**

6 A I considered using the five-year average net periodic pension cost for the period
7 from 1999 through 2003 for normalizing pension expense. Using a five-year
8 average for net periodic pension cost would have resulted in Staff's adjustment
9 being \$488,115 greater than as proposed here.²² However, based on the method
10 used by ONEOK's consultants for valuing plan assets in the calculation of net
11 periodic pension cost for 2003, I determined it was inappropriate to use the five-
12 year average. The calculation of the value of plan assets for ONEOK's pension
13 plan is distorted because of a five-year smoothing adjustment for the difference
14 between the expected and actual return on asset values for previous years. This
15 smoothing adjustment is incorporated into the calculation of net periodic pension
16 cost, thus, the impact from years in which the difference between the expected
17 and actual return on asset values are significant become minimized in the current
18 year's estimates. If Staff would have used the five-year average, the impact from
19 the asset investments in ONEOK's plan significantly under-performing
20 expectations during 2001 and 2002 would not have been appropriately reflected in
21 Staff's adjustment.

²² The five-year average of net periodic pension cost for 1999 through 2003 is \$(4,860,000). The three-year average of net periodic pension cost for 2001 through 2003 used in Staff's adjustment is \$(4,143,333). Therefore, the difference between the adjustment proposed by Staff and one based on a five-year average is \$488,115 [$[(4,143,333) - (4,860,000) = 716,667] * (0.933 \text{ KS Factor}) * (0.73 \text{ Cap Ratio}) = 488,115$]

1 **Q. If the capital markets perform better than expected, will that tend to lower**
2 **net periodic pension cost in the future?**

3 A. Yes. For example, during the second quarter of 2003, the Standard & Poors'
4 Index of 500 Stocks increased by 14.9%.²³ If that trend continues, the plan's
5 assets will perform better than expected for the calculation of net periodic pension
6 cost, thus, decreasing future years' estimates of pension expense.

7 **Employee Benefits**

8
9 **Q. Please summarize your adjustment to operating expenses to normalize and**
10 **annualize test year employee benefits expense.**

11 A. Through Staff Adjustment No. 22 to operating income, I decrease operating
12 expenses by \$1,811,786.²⁴ The adjustment results from a difference between the
13 positions of Staff and KGS regarding a normalized and annualized level of
14 employee benefits expense. KGS proposes to increase the test year employee
15 benefits expense by \$917,952 based on an internally prepared estimate of
16 employee benefit cost for 2003. Staff proposes to decrease the test year employee
17 benefit expense by \$893,835 based on a review of the level of employee benefit
18 cost for the years 1998 through 2003. Thus, Staff's adjustment to decrease the
19 amount of employee benefit expense allowed for ratemaking purposes is
20 \$1,811,786 [$\$917,952 - \$(893,835) = \$1,811,786$]²⁵.

21 **Q. What accounts for the difference between the proposals by Staff and KGS?**

²³ The S&P 500 Index at June 30, 2003 and March 31, 2003 was 974.5 and 848.18, respectively. Based on those values the percentage increase for the second quarter of 2003 was 14.9% [$(974.5 - 848.18) - 1.0 = 14.9\%$]

²⁴ The calculation of the adjustment is attached to my testimony as Exhibit No. JMP-4, Schedule No. 1

²⁵ The calculation here is off by one dollar due to rounding of additives

1 A Staff proposes to base its (annualized) estimate of employee benefit expense for
2 the test year on the average (normalized) relationship between the employee
3 benefit cost for the first five months of a calendar year, historically, to each
4 respective calendar years total employee benefit cost. That is, I calculated the
5 percentage of employee benefit cost incurred in each of the years 1998 through
6 2002 for the first five months of the year, averaged those percentages and, then,
7 divided the actual amount of employee benefit cost incurred by KGS for the first
8 five months of 2003 by that average percentage. This method yields an adjusted
9 test year level of employee benefit expense of \$5,151,176.²⁶ KGS proposes to
10 base its estimate of employee benefit expense for the test year on an internally
11 generated estimate for 2003. That method yields an adjusted test year level of
12 employee benefit expense of \$6,962,962.²⁷

13 **Q Why does Staff believe it is more reliable to annualize and normalize**
14 **employee benefit expense based on its method?**

15 A. When comparing the actual KGS employee benefit cost for 2002 to those levels
16 for 1998 through 2001, Staff became concerned that the actual employee benefit
17 cost for 2002 might be abnormally high.²⁸ The percentage increase in employee
18 benefit cost for the whole three-year period from 1998 through 2001 was only
19 7%, or only 2.3% per year, but the percentage increase in employee benefit cost

²⁶ The employee benefit cost calculated under this method is \$7,056,405. Only 73% of that amount is expensed, the remainder is capitalized. Therefore, the employee benefit expense for the test year is [$\$7,056,405 * 73\% = \$5,151,176$].

²⁷ The employee benefit cost calculated under this method is \$9,538,304. Only 73% of that amount is expensed, the remainder is capitalized. Therefore, the employee benefit expense for the test year is [$\$9,538,304 * 73\% = \$6,962,962$].

²⁸ The actual employee benefit cost for 2002 was \$9,652,843. The actual employee benefit cost for the years 1998 through 2001 were \$6,585,469, \$7,025,092, \$6,844,132 and \$7,043,344, respectively.

1 for only one year from 2001 to 2002 was 37%.²⁹ Staff was concerned because it
2 appeared that the KGS estimate for employee benefit cost for 2003 of \$9,493,715
3 might have been, largely, based on the actual employee benefit cost for 2002 of
4 \$9,652,843. Regardless of the bases for the KGS estimate of the 2003 employee
5 benefit cost, it appeared abnormal given the patterns for previous years, and
6 needed further scrutiny because KGS proposed to set prospective rates based on
7 that estimate.

8 **Q. Why did you choose to annualize an estimate for test year employee benefit**
9 **expense based on the first five months of actual employee benefit cost for**
10 **2003?**

11 A. I discovered from examining actual employee benefit costs for the years 1998
12 through 2002 that the first five months of the year, on average, represented
13 41.72% of the years employee benefit cost.³⁰ When I examined the actual
14 employee benefit costs for the first five months of 2003, a different outcome was
15 discovered. The first five months of 2003 represented only 31% of the employee
16 benefit cost KGS estimated for the year. This discovery was alarming because the
17 31% statistic represented an amount more than five standard deviations from the
18 mean of 41.72%.³¹ Therefore, I concluded the KGS estimate for 2003 was likely

²⁹ The percentage increase for the years 1998 through 2001 is $[(\$7,043,344 - \$6,585,469) - 1.0 = 7\%]$ The percentage increase for the year 2001 through 2002 is $[(\$9,652,843 - \$7,043,344) - 1.0 = 37\%]$.

³⁰ Further, the percentages for the five years ranged from 39.2% to 44.9% and had a standard deviation of only 1.95%

³¹ The derivation for the finding that employee benefit costs for the first five months of the year, on average, represented 41.72% of the years employee benefit cost is in Exhibit No. JMP-4, Schedule No.1. The number of standard deviations from the mean is calculated by subtracting the percentage of employee benefit cost that the first five months of 2003's actual costs represent of the KGS' estimate of employee benefit cost for the whole year of 2003, from the average percentage of actual employee benefit costs for the years 1998 through 2002 that occurred during the first five months of the year, and then divide by the

1 excessive and should not be used for determining rates.

2 **Q. Is there any other indication that employee benefit costs for the first five**
3 **months should represent 41% to 42% of any years' costs?**

4 A. Yes. There are, on average, 151.25 days in the first five calendar months of the
5 year. If one divides that number of days by 365.25 days in an average year, the
6 calculation results in 41.4%. So, it appears that it should not be atypical for
7 41.72% of a years employee benefit costs to be incurred during the first five
8 months of the year.

9

10 **General Corporate Overhead Allocation Percentage**

11

12 **Q. Please summarize your adjustment to the general corporate overhead**
13 **allocation percentage used to allocate certain indirect costs incurred by the**
14 **ONEOK corporate headquarters to KGS.**

15 A. Staff proposes to base the derivation of its general corporate overhead allocation
16 percentage ("Staff's factor") on three input criteria. Those criteria include
17 operating revenues ("revenues"), earnings before interest, income taxes,
18 depreciation and amortization ("EBITDA") and total assets ("assets").³² Staff's
19 factor is determined from summing the percentages that each of its three input
20 criteria for KGS represents of the total ONEOK revenues, EBITDA and assets,
21 respectively, and then dividing the sum by three. This analysis derives Staff's

standard deviation of the sample. That is, the 31% amount for 2003 is 5.5 standard deviations from the mean of 41.72% $[(41.72\% - 31\%) \div 1.95 = 5.5]$

³² Assets exclude cash and inter-company accounts receivable, notes receivable and investments

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

(case title and number) MDU
Gas Rate Increase Application
PU -04-97

PROTECTIVE AGREEMENT

I understand that the Commission has granted Trade Secret protection to certain information filed by MDU in the captioned matter. I agree to keep the designated information confidential and to be bound by the terms of this agreement, North Dakota Administrative Code chapter 69-02-09, and any Commission order regarding trade secret protection issued in this case

I intend to review the following trade secret information:

testimony

Dated: 8/30/04


(signature of person reviewing information)

WARNING: A violation of this agreement may subject the violator to civil and criminal liability.

cgclprotagmt

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

(case title and number) *MDU Natural Gas
Rate Case
Pd -04-97*

PROTECTIVE AGREEMENT

I understand that the Commission has granted Trade Secret protection to certain information filed by *MDU* in the captioned matter. I agree to keep the designated information confidential and to be bound by the terms of this agreement, North Dakota Administrative Code chapter 69-02-09, and any Commission order regarding trade secret protection issued in this case.

I intend to review the following trade secret information:

Document #70 MDU

Dated: *8-25-04*

Alvin Wefald
(signature of person reviewing information)

WARNING: A violation of this agreement may subject the violator to civil and criminal liability.



STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

(case title and number) *MOU Natural Gas
Rate Case
PU-04-97*

PROTECTIVE AGREEMENT

I understand that the Commission has granted Trade Secret protection to certain information filed by *MOU* in the captioned matter. I agree to keep the designated information confidential and to be bound by the terms of this agreement, North Dakota Administrative Code chapter 69-02-09, and any Commission order regarding trade secret protection issued in this case.

I intend to review the following trade secret information:

testimony filed by MOU

Dated: *8-10-04*

[Signature]
(signature of person reviewing information)

WARNING: A violation of this agreement may subject the violator to civil and criminal liability.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

(case title and number) Monte Dale W. Co.
PU-04-97 Notice by State Director
appeal

PROTECTIVE AGREEMENT

I understand that the Commission has granted Trade Secret protection to certain information filed by Monte Dale W. Co. in the captioned matter. I agree to keep the designated information confidential and to be bound by the terms of this agreement, North Dakota Administrative Code chapter 69-02-09, and any Commission order regarding trade secret protection issued in this case

I intend to review the following trade secret information:

testimony page and exhibit page
filed as trade secret by MDO

Dated: 7-14-04

Jerry Levin - 8/6/04
William Beach
(signature of person reviewing information)
Antony Reed 8-10-04

WARNING: A violation of this agreement may subject the violator to civil and criminal liability

Trade Secret Material shredded

by Public Service Commission

02/16/2006

CC Comm Legal PUD (4) Mike



Public Service Commission
Receipt of Payment

Receipt# 6079

Received 12/21/2004 Check# 1035826 for \$13,248 03
Subject Utility Valuation

Docket # PU-04-97

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck ND 58501

142 PU-04-97

Pages 1

Receipt# 6,079 \$13,248 03

by Montana-Dakota Utilities Co , a Division of MDU Re

12/21/2004

APPROVED

DATE. 12-1-04
KMF

MOTION

December 1, 2004

Montana-Dakota Utilities Co
Natural Gas Rate Increase
Application

Case No PU-04-97

I move the Commission bill Montana-Dakota Utilities Co. for costs incurred to date in Case No. PU-04-97, Montana-Dakota Utilities Co , Natural Gas Rate Increase, Application.



Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

December 1, 2004

Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501

RE: Case No. PU-04-97
Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Enclosed is a copy of the statement approved at the December 1, 2004 Public Service Commission meeting for the expenses incurred to date in Case No. PU-04-97.

Under N.D.C.C. 49-02-02, these expenses are billed through the Valuation Fund and must be paid for by the company involved.

Please make your check payable to the Public Service Commission.

Sincerely,

A handwritten signature in black ink, appearing to read "Gloria Geiger".

Gloria Geiger
Administrative Staff Officer
701-328-2401

Enc.

Billing Statement

December 1, 2004

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

Expenses Incurred to Date:

Consulting Services	\$12,929.74
Office of Administrative Hearings	318.29

Amount Due:

Montana-Dakota Utilities Co.	\$13,248.03
------------------------------	-------------

Send Payment and a Copy of this Statement To:

Public Service Commission
600 E Boulevard Ave Dept 408
Bismarck ND 58505-0480

Federal Tax ID 45-0309764



Public Service Commission
State of North Dakota

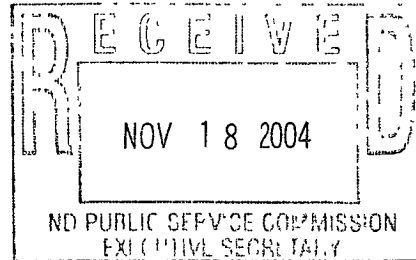
COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

November 8, 2004

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400



Charles King
Snavelly King Majoros O'Connor & Lee, Inc.
1220 L Street NW Suite 410
Washington DC 20005

Re. Contract No. PU-480-04
Case No. PU-04-97
Non-compensation issues – MDU increase in gas distribution rates

Dear Mr. King:

Our records indicate that all professional services under the terms of Contract No. PU-480-04 in Case No. PU-04-97 have been performed. Accordingly, we are preparing to close out the contract.

If you have any outstanding claims for service against this contract, please inform us immediately.

If you have no outstanding claims, please return this letter in the enclosed envelope with a note at the bottom stating so and a signature.

Sincerely,

Patrick Fahm
Chief Engineer

No further claims
Charles King

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Page 4

No outstanding claims

by Snavelly, King Majoros O'Connor & Lee, Inc.

11/18/2004 4:00pm Legal Illona Pat Jerry Annette Mike



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco

November 8, 2004

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

Charles King
Snavelly King Majoros O'Connor & Lee, Inc.
1220 L Street NW Suite 410
Washington DC 20005

Re: Contract No. PU-492-04
Case No. PU-04-97
Compensation issues – MDU increase in gas distribution rates

Dear Mr. King:

Enclosed is a final payment of \$1,250.99 under Contract No. PU-492-04 in Case No. PU-04-97. Your requests for reimbursement are equal to, or have exceeded, the amount designated by the contract.

You need not refund any of the \$1,294.11 airline ticket credit you referenced in your October 1, 2004 letter since your requests for reimbursement in this contract have exceeded the contract by more than value of the airline ticket credit.

Our records indicate that all professional services under the terms of Contract No. PU-492-04 have been performed. Therefore, the contract will be closed.

If you have any questions, please contact me at 701-328-4077.

Sincerely

Patrick Fahn
Chief Engineer



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Ilona A Jeffcoat-Sacco

November 8, 2004

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

Charles King
Snively King Majoros O'Connor & Lee, Inc.
1220 L Street NW Suite 410
Washington DC 20005

Re: Contract No. PU-480-04
Case No. PU-04-97
Non-compensation issues – MDU increase in gas distribution rates

Dear Mr. King:

Our records indicate that all professional services under the terms of Contract No. PU-480-04 in Case No. PU-04-97 have been performed. Accordingly, we are preparing to close out the contract.

If you have any outstanding claims for service against this contract, please inform us immediately.

If you have no outstanding claims, please return this letter in the enclosed envelope with a note at the bottom stating so and a signature.

Sincerely,

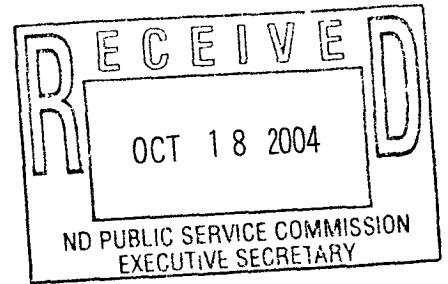
Patrick Fahn
Chief Engineer

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Pages 1

Letter to Snively re closing out of contract
PU-480-04
by Public Service Commission

11/08/2004omm Legal Ilona, Pat Jerry Annette Mike



October 8, 2004

Don Ball
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

Dear Don.

Pursuant to your request by e-mail, I am returning all of the material sent to us during the course of Docket No. PU-04-97 that was marked "Confidential" by your company.

I believe that this is a complete compilation. However, if there is anything missing, please let me know by e-mail at charlieking@snavely-king.com or by phone at 202-371-9156.

Sincerely,

Charles W. King

✓ cc: William Binek, Esq.

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Pages 1

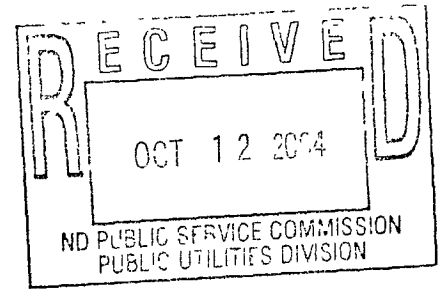
Copy of letter to MDU re returning
confidential material
by Snavely King Majoros O'Connor & Lee Inc

10/18/2004omm Legal Ilona Pat Jerry Annette Mike



October 7, 2004

Patrick Fahn
North Dakota Public Service Commission
12th Floor
State Capitol
Bismarck, ND 58505



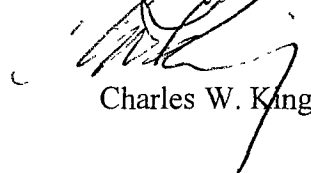
Dear Pat

This is in response to your question concerning the air fare bill that was attached to our invoice No. 7410, dated August 24, 2004. Your question concerns why, on August 16, an old ticket to Bismarck, valued at \$869.50, was exchanged for a new ticket costing \$1,294.11 plus a \$100 exchange fee.

The old ticket reflects our firm's practice of trying to minimize the cost of travel, in this case by taking advantage of early purchase discounts made available by the airlines. We purchased this ticket in early July (not sure of the exact date). At that time, I had thought that my family would be returning to our home in Alexandria, VA from our summer home in Maine during the time that I would be in Bismarck. Accordingly, I purchased a ticket from Bangor, ME that returned me to Washington National Airport. Unfortunately, our plans changed, and we decided not to return to Alexandria until Labor Day weekend, after the intended trip from Bismarck. For this reason, I exchanged the ticket returning to Washington for one returning to Bangor, ME. By that time, however, the early purchase discounts had expired, and the cost of the ticket jumped by \$524.61. We also incurred the \$100 change fee.

I hope this explanation is satisfactory. As noted in an earlier communication, this air fare will not incur any cost to the P.S.C. if, between now and next August, we can apply the credit to another Northwest Airlines flight.

Sincerely,



Charles W. King

136 PU-04-97

Pages 1

Response to question re air fare bill

by Public Service Commission

10/12/2004omm Legal Ilona, Pat, Jerry, Annette, Mike



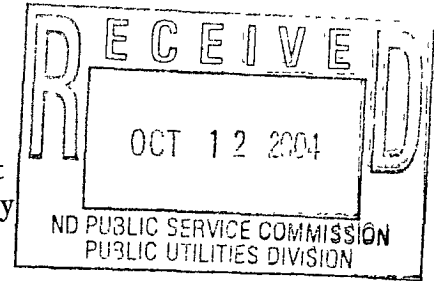
SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
 ECONOMIC AND MANAGEMENT CONSULTANTS

September 25, 2004

Michael Diller
 North Dakota Public Utilities Commission
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480

Our file # 2126
 Invoice #: 7451
 Billing through . 09/25/04

For services rendered during the month ending September 25, 2004 in connection with the compensation issues in North Dakota P S.C Docket No. PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates



FEES

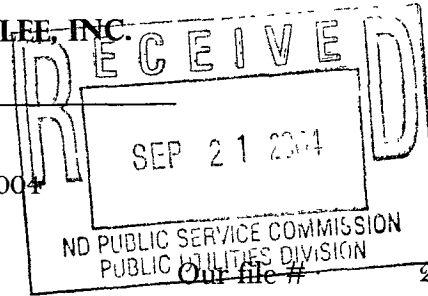
King, C.	7.50 hrs	135.00 /hr	1,012.50
Gildea, H	55.00 hrs	75.00 /hr	4,125.00
	TOTAL FEES	62.50 hrs	<u>\$5,137.50</u>
	TOTAL FEES		\$5,137.50
	TOTAL EXPENSES		\$0.00
	TOTAL AMOUNT DUE		<u>\$5,137.50</u>

ok to pay
[Signature]



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS

August 25, 2004



Our file # 2126
 Invoice #: 7410
 Billing through: 08/25/04

Michael Diller
 North Dakota Public Utilities Commission
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480

For services rendered during the month ending August 25, 2004 in connection with the compensation issues in North Dakota P.S.C Docket No. PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates.

FEES

King, C.	12.50 hrs	135 00 /hr	1,687.50
	TOTAL FEES	12 50 hrs	<u>\$1,687.50</u>

EXPENSES

Transportation, Commercial	1,394.11
Communications, Telephone	1.99
Delivery	53.57
	<u>\$1,449.67</u>
TOTAL FEES	\$1,687.50
TOTAL EXPENSES	\$1,449 67
TOTAL AMOUNT DUE	<u>\$3,137.17</u>

*OK to pay
 JJ*



Detailed Monthly Expense Report

Name Charles King For Period Beginning July 26, 09 Client/Dept. North Dakota BSC
 Identification Number BUN-12 Ending Aug 25, 09 Acct. No./ Activity 2-126

1. Date		8/16							Total
2. Place		BGR-Bismarck							
3. Transportation		BGR							
§1.	a. Air	1,394.11							
§1.	b. Rail/Bus								
	c. Intracity								
	d. Total	1394.11					1394.11		
4. Auto Rental									
§2.	5. Auto Personal								
6. Parking/Tolls									
7. Lodging									
8. Personal Meals									
§3.	a. Breakfast								
§3.	b. Lunch								
§3.	c. Dinner								
	d. Total								
9. Telephone/ Telegraph									
10. Miscellaneous Travel Expenses									
§4.	11. Business Meals								
§5.	12. Other Expenses								
13. Total Expenses		1394.11						1394.11	

Signed [Signature]

- §1. Attach MER-3
- §2. Attach MER-4
- §3. Attach MER-5 if meals include other SK&A employees
- §4. Attach MER-5
- §5. Attach MER-6

From: resfax <resfax@VTSTravel.com> [Add Address](#)
Subject: Travel Itinerary 29AUG BGR KING
Date: Mon, 16 Aug 2004 16 33 02 -0400
To: <CHARLIEKING@SNAVELY-KING.COM>

Attachments: 1

[Printer Friendly Version](#)



****Please do not reply to this e-mail****
****It will not go back to your travel counselor****

KING/CHARLES 16Aug04 04 31pm

Booking locator LTHM2M
Fare \$1294 11

29Aug04 12 01pm Sunday
Air Northwest Airlines Flight# 3405 Class B Seat 07D
From Bangor ME, USA 29Aug04 12 01pm Sunday
To Detroit Metro MI, USA 29Aug04 02 20pm Sunday
Meal None Equip British Aerospace RJ Status Confirmed

OPERATED BY MESABA AVIATION INC
Northwest Airlines locator LWU8PU
NW Frequent Flyer# NW 253906995*

29Aug04 03 04pm Sunday
Air Northwest Airlines Flight# 609 Class B
From Detroit Metro MI, USA 29Aug04 03 04pm Sunday
To Minneapolis St Pi MN, 29Aug04 03 57pm Sunday
Meal None Equip Boeing 757 Jet Status Confirmed

DEPARTS DTW TERMINAL EM - ARRIVES MSP TERMINAL L
Northwest Airlines locator LWU8PU
NW Frequent Flyer# NW 253906995*

SEAT UNDER AIRLINE CONTROL/CHECK-IN REQUIRED

29Aug04 05 00pm Sunday
Air Northwest Airlines Flight# 2987 Class B Seat 09A
From Minneapolis St Pi MN, 29Aug04 05.00pm Sunday
To Bismarck ND, USA 29Aug04 07 05pm Sunday
Meal None Equip Saab 340 Turboprop Status Confirmed

OPERATED BY MESABA AVIATION INC
DEPARTS MSP TERMINAL L
Northwest Airlines locator LWU8PU
NW Frequent Flyer# NW 253906995*

01Sep04 08 00am Wednesday
Air Northwest Airlines Flight# 454 Class B Seat 06D
From Bismarck ND, USA 01Sep04 08 00am Wednesday
To Minneapolis St Pi MN, 01Sep04 09 13am Wednesday
Meal None Equip McDonnell Douglas DC Status Confirmed

Northwest Airlines locator LWU8PU
NW Frequent Flyer# NW 253906995*

01Sep04 10 13am Wednesday
 Air Northwest Airlines Flight# 768 Class B Seat 07D
 From Minneapolis St PI MN, 01Sep04 10 13am Wednesday
 To Detroit Metro MI, USA 01Sep04 12 56pm Wednesday
 Meal None Equip: McDonnell Douglas DC Status Confirmed

DEPARTS MSP TERMINAL L - ARRIVES DTW TERMINAL EM
 Northwest Airlines locator LWU8PU
 NW Frequent Flyer# NW 253906995*

01Sep04 01 35pm Wednesday
 Air Northwest Airlines Flight# 3756 Class B Seat 03C
 From Detroit Metro MI, USA 01Sep04 01.35pm Wednesday
 To Bangor ME, USA 01Sep04 03 36pm Wednesday
 Meal None Equip CRJ-Canadair Regiona Status Confirmed

OPERATED BY NORTHWEST AIRLINK
 DEPARTS DTW TERMINAL EM
 Northwest Airlines locator. LWU8PU
 NW Frequent Flyer# NW 253906995*

01Sep04 Wednesday
 Car Pick Up City Bangor ME, USA
 Budget Rent A Car Type Compact Car Auto Ac
 Confirmation# 02622893US0 * Rate 54 15USD
 Drop Off 02Sep Thursday

Rate Info USD54 15Day-Ulmted FM Xtra Hr 18 06 Ulmted FM
 ZD213901603
 Dropoff Time 04 00pm

 ENROUTE EMERGENCIES MONDAY-FRIDAY 9AM-5PM EST CALL
 1-800-638-8029 ALL OTHER TIMES 1-800-335-7076
 AND USE CODE 4J6 - IF TRAVELING INTERNATIONALLY
 CALL 1-570-562-4241 COLLECT

THANK YOU FOR CHOOSING VTS TRAVEL DIRECT CYNTHIA
 THIS TICKET IS NON-REFUNDABLE/NON-TRANSFERABLE
 CHANGES TO THIS NON REFUNDABLE TICKET MAY RESULT IN
 FARE INCREASE PLUS \$100 00 AIRLINE SERVICE FEE

**** TICKET EXCHANGED 16AUG04 ****
 **** EXCHANGED TICKET NUMBER 0121210504251 ****
 **** NEW TICKET VALUE \$1294 11 ****
 **** OLD TICKET VALUE \$ 869 50 ****
 **** PENALTY \$100 00 ****
 **** ADDITIONAL COLLECTION \$ 524 61 ****

Ticket Information

KING/CHARLES
 Ticket# 0121210504392-393 Ticket Base Fare
 Invoice# 024398954 Ticket Tax
 Ticket Date 08/16/2004 Total Ticket Amount 1294 11
 Electronic YES



VTS Travel Direct
a VTS Travel Enterprises Inc. company

www.vtstraveldirect.com

1129 20TH STREET NW
SUITE 505
WASHINGTON DC 20037

CALENDAR REFERENCE: 28 ITINERARY/INVOICE NO. 28198754 DATE: AUG 17 2004
CUSTOMER NUMBER: 151041 TRAVELER NAME: LINDA LINDEN

TRAVELER: LINDA LINDEN MAIL RECEIPT
WINDROP/AND LEE INC
1100 E ST NW - STE 400
WASHINGTON DC 20005

FOR: LINDA/CHARLES

BE PREPARED TO SHOW A GOVERNMENT ISSUED PHOTO I.D. AT CHECK-IN

27 AUG 04 - SUNDAY

AIR NORTHWEST AIR 3405 COACH CLASS ARJ CONFIRMED
LV: BANGOR 1201P NONSTOP
AR: DETROIT/METRO 220P
SEAT- 7D
FREQ FLYER NW 253906995
OPERATED BY-MESABA AVIATION INC.

AIR NORTHWEST AIR 609 COACH CLASS 757 CONFIRMED
LV: DETROIT/METRO 304P NONSTOP
AR: MPLS/ST PAUL 357P
FREQ FLYER NW 253906995
SEAT UNDER AIRLINE CONTROL/CHECK-IN REQUIRED

AIR NORTHWEST AIR 2987 COACH CLASS SFB CONFIRMED
LV: MPLS./ST PAUL 500P NONSTOP
AR: BISMARCK 705P
SEAT- 9A
FREQ FLYER NW 253906995
OPERATED BY-MESABA AVIATION INC.

01 SEP 04 - WEDNESDAY

AIR NORTHWEST AIR 454 COACH CLASS D95 CONFIRMED
LV: BISMARCK 800A NONSTOP
AR: MPLS./ST PAUL 913A
SEAT- 6D
FREQ FLYER NW 253906995

AIR NORTHWEST AIR 766 COACH CLASS D95 CONFIRMED
LV: MPLS/ST PAUL 1013A NONSTOP
AR: DETROIT/METRO 1256P
SEAT- 7D
FREQ FLYER NW 253906995

ORIGINAL INVOICE

SALES PERSON: DM ITINERARY/INVOICE NO. 29073954 DATE: AUG 16 2004
 CUSTOMER ID#: 25104J BRANCH 041 ETHIOP PAGE 01

TRAVELING MAR BORDS MAIL RECEIPT
 DENNIE AND LFL INC
 1220 L ST NW - STE 410
 WASHINGTON DC 20005

FILE: LING/CHARLES

BE PREPARED TO SHOW A GOVERNMENT ISSUED PHOTO I.D. AT CHECK IN

01 SEP 04 - WEDNESDAY
 AIR NORTHWEST AIR 3756 COACH CLASS CRJ CONFIRMED
 LV: DETROIT/METRO 1:55P NONSTOP
 AR: BANGOR 3:36P
 SEAT- 3C
 FREQ FLYER NW 253906995
 OPERATED BY-NORTHWEST AIRLINE

CAR BUDGET 1 COMPACT 2/4 DR DROP-07SEP CONFIRMED
 PICK UP-BANGOR BANGOR INTL AIRPORT
 RATE- 54.15 DAILY GUARANTEED EXTRA HR 18.06
 MILEAGE-UNL/FM CODE-A7
 CONFIRMATION-02622693060

TICKET NUMBER:
 1210504092-093 AX YXXXXXXX2002 PRICE OF TICKET: 1394.11

EXCHANGED TICKET NUMBER:
 1210504251 AX YXXXXXXX2001 EXCH TKT VALUE: 829.50

TICKET PROCESSING CHARGE: 45.00
 NET CHARGED TO CARD: 567.61-

TOTAL AMOUNT DUE: 0.00

 ENROUTE EMERGENCIES MONDAY-FRIDAY 9AM-5PM EST CALL
 1-800-678-4029 ALL OTHER TIMES 1-800-335-7076
 AND USE CODE 406 - IF TRAVELING INTERNATIONALLY
 CALL 1-570-572-4041 COLLECT

 THANK YOU FOR CHOOSING VTS TRAVEL DIRECT.....CYNTHIA



www.vtstraveldirect.com

1124 20TH STREET NW
SUITE 105
WASHINGTON D.C. 20036

SALES PERSON: JM ITINERARY, INVOICE NO. 1438874 DATE: AUG 17 2004
CUSTOMER NAME: J51041 AIRLINE: DL LITHIUM FARE: US

TRAVELING MAJ BIRDS
CONNOR AND LEE INC
1700 E ST NW STE 410
WASHINGTON DC 20005

MAIL RECEIPT

FOR: LINDA/CHARLES

BE PREPARED TO SHOW A GOVERNMENT ISSUED PHOTO I.D. AT CHECK IN

THIS TICKET IS NON-REFUNDABLE/NON-TRANSFERABLE
CHANGES TO THIS NON-REFUNDABLE TICKET MAY RESULT IN
FARE INCREASE PLUS \$100.00 AIRLINE SERVICE FEE

***** TICKET EXCHANGED 16AUG04 *****
***** EXCHANGED TICKET NUMBER 0121210504251 *****
***** NEW TICKET VALUE \$1294.11 *****
***** OLD TICKET VALUE \$189.50 *****
***** PENALTY \$100.00 *****
***** ADDITIONAL COLLECTION \$514.61 *****

02 8212 6389

PASSENGER TICKET AND BAGGAGE CHECK

SUBJECT TO CONDITIONS OF CONTRACT

ISSUED BY ETKT

NORTHWEST AIRLINES INC

VTS TRAVEL DIRECT

KING/CHARLES

DATE OF ISSUE 16AUG04

PASSENGER RECEIPT 1 OF 1

5880/DINAZR /BOOKDINZM SITI US

DC

AD9698886

FARE BASIS

TOUR CODE

F3

NOT VALID FOR TRANSPORTATION THROUGHOUT YOUR JOURNEY
NON-REFUNDABLE/-PENALTY FOR CHANGES

ORIGINAL ISSUE 0121210504251 HAS02MAR0409696886
ISSUE IN CHANGE FOR 0121210504251
29AUG BGR NH X/DIT NH X/MSP NW BIS Q9.30 571.63B10BIZN NH X/MSP NW X/DTT NH BGR Q9.30
571.63B10BIZN USD 1161.86 END ZPBGRTWNSPBISSPDTW XT 18.60ZP 10.00AY 16.50XFBGR3DTH
4.5MSP4.5DTH4.5 A/C 524.61
FARE USD1161.86 EQUIV FARE PAID
TAX/FEES/CHARGE US87.15
TAX/FEES/CHARGE XT45.10
TOTAL USD1294.11

XXXXXXXXXXXX2002/ 148816 CC

STOCK CONTROL NUMBER TX 88931756921125 DOCUMENT NUMBER 0 012 1210504392 5

CARRIER/FLIGHT	CLASS/DATE	TIME
BGR		
DTW NH 3405 B	29AUGB10BIZN	
MSP NH 809 B	29AUGB10BIZN	
BIS NH 2987 B	29AUGB10BIZN	
MSP NH 454 B	01SEP10BIZN	
DTW NH 768 B	01SEP10BIZN	
BGR NH 3756 B	01SEP10BIZN	

ADDITIONAL SEAT INFORMATION
NOT VALID FOR TRAVEL
DOCUMENT NUMBER 012 1210504392 5

Account Number	Bill Date	Payment Due Date
030 237 1228 001	JUL 28, 2004	AUG 23, 2004



SNAVELEY KING & ASSOC
 1220 L ST NW STE 410
 WASHINGTON DC 20005-4018

Location: 011 024 2327 003

TELEPHONE NUMBER: 202 371 1111

AT&T All in One Service

Call Detail

For Customer Care: 1 877 325-0445

ITEM	DATE	TIME (hh:mm:ss)	DAY OF WEEK	PLACE	AREA CODE/ NUMBER	DURATION (hh:mm:ss)	CALL TYPE	AMOUNT
LONG DISTANCE SERVICE								
PRIMARY ACCOUNT CODE:				02125				
STATE-TO-STATE CALLS								
1	7/22/04	1:44:13P	THU	TO OLDGRNWICH CT	203 698-1989	4:00	DDC	0.57
SUBTOTAL						0:04:00		\$0.57
TOTALS FOR ACCOUNT CODE: 02125						0:04:00		\$0.57
PRIMARY ACCOUNT CODE:				02126				
STATE-TO-STATE CALLS								
2	7/12/04	11:18:41A	MON	TO BISMARCK	ND 701 222-7900	3:00	DDC	0.43
3	7/12/04	11:22:21A	MON	TO BISMARCK	ND 701 328-4088	2:00	DDC	0.28
4	7/12/04	11:24:04A	MON	TO BISMARCK	ND 701 328-4077	4:00	DDC	0.57
5	7/14/04	10:32:43A	WED	TO BISMARCK	ND 701 328-4088	4:00	DDC	0.57
6	7/14/04	2:00:53P	WED	TO BISMARCK	ND 701 328-4088	1:00	DDC	0.14
SUBTOTAL						0:14:00		\$1.99
TOTALS FOR ACCOUNT CODE: 02126						0:14:00		\$1.99
PRIMARY ACCOUNT CODE:				02127				
STATE-TO-STATE CALLS								
7	7/02/04	3:37:28P	FRI	TO OLYMPIA	WA 360 664-1365	2:00	DDC	0.28
SUBTOTAL						0:02:00		\$0.28
TOTALS FOR ACCOUNT CODE: 02127						0:02:00		\$0.28
PRIMARY ACCOUNT CODE:				02128				
STATE-TO-STATE CALLS								
8	7/09/04	9:30:10A	FRI	TO ATLANTA	GA 404 656-4549	2:00	DDC	0.28
SUBTOTAL						0:02:00		\$0.28
TOTALS FOR ACCOUNT CODE: 02128						0:02:00		\$0.28
PRIMARY ACCOUNT CODE:				02129				
STATE-TO-STATE CALLS								
9	7/14/04	4:11:10P	WED	TO DOVER	DE 302 739-3227	11:00	DDC	1.56
10	7/16/04	3:06:36P	FRI	TO DOVER	DE 302 739-3227	2:00	DDC	0.28
SUBTOTAL						0:13:00		\$1.84
TOTALS FOR ACCOUNT CODE: 02129						0:13:00		\$1.84

AT&T Call Type Information:
 DDC-Direct Dialed Call
 CCS-Calling Card Station Call

CCO-Operator Handled Card Call
 CCP-Calling Card Person Call
 OHS-Operator Handled Station Call

ODR-Operator Handled Station Call-Dial Rate
 OHP-Operator Handled Person Call
 OCP-Operator Handled Person Collect Call



Invoice Number: 1-943-13509
 Invoice Date: Aug 10, 2004
 Account Number: 0200-2958-7
 Page: 5 of 6

FedEx Express Shipment Detail By Reference (Original)

Dropped off: Aug 03, 2004 Payor: Shipper Reference: 2126

- Fuel Surcharge - FedEx has applied a fuel surcharge of 7.00% to this shipment
- Distance Based Pricing, Zone 4
- Package sent from 20002 zip code
- FedEx has audited this shipment for correct packages, weight, and service. Any changes made are reflected in the invoice amount
- Release signature on file

Tracking ID	830044964536	<u>Sender</u>	<u>Recipient</u>	
Service Type	FedEx Priority Overnight	ANGEL SINCH	CHARLIE KING	
Package Type	FedEx Pak	SNAVELY KING MAJOROS	SNAVELY KING	
Zone	4	1220 L ST NW STE 410	120 COURT ST	
Packages	1	WASHINGTON DC 20005-4050 US	CASTINE ME 04421 US	
Weight	1 0 lbs, 0 5 kgs			
Delivered	Aug 04, 2004 13 57	Transportation Charge		22 75
Svc Area	PM	Discount		-2 28
Signed by	L EE	Fuel Surcharge		1 43
FedEx Use	216136010/0001530/02	Residential Delivery		1 75
		Delivery Area Surcharge		1 75
Total Charge			USD \$	25.40
Shipment Detail Subtotal			USD \$	25.40





Office Number: 1-943-13509
 Service Date: Aug 10, 2004
 Account Number: 0200-2958-7
 Page: 4 of 6

FedEx Express Shipment Detail By Reference (Original)

Dropped off: Jul 30, 2004

Payor: Shipper

Reference: NO REFERENCE INFORMATION

2126

- Fuel Surcharge - FedEx has applied a fuel surcharge of 7.50% to this shipment
- Distance Based Pricing, Zone 4
- Package sent from 20002 zip code
- Release signature on file

Tracking ID 830044964547
 Service Type FedEx Priority Overnight
 Package Type FedEx Box
 Zone 4
 Packages 1
 Weight 2.0 lbs, 0.9 kgs
 Delivered Aug 02, 2004 13:17
 Svc Area PM
 Signed by LEE
 FedEx Use 212175150/0001530/02

Sender
 ANGEL SINCH
 SNAVELY KING MAJOROS
 1220 L ST NW STE 410
 WASHINGTON DC 20005-4050 US

Recipient
 CHARLIE KING
 SNAVELY KING
 120 COURT STREET
 CASTINE ME 04421 US

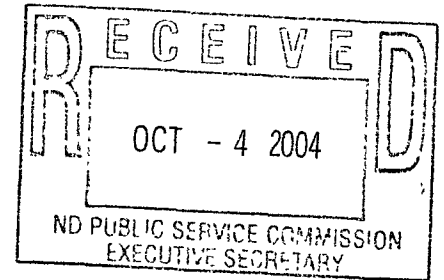
Transportation Charge	25.50
Discount	-2.55
Fuel Surcharge	1.72
Residential Delivery	1.75
Delivery Area Surcharge	1.75

Total Charge USD \$ **28.17**

Shipment Detail Subtotal USD \$ **28.17**



October 1, 2004



William Binek, Esq
North Dakota Public Service Commission
12th Floor
State Capitol
Bismarck, ND 58505

Dear Mr Binek

This letter concerns our invoice No 7410, dated August 25, 2004, for service in connection with compensation issues in Docket No. PU-04-97, the gas rate increase application by Montana-Dakota Utilities

As you recall, the hearing for that case was originally set for August 30 and 31 In anticipation of that hearing, I purchased a non-refundable airplane ticket from Northwest Airlines on August 16. Subsequent to that purchase, your office and MDU worked out a proposed settlement that obviated the requirement for a hearing on August 30 As a result, the ticket went unused, but since it was non-refundable, our firm was required to pay for it anyway.

We are told by our travel agent that the value of the ticket, less a \$100 change fee, can be applied to any domestic Northwest Airlines ticket purchased before August 16, 2005. To the extent we are able to apply this credit to any ticket purchase within this one-year window, we will refund the credit to your Commission. The value of the ticket was \$1,394 11, so the credit could be as much as \$1,294 11.

I would be happy to respond to any questions or comments you may have concerning this matter.

Sincerely,

Charles W. King

133 PU-04-97

Pages 1

Letter regarding Invoice # 7410

by Snavely King Majoros O'Connor & Lee Inc

10/04/2004omm Legal Ilona Pat Jerry Annette Mike



Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

600 E. Boulevard Ave. Dept 408
Bismarck, North Dakota 58505-0480
web: www.psc.state.nd.us
e-mail: ndpsc@psc.state.nd.us
TDD: 800-366-6888
Fax: 701-328-2410
Phone: 701-328-2400

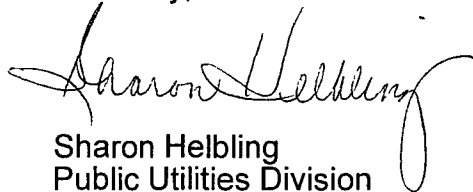
September 28, 2004

Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501

Dear Mr. Ball:

On September 28, 2004, the Commission approved Montana-Dakota Utilities Co.'s natural gas Cost of Gas adjustment for October 2004, Case No. PU-04-474, and the tariffs filed in compliance with this commission's order dated September 22, 2004 in Case No. PU-04-97.

Sincerely,


Sharon Helbling
Public Utilities Division

Sdh

Enclosure



OFFICE OF ADMINISTRATIVE HEARINGS

STATE OF NORTH DAKOTA
1707 North 9th Street
Bismarck, North Dakota 58501-1882

Allen C Hoberg
DIRECTOR

September 24, 2004



Mr. William W. Binek
Hearing Administrator
Public Service Commission
600 E. Boulevard Avenue – Dept. 408
Bismarck, ND 58505

Dear Mr. Binek:

On August 31, 2004, I presided as a procedural administrative law judge in the matter of the application of Montana-Dakota Utilities Company for a natural gas rate increase. The hearing is now closed and a settlement has been reached. Accordingly, I am closing our file on this matter and returning that portion of the record I have in my possession to you.

Thank you for your attention to this matter.

Sincerely,

Allen C. Hoberg
Administrative Law Judge

ACH/ljc

Enc.



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Ilona A Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

September 23, 2004

Ms. Ilona A Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E Boulevard Ave. Dept. 408
Bismarck, ND 58505-0480

RE: **Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application
Case No. PU-04-97**

Dear Ms. Jeffcoat-Sacco:

Enclosed for filing in the above referenced case are the original and seven copies of the **Staff Response to Compliance Filing**.

Thank you.

Sincerely,

William W. Binek
Chief Counsel

WWBsIs
Enclosure

C. Douglas W. Schulz
Daniel S. Kuntz
Don Ball

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sandra L. Scott deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **23rd day of September, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **three** envelopes with first class postage, fully prepaid, securely sealed and each containing a photocopy of.

Staff Response to Compliance Filing

The envelopes were addressed as follows:

Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

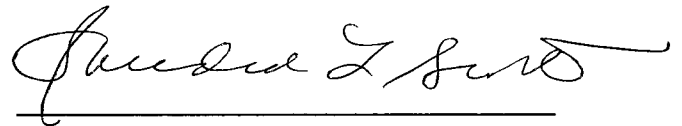
Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

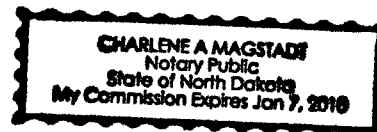
Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **23rd day of September, 2004**.

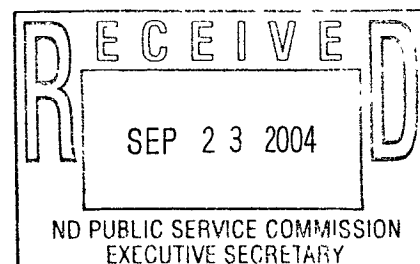
SEAL



Notary Public



**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**



**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

STAFF RESPONSE TO COMPLIANCE FILING

September 23, 2004

Staff believes that MDU's compliance filing satisfies the Commission's Order.

THE ADOPTED SETTLEMENT AGREEMENT

On September 22, 2004, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., (MDU) filed tariff changes to comply with the Order of the Commission dated September 22, 2004. The Commission's Order adopted a Settlement Agreement by which MDU is to implement a rate change sufficient to provide a total annual revenue increase of \$2,500,000 effective for service rendered on or after October 1, 2004. The Order stated that MDU shall file revised tariff sheets to yield additional annual revenues of approximately \$786,000 resulting in a total increase of not more than \$2,500,000 including the already-effective interim increase of approximately \$1,714,000.

Under the adopted Settlement Agreement, rate changes will include an increase in residential and general service Basic Service Charges as proposed by MDU. The rate changes will also include an increase in residential and general service retail Distribution Delivery Charges, which, when combined with the revenue yielded from the Basic Service Charge changes, result in an overall increase of total residential test year revenues of approximately 2.5 percent and general service revenues of approximately 1.9 percent. There is to be no increase in the rates for service to interruptible customers or to the Minot Air Force Base.

The adopted Settlement Agreement also included MDU's proposed Distribution Delivery Stabilization Mechanism Rate 87.

THE COMPLIANCE TARIFFS

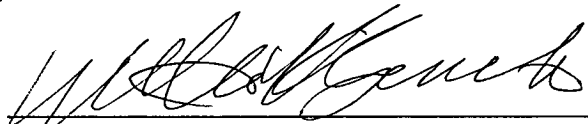
MDU's compliance tariffs provide a total annual revenue increase of \$2,499,033. The rate increase is split between the Residential and Firm General Service classes with 66.7% of the increase allocated to Residential customers.

This results in a 2.5% increase to Residential customers and 1.89% increase to Firm General customers.

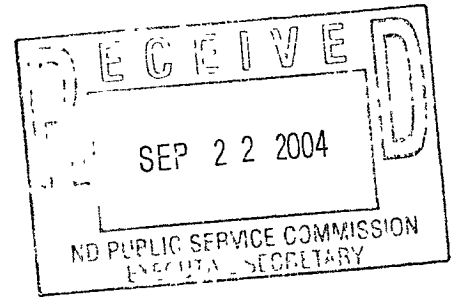
The Residential Basic Service Charge changed from \$.29 to \$.30 per day. The Residential Distribution Delivery Charge changed from \$.641 to \$.812 per dekatherm. The Firm General Basic Service Charge for customers with gas meters under 500 cubic feet changed from \$.50 to \$.52 per day and changed from \$1.70 to \$1.75 for Firm General customers with gas meters over 500 cubic feet. The Firm General Distribution Delivery Charge changed from \$.473 to \$.597 per dekatherm.

The Distribution Delivery Stabilization Mechanism will apply to Residential Gas Service, Residential Propane Service, Firm General Gas Service, and Firm General Propane Service.

Also, the Gas Cost Adjustment is restated to reflect the authorized rate of return from this proceeding that is applicable to prepaid demand, commodity and cycle storage balances. The Gas Cost Adjustment for October will be restated from \$6.499 to \$6.492 per dekatherm.



William W. Binek
Chief Counsel



**MONTANA-DAKOTA UTILITIES CO.
CASE NO. PU-04-97
COMPLIANCE FILING**

**In the Matter of the Application of
Montana-Dakota Utilities Co. for
Authority to Establish Increased Rates
For Natural Gas Service in the
State of North Dakota**



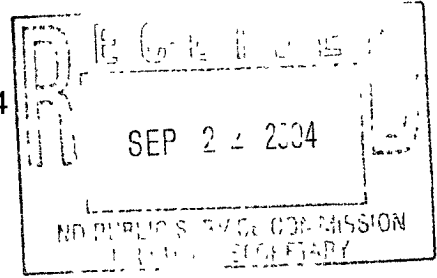
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

September 22, 2004



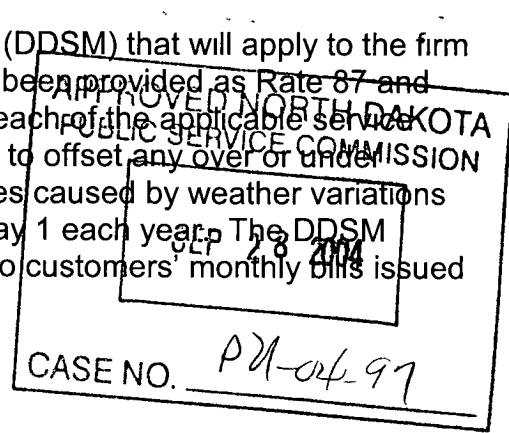
Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505-0480

Re: Case No PU-04-97
Natural Gas Rates - Compliance Tariffs

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits an original and seven copies of revised natural gas service tariff sheets and supporting work papers in compliance with the Settlement Agreement approved by the North Dakota Public Service Commission (Commission) on September 22, 2004.

The rates set forth on the revised tariff sheets were designed to produce an increase in annual revenues of \$2,500,000. The revised tariffs reflect the following provisions as set forth in the Settlement and the Commission's Order:

- An overall increase of 2.5% was assigned to the Residential class. The Residential Basic Service Charge was set at \$0.30 per day (representing an increase of \$0.01 per day) with the remainder of the increase collected through the Distribution Delivery Charge.
- An overall increase of 1.9% was assigned to the Firm General Service class. The Firm General Service Basic Service Charges were set at \$0.52 and \$1.75 per day based on meter size with the remainder of the increase collected through the Distribution Delivery Charge.
- No changes were made to the charges applicable to the Air Force or interruptible sales or transportation service schedules.
- A Distribution Delivery Stabilization Mechanism (DDSM) that will apply to the firm service schedules Rates 60, 70, 90 and 92 has been provided as Rate 87 and the reference to the DDSM has been added to each of the applicable service schedules. The DDSM mechanism is designed to offset any over or under collection of distribution delivery charge revenues caused by weather variations during the billing period November 1 through May 1 each year. The DDSM adjustment will be applied on a real-time basis to customers' monthly bills issued



November 1 through May 1 based on individual customer's gas usage billed during that time period.

- The Cost of Gas to be effective October 1, 2004 filed in Case PU-04-473 has been restated to reflect the rate of return authorized in this case that is applicable to the storage and prepaid demand and commodity balances.

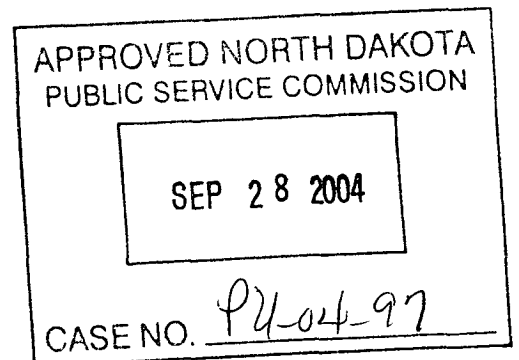
Montana-Dakota requests that the tariffs attached hereto as Attachment A be approved effective with service rendered on and after October 1, 2004. The workpapers underlying the rate changes described above have been included as Attachment B and the revised Exhibits underlying the revised October 2004 cost of gas calculation are provided in Attachment C.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto.

Sincerely,



Donald R. Ball
Assistant Vice President –
Regulatory Affairs



ATTACHMENT A



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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NDPSC Volume 7
1st Revised Sheet No 1
Canceling Original Sheet No 1

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	Reserved	5-6
64	Air Force	7
	Reserved	8-12
70	Firm General Gas Service	13
71	Small Interruptible General Gas Service	14
72	Optional Seasonal General Gas Service	15
	Reserved	16-23
81 and 82	Transportation Service	24
	Reserved	25-26
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	Reserved	28
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APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: September 22, 2004

Effective Date: Service rendered on and after

October 1, 2004 SEP 28 2004

Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.. PU-04-97

CASE NO. PU-04-97



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
 22nd Revised Sheet No 3
 Canceling 21st Revised Sheet No. 3

RATE SUMMARY SHEET

Page 1 of 2

Rate Schedule	Sheet No.	Basic Service Charge	Distribution Delivery Charge	PGA Items	Total Rate/ Dk	Interim Per Dk
Residential Rate 60	4	\$0 30 per day	\$0 812	\$6 492	\$7 304	\$0 000
Air Force Rate 64	7					
Minot Air Force Base		\$1,000 00 per month				
PAR Site		\$135 00 per month				
Firm Service			\$0 138	\$6 492	\$6 630	\$0 000
Interruptible Service - PAR			\$0 120	\$5 626	\$5 746	\$0 000
Interruptible Service - MAFB			\$0 120	\$5 414	\$5 534	\$0 000
Firm General Service Rate 70	13					
Meters rated < 500 cubic feet		\$0 52 per day				
Meters rated > 500 cubic feet		\$1 75 per day	\$0 597	\$6 492	\$7 089	\$0 000
Small Interruptible Gas Rate 71	14	\$100 00 per month	(Maximum) \$0 871	\$5 626	(Maximum) \$6 497	\$0 000
Optional Seasonal Gas Service Rate 72	15					
Meters rated < 500 cubic feet		\$0 52 per day				
Meters rated > 500 cubic feet		\$1 75 per day				
Winter Gas Usage			\$0 597	\$6 595	\$7 192	\$0 000
Summer Gas Usage			\$0 597	\$5 525	\$6 122	\$0 000
Transportation Service	24					
Small Interruptible Rate 81		\$150 00 per month				
Maximum			\$0 427			
Minimum			\$0 102			
Fuel Charge				\$0 023		\$0 000
Large Interruptible Rate 82		\$725 00 per month				
Maximum			\$0 298			
Minimum			\$0 061			
Fuel Charge				\$0 023		\$0 000
Large Interruptible Gas Rate 85	27	\$675 00 per month	(Maximum) \$0 719	\$5 626	(Maximum) \$6 345	\$0 000
Residential Propane Rate 90	32	\$0 30 per day	\$0 812	\$8 554	\$9 366	\$0 000
Firm General Propane Rate 92	34					
Meters rated < 500 cubic feet		\$0 52 per day				
Meters rated > 500 cubic feet		\$1 75 per day	\$0 597	\$8 554	\$9 151	\$0 000

APPROVED NORTH DAKOTA
 PUBLIC SERVICE COMMISSION

Date Filed: September 22, 2004

Effective Date: Service rendered on and after
 October 1, 2004

SEP 28 2004

Issued By: Donald R Ball
 Asst Vice President - Regulatory Affairs

Case No.: PU-04-97

CASE NO. PU-04-97



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
4th Revised Sheet No 4
Canceling 3rd Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses. See Rate 100, §V 3, for definition on class of service

Rate:

Basic Service Charge	\$0.30 per day
Distribution Delivery Charge.	\$ 812 per dk
Cost of Gas.	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Date Filed: September 22, 2004

Effective Date: Service rendered on and after

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No.: PU-04-97

October 1, 2004 SEP 28 2004

CASE NO

PU-04-97



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 7
Canceling 1st Sheet No. 7

AIR FORCE Rate 64

Page 1 of 2

Availability:

Minot Air Force Base near Minot, North Dakota, and the Perimeter Acquisition Radar (PAR) Site, near Concrete, North Dakota. The Air Force shall make an election of its requirements under each available service and such requirements shall be set forth in a service agreement with the Company

Rate:

Basic Service Charge.

Minot Air Force Base	\$1,000.00 per month
Perimeter Acquisition Radar (PAR) Site	\$135.00 per month

Distribution Delivery Charge:

Firm Service	\$ 138 per dk
Interruptible Service	\$ 120 per dk

Cost of Gas:

Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

SEP 28 2004

CASE NO PU-04-97

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
4th Revised Sheet No 13
Canceling 3rd Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 2

Availability:

In all communities served for all purposes except for resale. See Rate 100, §3, for definition on class of service.

Rate:

Basic Service Charge

For customers with meters rated under
500 cubic feet per hour

\$0.52 per day

For customers with meters rated over
500 cubic feet per hour

\$1.75 per day

Distribution Delivery Charge

\$ 597 per dk

Cost of Gas:

Determined Monthly- See
Rate Summary Sheet for
Current Rate

Minimum Bill:

Basic Service Charge

Payment:

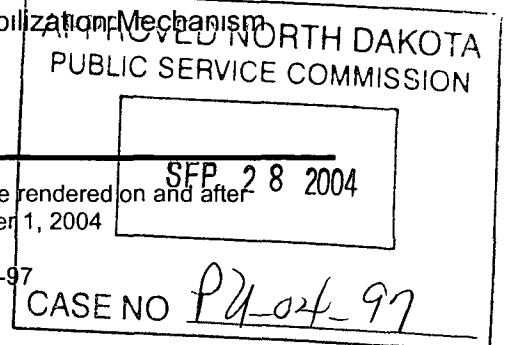
Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.



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400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 13 1

FIRM GENERAL GAS SERVICE Rate 70

Page 2 of 2

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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Montana-Dakota Utilities Co.

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NDPSC Volume 7
4th Revised Sheet No 14
Canceling 3rd Revised Sheet No 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge	\$100.00 per month	
Distribution Delivery Charge	<u>Maximum</u> \$.871 per dk	<u>Minimum</u> \$ 427 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

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Montana-Dakota Utilities Co.

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NDPSC Volume 7
1st Revised Sheet No. 14.2
Canceling Original Sheet No. 14.2

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

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- 4 OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS – Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer’s action.
5. METERING REQUIREMENTS –Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer’s meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company’s connection of the remote data acquisition equipment. Any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company’s remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company’s equipment.

- 6 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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NDPSC Volume 7
4th Revised Sheet No 15
Canceling 3rd Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale See Rate 100, §V.3,
for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0.52 per day

For customers with meters rated
over 500 cubic feet per hour

\$1.75 per day

Distribution Delivery Charge.

\$ 597 per dk

Cost of Gas

Winter- Bills rendered October 1 through May 31

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Summer- Bills rendered June 1 through September 30

Determined Monthly-
See Rate Summary
Sheet for Current Rate

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on
the bill. Past due bills are subject to a late payment charge in accordance with
the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Purchased Gas:

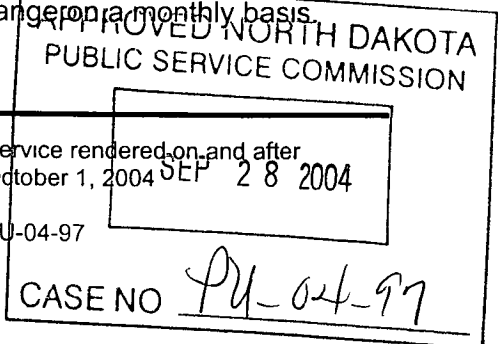
The cost of gas includes all applicable cost of gas items as defined in the
Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations
thereto The cost of gas component is subject to change on a monthly basis.

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Montana-Dakota Utilities Co.

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NDPSC Volume 7
3rd Revised Sheet No 24 1
Canceling 2nd Revised Sheet No 24 1

TRANSPORTATION SERVICE Rates 81 and 82

Page 2 of 10

Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge

Rate 81 \$150 00 per month

Rate 82 \$725 00 per month

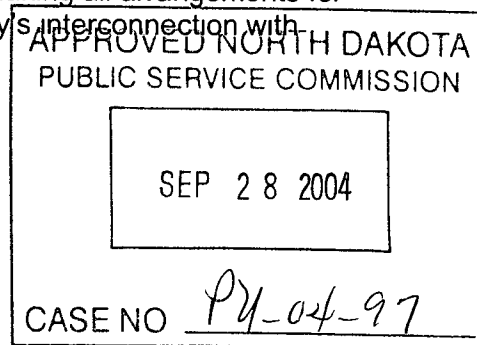
	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0 427	\$0 298
Minimum Rate per dk	\$0 102	\$0 061
Balancing Charge per dk	\$0 300	\$0 300

Fuel Charge:

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet t for currently effective charge.

General Terms and Conditions:

- 1 CRITERIA FOR SERVICE: In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).



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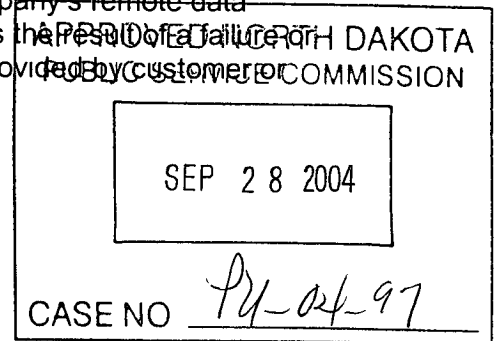
NDPSC Volume 7
1st Revised Sheet No 24 7
Canceling Original Sheet No 24 7

TRANSPORTATION SERVICE Rates 81 and 82

Page 8 of 10

10. METERING REQUIREMENTS.

- a. Remote data acquisition equipment required by the Company for daily measurement will be purchased and installed by the Company prior to the initiation of service hereunder. The cost of the equipment and its installation shall be paid for by the customer. Such contribution in aid, as adjusted for federal and state income taxes, must be paid prior to the installation of such equipment unless otherwise agreed to by the Company. Such equipment will be maintained by the Company and will remain the sole property of the Company. Company may remove such equipment when service hereunder is terminated
- b. The customer shall provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply or other power source acceptable to the Company and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the remote data acquisition equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made
- c. The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.



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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 29

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

Page 1 of 2

Applicability:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the billing period from November 1 through May 1. Service provided under the Company's Residential Rates 60 and 90 and Firm General Service Rates 70 and 92 shall be subject to decreases or increases under the DDSM

Distribution Delivery Stabilization Mechanism:

A DDSM will be determined for each customer taking service under Residential Service Rates 60 and 90 and Firm General Service Rates 70 and 92 beginning with the first billing cycle starting November 1 through the billing cycle ending May 1. The DDSM adjustment will be applied on a real-time basis as a surcharge or credit on all rate schedules to which the DDSM is applicable to the customers' bills issued each month during the weather adjustment period of November 1 through May 1.

DDSM Adjustment Calculation:

The DDSM Adjustment shall be determined for each customer taking service under Residential Rates 60 or 90 or Firm General Services Rate 70 or 92. In order to calculate the respective DDSM adjustment, the ratio of the normal HDDs as compared to the actual HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate per dk.

$$DDSM_i = R_i (DDF_i ((NDD-ADD)/ADD))$$

Where:

DDSM _i	=	Distribution Delivery Stabilization Adjustment
i	=	Customer served under Rate Schedules 60, 70, 90 or 92
R _i	=	Applicable Distribution Delivery Charge per dk
DDF _i	=	Temperature sensitive use per customer
NDD	=	Normal degree days for the applicable bill cycle
ADD	=	Actual heating degree days for the applicable bill cycle

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Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 29 1

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

Page 2 of 2

Definitions:

Heating Degree Days	-	The difference between the average of the daily high and low temperatures subtracted from 60 degrees Fahrenheit.
Normal Degree Days	-	The heating degree days based on the 30-year average for the period 1970-2000.
Temperature Sensitive Use per Customer	-	Customer's actual use less the base use per customer per day, denoted below, multiplied by days in the billing period Residential Rate Code 60 = 06106 Residential Rate Code 90 = .03177 Firm General Service Rate Code 700 = 08313 Firm General Service Rate Code 701 = 87387 Firm General Service Rate Code 920 = .08139 Firm General Service Rate Code 921 = 73984
Actual Degree Days	-	The actual degree days reported by the National Weather Service Stations for applicable service areas in North Dakota

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Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
4th Revised Sheet No 32
Canceling 3rd Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

Page 1 of 2

Availability:

For the community of Hettinger for all domestic purposes See Rate 100, §V.3,
for definition on class of service

Rate:

Basic Service Charge:	\$0 30 per day
Distribution Delivery Charge	\$ 812 per dk
Cost of Propane	Determined Monthly- See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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Original Sheet No 32 1

RESIDENTIAL PROPANE SERVICE Rate 90

Page 2 of 2

General Terms and Conditions:

- 1 The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
- 2 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

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PUBLIC SERVICE COMMISSION

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Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
4th Revised Sheet No 34
Canceling 3rd Revised Sheet No 34

FIRM GENERAL PROPANE SERVICE Rate 92

Page 1 of 2

Availability:

For the community of Hettinger for all purposes except for resale. See Rate 100, §V.3, for definition on class of service.

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour \$0.52 per day

For customers with meters rated
over 500 cubic feet per hour \$1.75 per day

Distribution Delivery Charge \$ 597 per dk

Cost of Propane. Determined Monthly- See Rate
Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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Montana-Dakota Utilities Co.

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NDPSC Volume 7
1st Revised Sheet No 42
Canceling Original Sheet No. 42

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1st Revised Sheet No 42.1
Canceling Original Sheet No 42 1

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1st Revised Sheet No 42 2
Canceling Original Sheet No 42 2

GENERAL PROVISIONS Rate 100

Page 3 of 18

I. PURPOSE:

These rules are intended to define good practice which can normally be expected, but are not intended to exclude other accepted standards and practices not covered herein. They are intended to ensure adequate service to the public and protect the Company from unreasonable demands.

The Company undertakes to furnish service subject to the rules and regulations of the Public Service Commission of North Dakota and as supplemented by these general provisions, as now in effect or as may hereafter be lawfully established, and in accepting service from the Company, each customer agrees to comply with and be bound by said rules and regulations and the applicable rate schedules

II. DEFINITIONS:

The following terms used in this tariff shall have the following meanings, unless otherwise indicated:

AGENT – The party authorized by the transportation service customer to act on that customer's behalf.

APPLICANT – A customer requesting Company to provide service

COMMISSION – Public Service Commission of the State of North Dakota

COMPANY – Montana-Dakota Utilities Co.

COMPANY'S OPERATING CONVENIENCE – The utilization, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of Company's operations. This does not refer to the customer's convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules or regulations, or similar requirements of public authorities

CURTAILMENT – A reduction of transportation or retail natural gas service deemed necessary by the Company Also includes any reduction of transportation natural gas service deemed necessary by the pipeline

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GENERAL PROVISIONS Rate 100

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CUSTOMER – Any individual, partnership, corporation, firm, other organization or government agency supplied with service by Company at one location and at one point of delivery unless otherwise expressly in these rules or in a rate schedule

DELIVERY POINT – The point at which customer assumes custody of the gas being transported. This point will normally be at the outlet of Company's meter(s) located on customer's premises.

GAS DAY – Means a period of twenty-four consecutive hours, beginning and ending at 9.00 a.m. Central Clock Time.

INTERRUPTION – A cessation of transportation or retail natural gas service deemed necessary by Company.

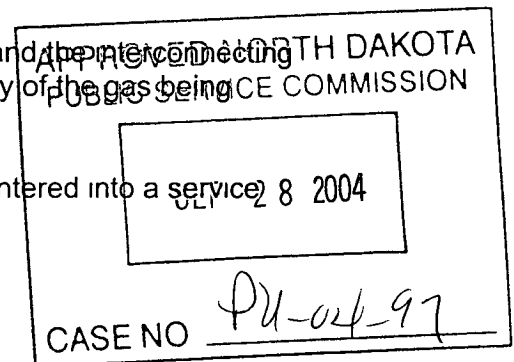
NOMINATION – The daily dk volume of natural gas requested by customer for transportation and delivery to customer at the delivery point during a gas day.

PIPELINE – The transmission company(s) delivering natural gas into company's system.

RATE – Shall mean and include every compensation, charge, fare, toll, rental and classification, or any of them, demanded, observed, charged or collected by the Company for any service, product, or commodity, offered by the Company to the public, and any rules, regulations, practices or contracts affecting any such compensation, charge, fare, toll, rental or classification

RECEIPT POINT – The intertie between Company and the interconnecting pipeline(s) at which point Company assumes custody of the gas being transported.

SHIPPER – The party with whom the Pipeline has entered into a service agreement for transportation services



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GENERAL PROVISIONS Rate 100

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III CUSTOMER OBLIGATION:

- 1 APPLICATION FOR SERVICE – A customer desiring gas service must make application to the Company before commencing the use of the Company's service. The Company reserves the right to require a signed application or written contract for service to be furnished. All applications and contracts for service must be made in the legal name of the customer desiring the service. The Company may refuse a customer or terminate service to a customer who fails or refuses to furnish reasonable information requested by the Company for the establishment of a service account. Any customer who uses gas service in the absence of application or contract shall be subject to the Company's rates, rules, and regulations and shall be responsible for payment of all service used.

Subject to rates, rules, and regulations, the Company will continue to supply gas service until notified by customer to discontinue the service. The customer will be responsible for payment of all service furnished through the date of discontinuance.

Any customer may be required to make a deposit as required.

2. INPUT RATING – All new customers whose consumption of gas for any purpose will exceed an input of 2,500,000 Btu per hour, metered at a single delivery point, shall consult with the Company and furnish details of estimated hourly input rates for all gas utilization equipment. Where system design capacity permits, such customers may be served on a firm basis. Where system design capacity is limited, and at Company's sole discretion, Company will serve all such new customers on an interruptible basis only. Architects, contractors, heating engineers and installers, and all others should consult with the Company before proceeding to design or provide design for such installations for the use of natural gas. This will ensure that such equipment will conform to the Company's ability to adequately serve such installations with gas.

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- 3 ACCESS TO CUSTOMER'S PREMISES – Company representatives, when properly identified, shall have access to customer's premises at all reasonable times for the purpose of reading meters, making repairs, making inspections, removing the Company's property, or for any other purpose incidental to the service
- 4 COMPANY PROPERTY – The customers shall exercise reasonable diligence in protecting the Company's property on their premises, and shall be liable to the Company in case of loss or damage caused by their negligence or that of their employees.
- 5 INTERFERENCE WITH COMPANY PROPERTY – The customer shall not disconnect, change connections, make connections or otherwise interfere with Company's meters or other property or permit same to be done by other than the Company's authorized employees
- 6 RELOCATED LINES - Where Company facilities are located on a public or private utility easement and there is a building encroachment(s), over gas facilities (Company-owned main, Company-owned service line or customer-owned service line) the customer shall be charged for line relocation on the basis of actual costs incurred by the Company including any required easements.
7. NOTIFICATION OF LEAKS – The customer shall immediately notify the Company at its office of any escape of gas in or about the customer's premises.
8. TERMINATION OF SERVICE – All customers are required to notify the Company, to prevent their liability for service used by succeeding tenants, when vacating their premises Upon receipt of such notice, the Company will read the meter and further liability for service used on the part of the vacating customer will cease.
- 9 REPORTING REQUIREMENTS – Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein.

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IV LIABILITY

- 1 CONTINUITY OF SERVICE – The Company will use all reasonable care to provide continuous service but does not assume responsibility for a regular and uninterrupted supply of gas service and will not be liable for any loss, injury, death, or damage resulting from the use of service, or arising from or caused by the interruption or curtailment of the same.
- 2 CUSTOMER'S EQUIPMENT – Neither by inspection or non-rejection, nor in any other way does the Company give any warranty, express or implied, as to the adequacy, safety or other characteristics of any structures, equipment, lines, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties.
3. COMPANY EQUIPMENT AND USE OF SERVICE – The Company will not be liable for any loss, injury, death or damage resulting in any way from the supply or use of gas or from the presence or operation of the Company's structures, equipment, lines, appliances or devices on the customer's premises, except loss, injuries, death, or damages resulting from the negligence of the Company.
- 4 INDEMNIFICATION – Customer agrees to indemnify and hold Company harmless from any and all injury, death, loss or damage resulting from customer's negligent or wrongful acts under and during the term of service Company agrees to indemnify and hold customer harmless from any and all injury, death, loss or damage resulting from Company's negligent or wrongful acts under and during the term of service.
- 5 FORCE MAJEURE – In the event of either party being rendered wholly or in part by force majeure unable to carry out its obligations, then the obligations of the parties hereto, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused Such causes or contingencies affecting the performance by either party, however, shall not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance relieve either party from its obligations to make payments of amounts then due hereunder, nor

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shall such causes or contingencies relieve either party of liability unless such party shall give notice and full particulars of the same in writing or by telephone to the other party as soon as possible after the occurrence relied on. If volumes of customer's gas are destroyed while in Company's possession by an event of force majeure, the obligations of the parties shall terminate with respect to the volumes lost.

The term "force majeure" as employed herein shall include, but shall not be limited to, acts of God, strikes, lockouts or other industrial disturbances, failure to perform by any third party, which performance is necessary to the performance by either customer or Company, acts of the public enemy or terrorists, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrest and restraint of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, line freeze-ups, sudden partial or sudden entire failure of gas supply, failure to obtain materials and supplies due to governmental regulations, and causes of like or similar kind, whether herein enumerated or not, and not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to overcome, provided that the exercise of due diligence shall not require settlement of labor disputes against the better judgment of the party having the dispute.

The term "force majeure" as employed herein shall also include, but shall not be limited to, inability to obtain or acquire, at reasonable cost, grants, servitudes, rights-of-way, permits, licenses, or any other authorization from third parties or agencies (private or governmental) or inability to obtain or acquire at reasonable cost necessary materials or supplies to construct, maintain, and operate any facilities required for the performance of any obligations under this agreement, when any such inability directly or indirectly contributes to or results in either party's inability to perform its obligations

V GENERAL TERMS AND CONDITIONS:

1. AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for any service.

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2. RATE OPTIONS – Where more than one rate schedule is available for the same class of service, the Company will assist the customer in selecting the applicable rate schedule(s). The Company is not required to change a customer from one rate schedule to another more often than once in twelve months unless there is a material change in the customer's load which alters the availability and/or applicability of such rate(s), or unless a change becomes necessary as a result of an order issued by the Commission or a court having jurisdiction. The Company will not be required to make any change in a fixed term contract except as provided therein

3. RULES FOR APPLICATION OF GAS SERVICE
 - (a) Residential gas service is available to any residential customer for domestic purposes only Residential gas service is defined as service for general domestic household purposes in space occupied as living quarters, designed for occupancy by one family Typical service would include the following: separately metered units, such as single private residences, single apartments, mobile homes and sorority and fraternity houses (this is not an all-inclusive list). In addition, auxiliary buildings on the same premise as the living quarters, used for residential purposes, may be served on the residential rate

 - (b) Nonresidential service is defined as service provided to a business enterprise in space occupied and operated for nonresidential purposes. Typical service would include stores, offices, shops, restaurants, boarding houses, hotels, service garages, wholesale houses, filling stations, barber shops, beauty parlors, master metered apartment houses, common areas of shopping malls or apartments (such as halls or basements), churches, elevators, schools and facilities located away from the home site (this is not an all-inclusive list)

 - (c) The definitions above are based upon the supply of service to an entire premise through a single delivery and metering point Separate supply for the same customer at other points of consumption may be separately metered and billed

 - (d) If separate metering is not practical for a single unit (one premise) that is using gas for both domestic purposes and for conducting business (or for

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nonresidential purposes as defined herein), the customer will be billed under the predominate use policy. Under this policy, the customer's combined service is billed under the rate (Residential or Nonresidential) applicable to the type of service which constitutes 50% or more of the customer's total connected load.

(e) Other classes of service furnished by the Company shall be defined in applicable rate schedules or in rules and regulations pertaining thereto. Service to customers for which no specific rate schedule is applicable shall be billed on the Nonresidential rates.

4 DISPATCHING – Transportation customers will adhere to gas dispatching policies and procedures established by Company to facilitate transportation service. Company will inform customer of any changes in dispatching policies that may affect transportation services as they occur.

5 RULES COVERING GAS SERVICE TO MANUFACTURED HOMES – The rules and regulation for providing gas service to manufactured homes are in accordance with the Code of Federal Regulations (24CFR Part 3280 – Manufactured Homes Construction and Safety Standards) Subpart G and H which pertain to gas piping and appliance installation. In addition to the above rules, the Company also follows the regulations set forth in the NFPA 501A, Fire Safety Criteria for Manufactured Home Installations, Sites, and Communities

6 CONSUMER DEPOSITS – The Company will determine whether or not a deposit shall be required of an applicant for gas service in accordance with Commission rules

(a) The amount of such deposit shall not exceed one and one-half times the estimated amount of one month's average bill

(b) The Company may accept in lieu of a cash deposit a contract signed by a guarantor, satisfactory to the Company, whereby the payment of a specified sum not to exceed the required cash deposit is guaranteed. The term of such contract shall be indeterminate, but it shall automatically terminate when the customer gives notice of service discontinuance to

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the Company or a change in location covered by the guarantee agreement of thirty days after written request for termination is made to the utility by the guarantor. However, no agreement shall be terminated without the customer having made satisfactory settlement for any balance, which the customer owes the Company. Upon termination of a guarantee contract, a new contract or a cash deposit may be required by the Company.

A deposit shall earn interest at the rate paid by the Bank of North Dakota on a six-month certificate of deposit as of the first business day of each year. Interest shall be credited to the customer's account annually during the month of December.

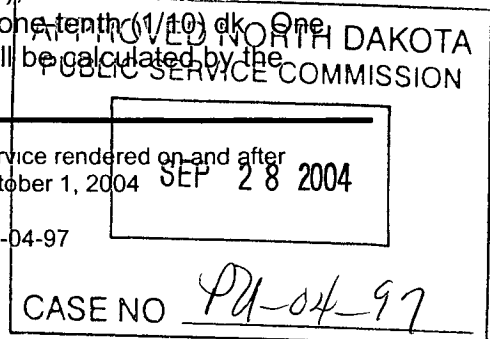
Deposits with interest shall be refunded to customers at termination of service provided all billings for service have been paid. Deposits with interest will be refunded to all active customers, after the deposit has been held for twelve months, provided prompt payment record has been established.

7. METERING AND MEASUREMENT.

(a) Company will meter the volume of natural gas delivered to customer at the delivery point. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate, in which case the quantity supplied to customer shall be determined by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations.

(b) Transportation customers agree to provide the cost of the installation of remote data acquisition equipment to Company before transportation service is implemented.

8 MEASUREMENT UNIT FOR BILLING PURPOSES – The measurement unit for billing purposes shall be one (1) decatherm (dk), unless otherwise specified. Billing will be calculated to the nearest one-tenth (1/10) dk. One dk equals 10 therms or 1,000,000 Btu's. Dk's shall be calculated by the



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application of a thermal factor to the volumes metered. This thermal factor consists of:

- (a) An altitude adjustment factor used to convert metered volumes at local sales base pressure to a standard pressure base of 14.73 psia, and
- (b) A Btu adjustment factor used to reflect the heating value of the gas delivered.

9. UNIT OF VOLUME FOR MEASUREMENT – The unit of volume for purpose of measurement shall be one (1) cubic foot of gas at either local sales base pressure or 14.73 psia, as appropriate, and at a temperature base of sixty degrees Fahrenheit (60°F). All measurement of natural gas by orifice meter shall be reduced to this standard by computation methods, in accordance with procedures contained in ANSI-API Standard 2530, First Edition, as amended. Where natural gas is measured with positive displacement or turbine meters, correction to local sales base pressure shall be made for actual pressure and temperature with factors calculated from Boyle's and Charles' Laws. Where gas is delivered at 20 psig or more, the deviation of the natural gas from Boyle's Law shall be determined by application of Supercompressibility Factors for Natural Gas published by the American Gas Association, Inc., copyright 1955, as amended or superseded. Where gas is measured with electronic correcting instruments at pressures greater than local sales base, supercompressibility will be calculated in the corrector using AGA-3/NX-19, as amended, supercompressibility calculation. For handbilled accounts, application of supercompressibility factors will be waived on monthly-billed volumes of 250 dk or less.

10. PRIORITY OF SERVICE AND ALLOCATION OF CAPACITY – Priority of Service from Highest to Lowest:

- (a) Priority 1 – Firm sales services.
- (b) Priority 2 – Small interruptible sales at the maximum rate on a pro rata basis
- (c) Priority 3 – Small interruptible sales at less than the maximum rate from the highest rate to the lowest rate on the pro rata basis where equal rates are applicable among customers.

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- (d) Priority 4 – Large interruptible sales at the maximum rate on a pro rata basis.
- (e) Priority 5 – Small interruptible transportation services from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers
- (f) Priority 6 – Large interruptible transportation services from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers
- (g) Priority 7 – Gas scheduled to clear imbalances.

Montana-Dakota shall have the right, in its sole discretion, to deviate from the above schedule when necessary for system operational reasons and if following the above schedule would cause an interruption in service to a customer who is not contributing to an operational problem on Montana-Dakota's system

Montana-Dakota reserves the right to provide service to customers with lower priority while service to higher priority customers is being curtailed due to restrictions at a given delivery or receipt point. When such restrictions are eliminated, Montana-Dakota will reinstate sales and/or transportation of gas according to each customer's original priority.

- 11 LATE PAYMENT – Amounts billed will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing at the immediate subsequent billing date, provided however, that such amount shall not apply where a bill is in dispute or a formal complaint is being processed. All payments received will apply to the customer's account prior to calculating the late payment charge. Those payments applied shall satisfy the oldest portion of the bill first.
- 12 RETURNED CHECK CHARGE – A charge of \$10.00 will be collected by the Company for each check charged back to the Company by a bank.
- 13. TAX CLAUSE – In addition to the charges provided for in the gas tariffs of the Company, there shall be charged pro rata amounts which, on an annual basis, shall be sufficient to yield to the Company the purposes of any sales,

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use or excise taxes, whether they be denominated as license taxes, occupation taxes, business taxes, privilege taxes, or otherwise, levied against or imposed upon the Company by any municipality, political subdivision, or other entity, for the privilege of conducting its utility operations therein

The charges to be added to the customer's service bills under this clause shall be limited to the customers within the corporate limits of the municipality, political subdivision or other entity imposing the tax.

14 UTILITY CUSTOMER SERVICES:

(a) The following services will be performed at no charge regardless of the time of performance

- (1) Fire and explosions calls.
- (2) Investigate hazardous condition on customer premises, such as gas leaks, odor complaints, combustion gas fumes
- (3) Maintenance or repair of Company-owned facilities on the customer's premises.

(b) The following service calls will be performed at no charge during the Company's normal business hours.

- (1) Cut-ins and cut-outs
- (2) Lighting pilots, inspecting, and adjusting gas equipment in connection with establishing service when working cut-in orders
- (3) High bills or inadequate service complaints.
- (4) Location of underground Company facilities and customer-owned gas service lines for contractors, builders, plumbers, etc.

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- 15 UTILITY SERVICES PERFORMED AFTER NORMAL BUSINESS HOURS – For service requested by customers after the Company’s normal business hours and on Saturday, Sunday, or legal holidays, a charge will be made for labor at standard overtime service rates and materials at retail prices

Customers requesting service after the Company’s normal business hours will be informed of the after hour service rate and encouraged to have the service performed during normal business hours.

16. NOTICE TO DISCONTINUE GAS SERVICE – Customers desiring to have their gas service disconnected shall notify the Company during regular business hours, one business day before service is to be disconnected. Such notice shall be by letter, personal visit or telephone call to the Company’s local business office, in communities which an office is maintained. In other communities such notice shall be given to the Company’s representative who services the community or to the nearest business office. Saturdays, Sundays and legal holidays are not considered business days

- 17 RECONNECTION FEE FOR SEASONAL OR TEMPORARY CUSTOMER – A customer who requests reconnection of service, during normal working hours, at a location where same customer discontinued the same service during the preceding 12-month period will be charged a reconnection fee as follows

Residential - The Basic Service Charge applicable during the period while service was not being used or a minimum of \$30 00 The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Non-Residential – The Basic Service Charge applicable during the period while service was not being used. However, the reconnection charge applicable to seasonal business concerns such as irrigation, grain drying and asphalt processing shall be the Basic Service Charge applicable during the period while service was not being used less the Distribution Delivery Charge revenue collected during the period in-service. A minimum of \$30 00 will apply to reconnections occurring during normal

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business hours. The minimum will be based on standard overtime rates for reconnection of service occurring after normal business hours.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a minimum reconnection charge of \$160 00 whenever reinstallation of the required remote data acquisition equipment is necessary.

18. DISCONNECTION OF SERVICE FOR NONPAYMENT OF BILLS – All amounts billed for service are due when rendered and will be considered delinquent if not paid by due date shown on the bill. If any customer shall become delinquent in the payment of amounts billed, such service may be discontinued by the Company under the applicable rules of the Commission. The Company may collect a fee of \$12 00 before restoring gas service, which has been disconnected for nonpayment of service bills during normal business hours. Standard overtime rates will apply for services performed after normal business hours.
19. DISCONNECTION OF SERVICE FOR CAUSES OTHER THAN NONPAYMENT OF BILLS – The Company reserves the right to discontinue service for any of the following reasons:
- (a) In the event of customer use of equipment in such a manner as to adversely affect the Company's equipment or service to others.
 - (b) In the event of tampering with the equipment furnished and owned by the Company.
 - (c) For violation of or noncompliance with the Company's rules on file with the Commission.
 - (d) For failure of the customer to fulfill the contractual obligations imposed as conditions of obtaining service.

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- (e) For refusal of reasonable access to property to the agent or employee of the Company for the purpose of inspecting the facilities or for testing, reading, maintaining or removing meters.

The right to discontinue service for any of the above reasons may be exercised whenever and as often as such reasons may occur, and any delay on the part of the Company in exercising such rights, or omission of any action permissible hereunder, shall not be deemed a waiver of its rights to exercise same.

Nothing in these regulations shall be construed to prevent discontinuing service without advance notice for reasons of safety, health, cooperation with civil authorities, or fraudulent use, tampering with or destroying Company facilities.

The Company may collect a reconnect fee of \$12 00 before restoring gas service, which has been disconnected for the above causes.

20. UNAUTHORIZED USE OF SERVICE – Unauthorized use of service is defined as any deliberate interference such as tampering with a Company meter, pressure regulator, registration, connections, equipment, seals, procedures or records that result in a loss of revenue to the Company. Unauthorized service is also defined as reconnection of service that has been terminated, without the Company's consent.

- (a) Examples of unauthorized use of service include the following, but are not limited to:

- (1) Bypass piping around meter.
- (2) Bypass piping installed in place of meter.
- (3) Meter reversed
- (4) Meter index disengaged or removed.
- (5) Service or equipment tampered with or piping connected ahead of meter

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- (6) Tampering with meter or pressure regulator that affects the accurate registration of gas usage
- (7) Gas being used after service has been discontinued by the Company
- (8) Gas being used after service has been discontinued by the Company as a result of a new customer turning gas on without the proper connect request.

(b) In the event that there has been unauthorized use of service, customer shall be charged for.

- (1) Time, material and transportation costs used in investigation
- (2) Estimated charge for non-metered gas
- (3) On-premise time to correct situation.
- (4) Any damage to Company property

(c) Customer service so disconnected shall be reconnected after a customer has furnished satisfactory evidence of compliance with Company's rules and conditions of service, and paid all charges as hereinafter set forth in this procedure

- (1) All delinquent bills, if any.
- (2) The amount of any Company revenue loss attributable to said tampering.
- (3) Expenses incurred by the Company in replacing or repairing the meter or other appliance costs incurred in preparation of the bill, plus costs as outlined in number 20 b above.
- (4) Reconnection fee applicable.
- (5) A cash deposit, the amount of which will not exceed the maximum amount determined in accordance with Commission Rules

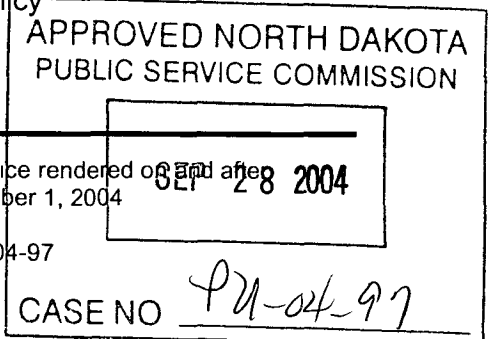
21 SEE ALSO THE FOLLOWING RATES FOR SPECIAL PROVISIONS

Rate 102 – Residential Rate for Regular Employees

Rate 119 – Interruptible Gas Service Extension Policy

Rate 120 – Firm Gas Service Extension Policy

Rate 124 – Service Lines



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- 1 The Company will install, at its expense, a service line extending from the main to the connection at the premise regulator and/or meter for all customers. The service line installed by the Company will remain the Company's property.
2. A non-refundable contribution may be required for that portion of the service line cost not supported by the expected or actual connected load. The contribution requirement will be determined based on minimum footage allowances determined annually taking into account the maximum allowable investment defined in Rate 120 and the average installed per foot cost. The Company reserves the right to charge customer the total cost of the installed service line if service is not initiated within 12 months of such installation.
- 3 The portion of the service line not cost justified shall be charged to the customer on the basis of direct costs to the Company. The Company may, at its option, calculate a statewide average cost per foot for such work based on its experience and may use such calculated amount for billing purposes. No minimum amount shall apply.
- 4 Where service line location changes are made due to building encroachments (a building is being constructed or is already located over a service line, etc), the customer shall be charged for on the basis of direct costs incurred by the Company
- 5 Whenever a service line is damaged by the customer or someone under the employ of the customer necessitating the service line to be either repaired or replaced in whole or in substantial part, such work shall be charged on a direct cost basis. If the damage was caused by independent contractors, not in the employ of the customer, the charges shall be billed directly to such contractor.
- 6 Service line changes necessary to increase the size and capacity of an existing service line because of increased demand shall be treated in accordance with ¶2 above

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Service rendered on and after
October 1, 2004 **SEP 28 2004**

CASE NO PU-04-97

Date Filed. September 22, 2004
Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Effective Date: Service rendered on and after
October 1, 2004
Case No.: PU-04-97

TARIFFS REFLECTING PROPOSED CHANGES



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 4
Canceling 2nd Revised Sheet No 4

RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served for all domestic uses See Rate 100, §V 3, for definition on class of service

Rate:

Basic Service Charge:	\$0 2930 per day
Distribution Delivery Charge	\$ 644812 per dk
Cost of Gas:	Determined Monthly- See Rate Summary Sheet for Current Rate
Interim Rate Adjustment	\$117 per dk

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed:

Effective Date:

Issued By. Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No :



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 7
Canceling Original Sheet No 7

AIR FORCE Rate 64

Page 1 of 2

Availability:

Minot Air Force Base near Minot, North Dakota, and the Perimeter Acquisition Radar (PAR) Site, near Concrete, North Dakota The Air Force shall make an election of its requirements under each available service and such requirements shall be set forth in a service agreement with the Company.

Rate:

Basic Service Charge:

Minot Air Force Base	\$1,000.00 per month
Perimeter Acquisition Radar (PAR) Site	\$135.00 per month

Distribution Delivery Charge

Firm Service	\$ 138 per dk
Interruptible Service	\$ 120 per dk

Cost of Gas:

Determined Monthly- See Rate Summary Sheet for Current Rate

~~Interim Rate Adjustment~~

Firm Service	\$ 097 per dk
Interruptible Service	\$ 080 per dk

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Date Filed:

Effective Date:

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Assistant Vice President -
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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 7 1
Canceling Original Sheet No 7 1

AIR FORCE Rate 64

Page 2 of 2

General Terms and Conditions:

1. PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT – If the customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm Service distribution delivery charge and cost of gas rates set forth above, plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50 00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company
2. CONTRACT – Terms of service other than the rate shall be specified in contracts between Minot Air Force Base, and PAR and the Company.
3. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed:	December 16, 2002	Effective Date	Service rendered on and after December 12, 2002
Issued By:	Donald R. Ball Director of Regulatory Affairs	Case No.:	PU-399-02-183



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 13
Canceling 2nd Revised Sheet No 13

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 2

Availability:

In all communities served for all purposes except for resale See Rate 100, §3, for definition on class of service

Rate:

Basic Service Charge

For customers with meters rated under
500 cubic feet per hour

\$0 ~~50~~52 per day

For customers with meters rated over
500 cubic feet per hour

\$1-701 ~~75~~ per day

Distribution Delivery Charge

\$-473 ~~597~~ per dk

Cost of Gas:

Determined Monthly- See
Rate Summary Sheet for
Current Rate

~~Interim Rate Adjustment~~

~~\$ 109 per dk~~

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

Date Filed:

Effective Date:

Issued By. Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 13 1

FIRM GENERAL GAS SERVICE Rate 70

Page 2 of 2

General Terms and Conditions:

The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date:

Issued By: Donald R. Ball
Assistant Vice President -
Regulatory Affairs

Case No :



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7

3rd Revised Sheet No 14

Canceling 2nd Revised Sheet No 14

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 100,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruptible purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

Basic Service Charge	\$100.00 per month	
Distribution Delivery Charge.	<u>Maximum</u> \$ 871 per dk	<u>Minimum</u> \$ 427 per dk
Cost of Gas	Determined Monthly- See Rate Summary Sheet for Current Rate	
Interim Rate Adjustment-	\$.087 per dk	

The Distribution Delivery Charge shall be set forth in the service agreement required as provided in the General Terms and Conditions for service. Such rate, as adjusted to reflect changes in the cost of Purchased Gas, shall apply for the term of the agreement regardless of a change in the rates set forth above.

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Date Filed:

Effective Date:

Issued By: Donald R. Ball
Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
1st Revised Sheet No 14 1
Canceling Original Sheet No 14 1

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 2 of 3

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

General Terms and Conditions:

1. **PRIORITY OF SERVICE** – Deliveries of gas under this schedule shall be subject at all times to the prior demands of customers served on the Company's firm general gas service rates, and the Company shall have the right to interrupt deliveries to customers under this schedule without being required to give previous notice of intention to so interrupt whenever, in Company's sole judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V 10.
2. **PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT** – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50.00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
3. **AGREEMENT** – Customer will be required to enter into an agreement for service hereunder for a minimum term of 12 months. Written notice of termination by either Company or customer must be given at least 60 days prior to the end of the initial term. Absent such termination notice, the agreement shall continue for additional terms of equal length until written notice is given, as provided herein, prior to the end of any subsequent term. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under this rate or another appropriate rate schedule for the customer's operations.

Date Filed:	April 26, 2004	Effective Date:	Service rendered on and after May 3, 2004
Issued By:	Donald R. Ball Director of Regulatory Affairs	Case No.:	PU-04-97



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 14 2

SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 3 of 3

- 4 OBLIGATION TO NOTIFY COMPANY OF CHANGE IN DAILY OPERATIONS – Customer will be required as specified in the service agreement to notify Company of an anticipated change in daily operations. Failure to comply with requirements specified in the service agreement may result in the assessment of penalties to the customer equal to the penalty amounts Company must pay to the interconnecting pipeline caused by customer’s action.
- 5 METERING REQUIREMENTS –Remote data acquisition equipment required for daily measurement will be installed by the Company, at its sole discretion, prior to the initiation of service hereunder.

The customer shall be required to provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply, or other power source acceptable to the Company, and acceptable telephone service available at customer’s meter location(s) Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data The customer shall pay all charges for continuous electric and telephone service associated with the Company’s connection of the electronic ~~measurement remote data acquisition equipment, and a~~ Any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.

The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company’s remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company’s equipment

- 6 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state

Date Filed:

Effective Date:

Issued By. Donald R. Ball
Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
3rd Revised Sheet No 15
Canceling 2nd Revised Sheet No 15

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served for all purposes except for resale See Rate 100, §V 3, for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated under 500 cubic feet per hour \$0 ~~50~~52 per day

For customers with meters rated over 500 cubic feet per hour \$1 ~~70~~175 per day

Distribution Delivery Charge \$ ~~473~~597 per dk

Cost of Gas:

Winter- Bills rendered October 1 through May 31 Determined Monthly-
See Rate Summary Sheet for Current Rate

Summer- Bills rendered June 1 through September 30 Determined Monthly-
See Rate Summary Sheet for Current Rate

~~Interim Rate Adjustment~~ \$ 109 per dk

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Gas:

The cost of gas includes all applicable cost of gas items as defined in the Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto The cost of gas component is subject to change on a monthly basis

Date Filed:

Effective Date:

Issued By: Donald R Ball
Assistant Vice President -
Regulatory Affairs

Case No .



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street

Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 15 1

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 2 of 2

General Terms and Conditions:

1. The customer agrees to contract for service under the Optional Seasonal General Gas Service Rate 72 for a minimum of one year.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

Date Filed:

Effective Date.

Issued By: Donald R Ball
Director of Regulatory Affairs

Case No :



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 24

TRANSPORTATION SERVICE Rates 81 and 82

Page 1 of 10

Availability:

This service is applicable for transportation of natural gas to customer's premise (metered at a single delivery point) through Company's distribution facilities. In order to obtain transportation service, customer must qualify under an applicable gas transportation service rate, meet the general terms and conditions of service provided hereunder, and enter into a gas transportation agreement upon request by the Company.

The transportation services are as follows

Small Interruptible General Gas Transportation Service Rate 81

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point, whose average use of natural gas will not exceed 100,000 dk annually and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Small Interruptible General Gas Service Rate 71. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

Large Interruptible General Gas Transportation Service Rate 82

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed 100,000 dk annually metered at a single delivery point, and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Large Interruptible General Gas Service Rate 85. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No 24.1
Canceling 1st Revised Sheet No. 24.1

TRANSPORTATION SERVICE Rates 81 and 82

Page 2 of 10

Rate:

Under Rate 81 or 82, customer shall pay the applicable Basic Service Charge plus a negotiated rate not more than the maximum rate or less than the minimum rate specified below. In the event customer also takes service under Rate 71 or Rate 85, the Basic Service Charge applicable under Rate 81 or Rate 82 shall be waived.

Basic Service Charge

Rate 81 \$150.00 per month
Rate 82 \$725.00 per month

	<u>Rate 81</u>	<u>Rate 82</u>
Maximum Rate per dk	\$0.427	\$0.298
Minimum Rate per dk	\$0.102	\$0.061
Balancing Charge per dk	\$0.300	\$0.300
Interim Rate Adjustment	\$0.008	\$0.006

Fuel Charge:

Applicable to all dk transported to customers located within the distribution system. Charge does not apply to transmission level customers. See Rate Summary Sheet t for currently effective charge.

General Terms and Conditions:

1. CRITERIA FOR SERVICE: In order to receive the service, customer must qualify under one of the Company's applicable natural gas transportation service rates and comply with the general terms and conditions of the service provided herein. The customer is responsible for making all arrangements for transporting the gas from its source to the Company's interconnection with the delivering pipeline(s).

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Effective Date:

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Director of Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 24 2

TRANSPORTATION SERVICE Rates 81 and 82

Page 3 of 10

2. REQUEST FOR GAS TRANSPORTATION SERVICE
 - a. To qualify for gas transportation service a customer must request the service pursuant to the provisions set forth herein. The service shall be provided only to the extent that the Company's existing operating capacity permits
 - b. Requests for transportation service shall be considered in accordance with the provisions of Rate 100, §V 10
3. MULTIPLE SERVICES THROUGH ONE METER
 - a. In the event customer desires firm sales service in addition to gas transportation service, customer shall request such firm volume requirements, and upon approval by Company, such firm volume requirements shall be set forth in a firm service agreement. For billing purposes, the level of volumes so specified or the actual volume used, whichever is lower shall be billed at Rate 70. Volumes delivered in excess of such firm volumes shall be billed at the applicable gas transportation rate. Customer has the option to install at their expense, piping necessary for separate measurement of sales and transportation volumes.
 - b. The customer shall pay, in addition to charges specified in the applicable gas transportation rate schedule, charges under all other applicable rate schedules for any service in addition to that provided herein (irrespective of whether the customer receives only gas transportation service in any billing period)
4. PRIORITY OF SERVICE – Company shall have the right to curtail or interrupt deliveries without being required to give previous notice of intention to curtail or interrupt, whenever, in its judgment, it may be necessary to do so to protect the interest of its customers whose capacity requirements are otherwise and hereby given preference. The priority of service and allocation of capacity shall be accomplished in accordance with the provisions of Rate 100, §V 10.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 24 3

TRANSPORTATION SERVICE Rates 81 and 82

Page 4 of 10

- 5 PENALTY FOR FAILURE TO CURTAIL OR INTERRUPT – If customer fails to curtail or interrupt their use of gas hereunder when requested to do so by the Company, any gas taken above that received on customer's behalf, shall be billed at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas), plus either an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) as a result of such failure to curtail or interrupt, or \$50 00 per dk of gas used in excess of the volume of gas to which customer was requested to curtail or interrupt, whichever amount is greater. The Company, in its discretion, may shut off customer's supply of gas in the event of customer's failure to curtail or interrupt use of gas when requested to do so by the Company.
- 6 NON-DELIVERED VOLUMES/PENALTY:
 - a In the event customer uses more gas than is being delivered to the Company's interconnection with the delivering pipeline(s) (receipt point), customer shall pay an amount equal to any penalty payments or overrun charges the Company is required to make to its interconnecting pipeline(s) under the terms of its contract(s) resulting from such action by customer. In the event that more than one customer is obtaining gas from the same shipper and/or agent at the same receipt point, any payment or overrun penalties the Company is required to make shall be allocated on a pro rata basis among such customers on the basis of each customer's use of gas in excess of available volumes
 - b In the event the customer's gas is not being delivered to the receipt point for any reason and the customer continues to take gas, the customer shall be subject to any applicable penalties or charges set forth in Paragraph 6 a. Gas volumes supplied by Company will be charged at Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas). The Company is under no obligation to notify customer of non-delivered volumes

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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Original Sheet No 24 4

TRANSPORTATION SERVICE Rates 81 and 82

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c In the event customer's transportation volumes are not available for any reason, customer may take interruptible sales service if such service is available. The availability of interruptible sales service shall be determined at the sole discretion of the Company.

7. ELECTION OF SERVICE – Prior to the initiation of service hereunder, the customer shall make an election of its requirements under each applicable rate schedule for the entire term of service. If mutually agreed to by Company and customer, the term of service may be amended. Upon expiration of service, the customer may apply for and receive, at the sole discretion of the Company, gas service under the appropriate sales rate schedule for the customer's operations.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a reconnection charge as specified in Rate 100, §V.17.

8 BALANCING

a To the extent practicable, customer and Company agree to the daily balancing of volumes of gas received and delivered on a thermal basis. Such balancing is subject to the customer's request and the Company's discretion to vary scheduled receipts and deliveries within existing Company operating limitations.

If, at the end of a billing month, the accumulated difference between actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer exceeds 4% of that month's scheduled receipts, resulting in a negative imbalance (i.e., deliveries exceed scheduled receipts), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, the customer shall then be billed, in addition to the applicable transportation rate,

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 24 5

TRANSPORTATION SERVICE Rates 81 and 82

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a penalty for the under nominated volume exceeding 4% at the Firm General Gas Service Rate 70 (distribution delivery charge and cost of gas) The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume on which a penalty was imposed

If, at the end of a billing month, the accumulated difference between nominated (scheduled) receipts on behalf of such customer and actual gas deliveries to the customer exceeds 4% of that month's scheduled receipts resulting in a positive imbalance (i e , scheduled receipts exceed deliveries), the customer will be assessed a balancing charge, set forth herein, on the imbalance exceeding 4%. If such imbalance is not eliminated by the end of the next monthly billing period, (1) the Company may adjust the volume of gas received on behalf of the customer so as to eliminate the prior period over nomination exceeding 4% up to 10% and (2) the Company shall retain the over nomination of gas exceeding 10% free and clear of any adverse claims relating thereto when such accumulated difference exceeds 50 dk The accumulated difference between the actual gas deliveries to the customer and nominated (scheduled) receipts on behalf of such customer will be adjusted for the volume retained.

- b. In the event customer's imbalance causes the Company to incur a balancing penalty from its interconnecting pipeline(s), customer shall pay any penalty payments or overrun charges the Company is required to make under the terms of its contract(s) with interconnecting pipeline(s) resulting from such action by customer In the event that more than one customer is obtaining gas from the same shipper and/or agent at the

Date Filed	December 13, 2002	Effective Date	Service rendered on and after December 12, 2002
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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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Original Sheet No. 24 6

TRANSPORTATION SERVICE Rates 81 and 82

Page 7 of 10

same interconnection with a delivering pipeline, any payment or overrun penalties the Company is required to make shall be apportioned among such customers on the basis of each customer's contribution toward the imbalance.

- c. Customer's nomination made to clear imbalances will be subject to the priority of service and allocation of capacity provisions set forth in Rate 100, §V 10 and the penalties for failure to curtail or interrupt use of gas set forth in Paragraph 5 of this rate schedule.
 - d. Termination of the gas transportation service shall not relieve Company and customer of the obligation to correct any quantity imbalances hereunder or customer of the obligation to pay money due hereunder to Company
 - e. The Company may waive any penalty associated with Company adjustments to end-use customer nominations in those instances where the Company, due to operating limitations, is required to adjust end-use transportation customer nominations and such Company adjustments create a penalty situation, or preclude a customer from correcting an imbalance which results in a penalty.
- 9 NOMINATION VARIANCE CHARGE – The customer shall pay any payments the Company must make to its interconnecting pipeline(s), as a result of nomination variance penalties caused by customer's nomination variances. Such penalties will be allocated on the basis of each customer's contribution toward the nomination variance.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No 24 7

TRANSPORTATION SERVICE Rates 81 and 82

Page 8 of 10

- 10 METERING REQUIREMENTS.
- a Remote data acquisition equipment required by the Company for daily measurement will be purchased and installed by the Company prior to the initiation of service hereunder. The cost of the equipment and its installation shall be paid for by the customer. Such contribution in aid, as adjusted for federal and state income taxes, must be paid prior to the installation of such equipment unless otherwise agreed to by the Company. Such equipment will be maintained by the Company and will remain the sole property of the Company. Company may remove such equipment when service hereunder is terminated.
 - b The customer shall provide and maintain, at no cost to Company, a 120 volt, 15 ampere, AC power supply or other power source acceptable to the Company and acceptable telephone service available at customer's meter location(s). Customer agrees to provide and maintain, at no cost to the Company, any necessary telephone enhancements to assure Company of a quality telephone signal necessary to properly transmit data. The customer shall pay all charges for continuous electric and telephone service associated with the Company's connection of the ~~electronic measurement~~ remote data acquisition equipment, and any interruption in such services must be promptly remedied or service under this tariff will be suspended until satisfactory corrections have been made.
 - c The Company reserves the right to charge for each service call to investigate, repair and/or reprogram the Company's remote data acquisition equipment when the service call is the result of a failure or change in communication or power source provided by customer or damage to Company's equipment.

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Montana-Dakota Utilities Co.

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11. DAILY NOMINATION REQUIREMENTS:

- a Customer or customer's shipper or agent shall advise Company's gas nominations center, by 11:30 a.m. Central Clock Time, of the dk requirements customer has requested to be delivered at each delivery point the following day. Customer's daily nomination shall be its best estimate of the expected utilization for the gas day. Unless other arrangements are made, customer will be required to nominate for the non-business days involved prior to weekends and holidays
- b All nominations should include shipper and/or agent defined begin and end dates. Shippers and/or agents may nominate for periods longer than 1 day, provided the nomination begin and end dates are within the term of the service agreement
- c The Company has the sole right to refuse receipt of any volumes which exceed the maximum daily contract quantity and at no time shall the Company be required to accept quantities of gas for a customer in excess of the quantities of gas to be delivered to customer. If total nominated receipts exceed total deliveries at receipt points where more than one customer is receiving service, nominations will be allocated on a pro rata basis.
- d At no time shall Company have the responsibility to deliver gas in excess of customer's nomination
- e In the event that more than one customer is receiving gas from the same shipper and/or agent at the same receipt point, any reduction in nominated volumes will be allocated on a pro rata basis, unless Company and shipper(s) and/or agent(s) have agreed to a predetermined allocation procedure.

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- 12 WARRANTY – The customer, customer’s agent, or customer’s shipper warrants that it will have title to all gas it tenders or causes to be tendered to the Company, and such gas shall be free and clear of all liens and adverse claims and the customer, customer’s agent, or customer’s shipper shall indemnify the Company against all damages, costs, and expenses of any nature whatsoever arising from every claim against said gas.
- 13 FACILITY EXTENSIONS - If facilities are required in order to furnish gas transportation service, and those facilities are in addition to the facilities required to furnish firm gas service, the customer shall pay for those additional facilities and their installation in accordance with the Company’s applicable natural gas extension policy. Company may remove such facilities when service hereunder is terminated.
14. PAYMENT – Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.
- 15 BILLING ERROR – In the event an error is discovered in any bill that the Company renders to customer, such error shall be adjusted within a period not to exceed 6 months from the date the billing error is first discovered.
- 16 AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for service hereunder.
- 17 The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

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Applicability:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the billing period from November 1 through May 1. Service provided under the Company's Residential Rates 60 and 90 and Firm General Service Rates 70 and 92 shall be subject to decreases or increases under the DDSM

Distribution Delivery Stabilization Mechanism:

A DDSM will be determined for each customer taking service under Residential Service Rates 60 and 90 and Firm General Service Rates 70 and 92 beginning with the first billing cycle starting November 1 through the billing cycle ending May 1. The DDSM adjustment will be applied on a real-time basis as a surcharge or credit on all rate schedules to which the DDSM is applicable to the customers' bills issued each month during the weather adjustment period of November 1 through May 1

DDSM Adjustment Calculation:

The DDSM Adjustment shall be determined for each customer taking service under Residential Rates 60 or 90 or Firm General Services Rate 70 or 92. In order to calculate the respective DDSM adjustment, the ratio of the normal HDDs as compared to the actual HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD, ~~as determined in the most recent general rate case~~. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate per dk

$$DDSM_i = R_i (DDF_i ((NDD-ADD)/ADD))$$

Where:

DDSM _i	=	Distribution Delivery Stabilization Adjustment
i	=	Customer served under Rate Schedules 60, 70, 90 or 92
R _i	=	Applicable Distribution Delivery Charge per dk
DDF _i	=	Temperature sensitive use per customer
NDD	=	Normal degree days for the applicable bill cycle
ADD	=	Actual heating degree days for the applicable bill cycle

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Definitions:

Heating Degree Days	-	The difference between the average of the daily high and low temperatures subtracted from 60 degrees Fahrenheit
Normal Degree Days	-	The heating degree days based on the 30-year average for the period 1970-2000.
Temperature Sensitive Use per Customer	-	Customer's actual use less the base use per customer per day, denoted below, multiplied by days in the billing period Residential Rate Code 60 = 06106 Residential Rate Code 90 = .03177 Firm General Service Rate Code 700 = 08313 Firm General Service Rate Code 701 = 87387 Firm General Service Rate Code 920 = 08139 Firm General Service Rate Code 921 = 73984
Actual Degree Days	-	The actual degree days reported by the National Weather Service Stations for applicable service areas in North Dakota weighted by customers

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Canceling 2nd Revised Sheet No 32

RESIDENTIAL PROPANE SERVICE Rate 90

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Availability:

For the community of Hettinger for all domestic purposes. See Rate 100, §V 3, for definition on class of service.

Rate:

Basic Service Charge	\$0 2930 per day
Distribution Delivery Charge.	\$ 644.812 per dk
Cost of Propane	Determined Monthly- See Rate Summary Sheet for Current Rate
Interim Rate Adjustment	\$ 117 per dk

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto.

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto. The cost of propane component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

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RESIDENTIAL PROPANE SERVICE Rate 90

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General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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FIRM GENERAL PROPANE SERVICE Rate 92

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Availability:

For the community of Hettinger for all purposes except for resale See Rate 100, §V.3, for definition on class of service

Rate:

Basic Service Charge:

For customers with meters rated
under 500 cubic feet per hour

\$0 ~~50~~52 per day

For customers with meters rated
over 500 cubic feet per hour

\$1-701 ~~75~~ per day

Distribution Delivery Charge

\$ 473~~59~~7 per dk

Cost of Propane:

Determined Monthly- See Rate
Summary Sheet for Current Rate

~~Interim Rate Adjustment:~~

~~\$ 109 per dk~~

Minimum Bill:

Basic Service Charge

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V 11, or any amendments or alterations thereto

Cost of Purchased Propane:

The cost of propane as defined in the Purchased Propane Cost Adjustment Rate 99 or any amendments or alterations thereto The cost of propane component is subject to change on a monthly basis

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto

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FIRM GENERAL PROPANE SERVICE Rate 92

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General Terms and Conditions:

1. The Company may at its discretion and upon thirty days notice, disconnect service to a customer utilizing a second source of propane. Any customer so disconnected shall not be eligible for service hereunder for one year from date of disconnection and shall be subject to reconnection charges to restore service after the one-year period.
2. The foregoing schedule is subject to Rates 100 through 124 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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I. PURPOSE:

These rules are intended to define good practice which can normally be expected, but are not intended to exclude other accepted standards and practices not covered herein. They are intended to ensure adequate service to the public and protect the Company from unreasonable demands

The Company undertakes to furnish service subject to the rules and regulations of the Public Service Commission of North Dakota and as supplemented by these general provisions, as now in effect or as may hereafter be lawfully established, and in accepting service from the Company, each customer agrees to comply with and be bound by said rules and regulations and the applicable rate schedules.

II DEFINITIONS:

The following terms used in this tariff shall have the following meanings, unless otherwise indicated:

AGENT – The party authorized by the transportation service customer to act on that customer's behalf.

APPLICANT – A customer requesting Company to provide service.

COMMISSION – Public Service Commission of the State of North Dakota.

COMPANY – Montana-Dakota Utilities Co

COMPANY'S OPERATING CONVENIENCE – The utilization, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of Company's operations. This does not refer to the customer's convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules or regulations, or similar requirements of public authorities.

CURTAILMENT – A reduction of transportation or retail natural gas service deemed necessary by the Company. Also includes any reduction of transportation natural gas service deemed necessary by the pipeline

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CUSTOMER – Any individual, partnership, corporation, firm, other organization or government agency supplied with service by Company at one location and at one point of delivery unless otherwise expressly in these rules or in a rate schedule

DELIVERY POINT – The point at which customer assumes custody of the gas being transported. This point will normally be at the outlet of Company's meter(s) located on customer's premises.

GAS DAY – Means a period of twenty-four consecutive hours, beginning and ending at 9:00 a.m Central Clock Time.

INTERRUPTION – A cessation of transportation or retail natural gas service deemed necessary by Company

NOMINATION – The daily dk volume of natural gas requested by customer for transportation and delivery to customer at the delivery point during a gas day

PIPELINE – The transmission company(s) delivering natural gas into company's system.

RATE – Shall mean and include every compensation, charge, fare, toll, rental and classification, or any of them, demanded, observed, charged or collected by the Company for any service, product, or commodity, offered by the Company to the public, and any rules, regulations, practices or contracts affecting any such compensation, charge, fare, toll, rental or classification

RECEIPT POINT – The intertie between Company and the interconnecting pipeline(s) at which point Company assumes custody of the gas being transported

SHIPPER – The party with whom the Pipeline has entered into a service agreement for transportation services

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III CUSTOMER OBLIGATION:

1. APPLICATION FOR SERVICE – A customer desiring gas service must make application to the Company before commencing the use of the Company's service. The Company reserves the right to require a signed application or written contract for service to be furnished. All applications and contracts for service must be made in the legal name of the customer desiring the service. The Company may refuse a customer or terminate service to a customer who fails or refuses to furnish reasonable information requested by the Company for the establishment of a service account. Any customer who uses gas service in the absence of application or contract shall be subject to the Company's rates, rules, and regulations and shall be responsible for payment of all service used.

Subject to rates, rules, and regulations, the Company will continue to supply gas service until notified by customer to discontinue the service. The customer will be responsible for payment of all service furnished through the date of discontinuance.

Any customer may be required to make a deposit as required.

2. INPUT RATING – All new customers whose consumption of gas for any purpose will exceed an input of 2,500,000 Btu per hour, metered at a single delivery point, shall consult with the Company and furnish details of estimated hourly input rates for all gas utilization equipment. Where system design capacity permits, such customers may be served on a firm basis. Where system design capacity is limited, and at Company's sole discretion, Company will serve all such new customers on an interruptible basis only. Architects, contractors, heating engineers and installers, and all others should consult with the Company before proceeding to design, erect or redesign such installations for the use of natural gas. This will ensure that such equipment will conform to the Company's ability to adequately serve such installations with gas.

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3. ACCESS TO CUSTOMER'S PREMISES – Company representatives, when properly identified, shall have access to customer's premises at all reasonable times for the purpose of reading meters, making repairs, making inspections, removing the Company's property, or for any other purpose incidental to the service
4. COMPANY PROPERTY – The customers shall exercise reasonable diligence in protecting the Company's property on their premises, and shall be liable to the Company in case of loss or damage caused by their negligence or that of their employees
5. INTERFERENCE WITH COMPANY PROPERTY – The customer shall not disconnect, change connections, make connections or otherwise interfere with Company's meters or other property or permit same to be done by other than the Company's authorized employees.
6. RELOCATED LINES - Where Company facilities are located on a public or private utility easement and there is a building encroachment(s), over gas facilities (Company-owned main, Company-owned service line or customer-owned service line) the customer shall be charged for line relocation on the basis of actual costs incurred by the Company including any required easements.
7. NOTIFICATION OF LEAKS – The customer shall immediately notify the Company at its office of any escape of gas in or about the customer's premises.
8. TERMINATION OF SERVICE – All customers are required to notify the Company, to prevent their liability for service used by succeeding tenants, when vacating their premises Upon receipt of such notice, the Company will read the meter and further liability for service used on the part of the vacating customer will cease
9. REPORTING REQUIREMENTS – Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein.

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IV. LIABILITY

1. CONTINUITY OF SERVICE – The Company will use all reasonable care to provide continuous service but does not assume responsibility for a regular and uninterrupted supply of gas service and will not be liable for any loss, injury, death, or damage resulting from the use of service, or arising from or caused by the interruption or curtailment of the same
2. CUSTOMER'S EQUIPMENT – Neither by inspection or non-rejection, nor in any other way does the Company give any warranty, express or implied, as to the adequacy, safety or other characteristics of any structures, equipment, lines, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties
3. COMPANY EQUIPMENT AND USE OF SERVICE – The Company will not be liable for any loss, injury, death or damage resulting in any way from the supply or use of gas or from the presence or operation of the Company's structures, equipment, lines, appliances or devices on the customer's premises, except loss, injuries, death, or damages resulting from the negligence of the Company
4. INDEMNIFICATION – Customer agrees to indemnify and hold Company harmless from any and all injury, death, loss or damage resulting from customer's negligent or wrongful acts under and during the term of service. Company agrees to indemnify and hold customer harmless from any and all injury, death, loss or damage resulting from Company's negligent or wrongful acts under and during the term of service.
5. FORCE MAJEURE – In the event of either party being rendered wholly or in part by force majeure unable to carry out its obligations, then the obligations of the parties hereto, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused. Such causes or contingencies affecting the performance by either party, however, shall not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting the performance relieve either party from its obligations to make payments of amounts then due hereunder, nor

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shall such causes or contingencies relieve either party of liability unless such party shall give notice and full particulars of the same in writing or by telephone to the other party as soon as possible after the occurrence relied on. If volumes of customer's gas are destroyed while in Company's possession by an event of force majeure, the obligations of the parties shall terminate with respect to the volumes lost.

The term "force majeure" as employed herein shall include, but shall not be limited to, acts of God, strikes, lockouts or other industrial disturbances, failure to perform by any third party, which performance is necessary to the performance by either customer or Company, acts of the public enemy or terrorists, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrest and restraint of rulers and peoples, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, line freeze-ups, sudden partial or sudden entire failure of gas supply, failure to obtain materials and supplies due to governmental regulations, and causes of like or similar kind, whether herein enumerated or not, and not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to overcome; provided that the exercise of due diligence shall not require settlement of labor disputes against the better judgment of the party having the dispute.

The term "force majeure" as employed herein shall also include, but shall not be limited to, inability to obtain or acquire, at reasonable cost, grants, servitudes, rights-of-way, permits, licenses, or any other authorization from third parties or agencies (private or governmental) or inability to obtain or acquire at reasonable cost necessary materials or supplies to construct, maintain, and operate any facilities required for the performance of any obligations under this agreement, when any such inability directly or indirectly contributes to or results in either party's inability to perform its obligations.

V GENERAL TERMS AND CONDITIONS:

- 1 AGREEMENT – Upon request of the Company, customer may be required to enter into an agreement for any service.

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2. RATE OPTIONS – Where more than one rate schedule is available for the same class of service, the Company will assist the customer in selecting the applicable rate schedule(s). The Company is not required to change a customer from one rate schedule to another more often than once in twelve months unless there is a material change in the customer's load which alters the availability and/or applicability of such rate(s), or unless a change becomes necessary as a result of an order issued by the Commission or a court having jurisdiction. The Company will not be required to make any change in a fixed term contract except as provided therein.
3. RULES FOR APPLICATION OF GAS SERVICE:
 - (a) Residential gas service is available to any residential customer for domestic purposes only. Residential gas service is defined as service for general domestic household purposes in space occupied as living quarters, designed for occupancy by one family. Typical service would include the following separately metered units, such as single private residences, single apartments, mobile homes and sorority and fraternity houses (this is not an all-inclusive list). In addition, auxiliary buildings on the same premise as the living quarters, used for residential purposes, may be served on the residential rate.
 - (b) Nonresidential service is defined as service provided to a business enterprise in space occupied and operated for nonresidential purposes. Typical service would include stores, offices, shops, restaurants, boarding houses, hotels, service garages, wholesale houses, filling stations, barber shops, beauty parlors, master metered apartment houses, common areas of shopping malls or apartments (such as halls or basements), churches, elevators, schools and facilities located away from the home site (this is not an all-inclusive list).
 - (c) The definitions above are based upon the supply of service to an entire premise through a single delivery and metering point. Separate supply for the same customer at other points of consumption may be separately metered and billed.
 - (d) If separate metering is not practical for a single unit (one premise) that is using gas for both domestic purposes and for conducting business (or for

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(e) nonresidential purposes as defined herein), the customer will be billed under the predominate use policy. Under this policy, the customer's combined service is billed under the rate (Residential or Nonresidential) applicable to the type of service which constitutes 50% or more of the customer's total connected load.

e-(e) Other classes of service furnished by the Company shall be defined in applicable rate schedules or in rules and regulations pertaining thereto. Service to customers for which no specific rate schedule is applicable shall be billed on the Nonresidential rates

4. DISPATCHING – Transportation customers will adhere to gas dispatching policies and procedures established by Company to facilitate transportation service. Company will inform customer of any changes in dispatching policies that may affect transportation services as they occur.

5 RULES COVERING GAS SERVICE TO MANUFACTURED HOMES – The rules and regulation for providing gas service to manufactured homes are in accordance with the Code of Federal Regulations (24CFR Part 3280 – Manufactured Homes Construction and Safety Standards) Subpart G and H which pertain to gas piping and appliance installation. In addition to the above rules, the Company also follows the regulations set forth in the NFPA 501A, Fire Safety Criteria for Manufactured Home Installations, Sites, and Communities.

6 CONSUMER DEPOSITS – The Company will determine whether or not a deposit shall be required of an applicant for gas service in accordance with Commission rules

(a) The amount of such deposit shall not exceed one and one-half times the estimated amount of one month's average bill

(b) The Company may accept in lieu of a cash deposit a contract signed by a guarantor, satisfactory to the Company, whereby the payment of a specified sum not to exceed the required cash deposit is guaranteed. The term of such contract shall be indeterminate, but it shall automatically terminate when the customer gives notice of service discontinuance to

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the Company or a change in location covered by the guarantee agreement of thirty days after written request for termination is made to the utility by the guarantor. However, no agreement shall be terminated without the customer having made satisfactory settlement for any balance, which the customer owes the Company. Upon termination of a guarantee contract, a new contract or a cash deposit may be required by the Company.

A deposit shall earn interest at the rate paid by the Bank of North Dakota on a six-month certificate of deposit as of the first business day of each year. Interest shall be credited to the customer's account annually during the month of December.

Deposits with interest shall be refunded to customers at termination of service provided all billings for service have been paid. Deposits with interest will be refunded to all active customers, after the deposit has been held for twelve months, provided prompt payment record has been established.

7 METERING AND MEASUREMENT

(a) Company will meter the volume of natural gas delivered to customer at the delivery point. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate, in which case the quantity supplied to customer shall be determined by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations.

(b) Transportation customers agree to provide the cost of the installation of remote data acquisition equipment to Company before transportation service is implemented.

8. MEASUREMENT UNIT FOR BILLING PURPOSES – The measurement unit for billing purposes shall be one (1) decatherm (dk), unless otherwise specified. Billing will be calculated to the nearest one-tenth (1/10) dk. One dk equals 10 therms or 1,000,000 Btu's. Dk's shall be calculated by the

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

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application of a thermal factor to the volumes metered This thermal factor consists of:

- (a) An altitude adjustment factor used to convert metered volumes at local sales base pressure to a standard pressure base of 14 73 psia, and
 - (b) A Btu adjustment factor used to reflect the heating value of the gas delivered
9. UNIT OF VOLUME FOR MEASUREMENT – The unit of volume for purpose of measurement shall be one (1) cubic foot of gas at either local sales base pressure or 14 73 psia, as appropriate, and at a temperature base of sixty degrees Fahrenheit (60°F) All measurement of natural gas by orifice meter shall be reduced to this standard by computation methods, in accordance with procedures contained in ANSI-API Standard 2530, First Edition, as amended. Where natural gas is measured with positive displacement or turbine meters, correction to local sales base pressure shall be made for actual pressure and temperature with factors calculated from Boyle's and Charles' Laws Where gas is delivered at 20 psig or more, the deviation of the natural gas from Boyle's Law shall be determined by application of Supercompressibility Factors for Natural Gas published by the American Gas Association, Inc., copyright 1955, as amended or superseded Where gas is measured with electronic correcting instruments at pressures greater than local sales base, supercompressibility will be calculated in the corrector using AGA-3/NX-19, as amended, supercompressibility calculation For handbilled accounts, application of supercompressibility factors will be waived on monthly-billed volumes of 250 dk or less
- 10 PRIORITY OF SERVICE AND ALLOCATION OF CAPACITY – Priority of Service from Highest to Lowest
- (a) Priority 1 – Firm sales services
 - (b) Priority 2 – Small interruptible sales and ~~small interruptible transportation services~~ at the maximum rate on a pro rata basis
 - (c) Priority 3 – Small interruptible sales at less than the maximum rate from the highest rate to the lowest rate on the pro rata basis where equal rates are applicable among customers

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- ~~(e)~~(d) Priority ~~34~~ – Large interruptible sales and large interruptible transportation services at the maximum rate on a pro rata basis.
- ~~(d)~~(e) Priority ~~45~~ – Small interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
- ~~(e)~~(f) Priority ~~56~~ – Large interruptible transportation services at less than the maximum rate from the highest rate to the lowest rate and on a pro rata basis where equal rates are applicable among customers.
- (f)(g) Priority 67 – Gas scheduled to clear imbalances.

Montana-Dakota shall have the right, in its sole discretion, to deviate from the above schedule when necessary for system operational reasons and if following the above schedule would cause an interruption in service to a customer who is not contributing to an operational problem on Montana-Dakota's system.

Montana-Dakota reserves the right to provide service to customers with lower priority while service to higher priority customers is being curtailed due to restrictions at a given delivery or receipt point. When such restrictions are eliminated, Montana-Dakota will reinstate sales and/or transportation of gas according to each customer's original priority.

- 11 LATE PAYMENT – Amounts billed will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing at the immediate subsequent billing date, provided however, that such amount shall not apply where a bill is in dispute or a formal complaint is being processed. All payments received will apply to the customer's account prior to calculating the late payment charge. Those payments applied shall satisfy the oldest portion of the bill first.
- 12. RETURNED CHECK CHARGE – A charge of \$10.00 will be collected by the Company for each check charged back to the Company by a bank.
- 13 TAX CLAUSE – In addition to the charges provided for in the gas tariffs of the Company, there shall be charged pro rata amounts which, on an annual basis, shall be sufficient to yield to the Company the full amount of any sales,

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use or excise taxes, whether they be denominated as license taxes, occupation taxes, business taxes, privilege taxes, or otherwise, levied against or imposed upon the Company by any municipality, political subdivision, or other entity, for the privilege of conducting its utility operations therein

The charges to be added to the customer's service bills under this clause shall be limited to the customers within the corporate limits of the municipality, political subdivision or other entity imposing the tax

14 UTILITY CUSTOMER SERVICES

(a) The following services will be performed at no charge regardless of the time of performance.

- (1) Fire and explosions calls
- (2) Investigate hazardous condition on customer premises, such as gas leaks, odor complaints, combustion gas fumes.
- (3) Maintenance or repair of Company-owned facilities on the customer's premises

(b) The following service calls will be performed at no charge during the Company's normal business hours:

- (1) Cut-ins and cut-outs.
- ~~(2) Disconnecting of gas appliances permanently removed from service or in connection with cut-outs~~
- ~~(3)~~(2) Lighting pilots, inspecting, and adjusting gas equipment in connection with establishing service when working cut-in orders
- ~~(4) Initial burner adjustment on residential gas burning appliances~~

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~~(5)(3)~~ High bills or inadequate service complaints.

~~(6)(4)~~ Location of underground Company facilities and customer-owned gas service lines for contractors, builders, plumbers, etc

~~(7)~~ Pilot relighting, testing thermocouple for proper operation and any pilot cleaning that can be done without removing pilot assembly-

~~(8)~~ Service calls for routine cut-ins, when the order is received prior to 12:00 p.m. on a regular work day, requiring service on the date the order is received, will be considered as non-chargeable regardless if work is performed outside of normal working hours-

15. UTILITY SERVICES PERFORMED AFTER NORMAL BUSINESS HOURS – For service requested by customers after the Company's normal business hours and on Saturday, Sunday, or legal holidays, a charge will be made for labor at standard overtime service rates and materials at retail prices.

Customers requesting service after the Company's normal business hours will be informed of the after hour service rate and encouraged to have the service performed during normal business hours.

- 16 NOTICE TO DISCONTINUE GAS SERVICE – Customers desiring to have their gas service disconnected shall notify the Company during regular business hours, one business day before service is to be disconnected. Such notice shall be by letter, personal visit or telephone call to the Company's local business office, in communities which an office is maintained. In other communities such notice shall be given to the Company's representative who services the community or to the nearest business office. Saturdays, Sundays and legal holidays are not considered business days.

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17. RECONNECTION FEE FOR SEASONAL OR TEMPORARY CUSTOMER – A customer who requests reconnection of service, during normal working hours, at a location where same customer discontinued the same service during the preceding 12-month period will be charged a reconnection fee as follows:

Residential - The Basic Service Charge applicable during the period while service was not being used or a minimum of \$30 00. The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Non-Residential – The Basic Service Charge applicable during the period while service was not being used. However, the reconnection charge applicable to seasonal business concerns such as irrigation, grain drying and asphalt processing shall be the Basic Service Charge applicable during the period while service was not being used less the Distribution Delivery Charge revenue collected during the period in-service. A minimum of \$30 00 will apply to reconnections occurring during normal business hours. The minimum will be based on standard overtime rates for reconnection of service occurring after normal business hours.

Transportation customers who cease service and then resume service within the succeeding 12 months shall be subject to a minimum reconnection charge of \$160 00 whenever reinstallation of the required ~~electronic~~ measurement/remote data acquisition equipment is necessary.

18. DISCONNECTION OF SERVICE FOR NONPAYMENT OF BILLS – All amounts billed for service are due when rendered and will be considered delinquent if not paid by due date shown on the bill. If any customer shall become delinquent in the payment of amounts billed, such service may be discontinued by the Company under the applicable rules of the Commission. The Company may collect a fee of \$12 00 before restoring gas service, which has been disconnected for nonpayment of service bills during normal business hours. Standard overtime rates will apply for services performed after normal business hours.

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19 DISCONNECTION OF SERVICE FOR CAUSES OTHER THAN
NONPAYMENT OF BILLS – The Company reserves the right to discontinue
service for any of the following reasons.

- (a) In the event of customer use of equipment in such a manner as to adversely affect the Company's equipment or service to others.
- (b) In the event of tampering with the equipment furnished and owned by the Company.
- (c) For violation of or noncompliance with the Company's rules on file with the Commission.
- (d) For failure of the customer to fulfill the contractual obligations imposed as conditions of obtaining service
- (e) For refusal of reasonable access to property to the agent or employee of the Company for the purpose of inspecting the facilities or for testing, reading, maintaining or removing meters.

The right to discontinue service for any of the above reasons may be exercised whenever and as often as such reasons may occur, and any delay on the part of the Company in exercising such rights, or omission of any action permissible hereunder, shall not be deemed a waiver of its rights to exercise same

Nothing in these regulations shall be construed to prevent discontinuing service without advance notice for reasons of safety, health, cooperation with civil authorities, or fraudulent use, tampering with or destroying Company facilities.

The Company may collect a reconnect fee of \$12 00 before restoring gas service, which has been disconnected for the above causes.

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20 UNAUTHORIZED USE OF SERVICE – Unauthorized use of service is defined as any deliberate interference such as tampering with a Company meter, pressure regulator, registration, connections, equipment, seals, procedures or records that result in a loss of revenue to the Company. Unauthorized service is also defined as reconnection of service that has been terminated, without the Company's consent.

(a) Examples of unauthorized use of service include the following, but are not limited to:

- (1) Bypass piping around meter.
- (2) Bypass piping installed in place of meter.
- (3) Meter reversed
- (4) Meter index disengaged or removed
- (5) Service or equipment tampered with or piping connected ahead of meter
- (6) Tampering with meter or pressure regulator that affects the accurate registration of gas usage
- (7) Gas being used after service has been discontinued by the Company
- (8) Gas being used after service has been discontinued by the Company as a result of a new customer turning gas on without the proper connect request

(b) In the event that there has been unauthorized use of service, customer shall be charged for

- (1) Time, material and transportation costs used in investigation
- (2) Estimated charge for non-metered gas
- (3) On-premise time to correct situation
- (4) Any damage to Company property.

(c) Customer service so disconnected shall be reconnected after a customer has furnished satisfactory evidence of compliance with Company's rules and conditions of service, and paid all charges as hereinafter set forth in this procedure

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- (1) All delinquent bills, if any.
- (2) The amount of any Company revenue loss attributable to said tampering
- (3) Expenses incurred by the Company in replacing or repairing the meter or other appliance costs incurred in preparation of the bill, plus costs as outlined in number 20.b above.
- (4) Reconnection fee applicable.
- (5) A cash deposit, the amount of which will not exceed the maximum amount determined in accordance with Commission Rules.

21 SEE ALSO THE FOLLOWING RATES FOR SPECIAL PROVISIONS:

Rate 102 – Residential Rate for Regular Employees
Rate 119 – Interruptible Gas Service Extension Policy
Rate 120 – Firm Gas Service Extension Policy
Rate 124 – Service Lines

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NEW INSTALLATION, REPLACEMENT, RELOCATION AND REPAIR OF GAS SERVICE LINES Rate 124

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- 1 The Company will install, at its expense, a service line extending from the main to the connection at the premise regulator and/or meter for all customers ~~connected on and after (effective date of tariff) and all replacement service lines installed on and after (effective date of tariff)~~. The service line installed by the Company will remain the Company's property
- 2 A non-refundable contribution may be required for that portion of the service line cost not supported by the expected or actual connected load. The contribution requirement will be determined based on minimum footage allowances determined annually taking into account the maximum allowable investment defined in Rate 120 and the average installed per foot cost. The Company reserves the right to charge customer the total cost of the installed service line if service is not initiated within 12 months of such installation.
- 3 The portion of the service line not cost justified shall be charged to the customer on the basis of direct costs to the Company. The Company may, at its option, calculate a statewide average cost per foot for such work based on its experience and may use such calculated amount for billing purposes. No minimum amount shall apply.
- 4 Where service line location changes are made due to building encroachments (a building is being constructed or is already located over a service line, etc), the customer shall be charged for on the basis of direct costs incurred by the Company.
5. Whenever a service line is damaged by the customer or someone under the employ of the customer necessitating the service line to be either repaired or replaced in whole or in substantial part, such work shall be charged on a direct cost basis. If the damage was caused by independent contractors, not in the employ of the customer, the charges shall be billed directly to such contractor.
- 6 Service line changes necessary to increase the size and capacity of an existing service line because of increased demand shall be treated in accordance with ¶2 above

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ATTACHMENT B

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Final Compliance Rates

Customer Class/Rate	Projected 2005			Total Proposed Revenue	Proposed Revenue Increase	Percent Increase
	Customers	Dk	Revenue			
Residential - Rate 60	74,919	8,152,728	\$66,809,177	\$68,476,749	\$1,667,572	2.5%
Firm General Service - Rate 70	11,532	5,747,216	44,030,409	44,861,870	831,461	1.9%
Air Force - Rate 64						
Firm	1	37,297	252,218	252,218	0	0.0%
Interruptible	2	842,568	4,734,108	4,734,108	0	0.0%
Total Air Force	<u>3</u>	<u>879,865</u>	<u>4,986,326</u>	<u>4,986,326</u>	<u>0</u>	<u>0.0%</u>
Small Interruptible						
Sales - Rate 71	82	570,263	3,481,200			0.0%
Transport - Rate 81	57	703,084	401,449			0.0%
Total Small Interruptible	<u>139</u>	<u>1,273,347</u>	<u>3,882,649</u>	<u>3,882,649</u>	<u>0</u>	<u>0.0%</u>
Large Interruptible						
Sales - Rate 85	0	0	0			
Transport - Rate 82	10	2,229,392	381,588			
Total Large Interruptible	<u>10</u>	<u>2,229,392</u>	<u>381,588</u>	<u>381,588</u>	<u>0</u>	<u>0.0%</u>
Total North Dakota	<u><u>86,603</u></u>	<u><u>18,282,548</u></u>	<u><u>\$120,090,149</u></u>	<u><u>\$122,589,182</u></u>	<u><u>\$2,499,033</u></u>	<u><u>2.1%</u></u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
ALLOCATION OF REVENUES
Projected 2005 - Final Compliance Rates**

RATE CLASS	Billing Determinants				
	Bills	Dk	Distribution Revenues	Gas Costs	Total Revenues
Residential	899,028	8,152,728	\$13,156,074	\$53,653,103	\$66,809,177
Firm General Service	138,384	5,747,216	6,207,981	37,822,428	44,030,409
Air Force					
Firm	12	37,297	6,767	245,451	252,218
Interruptible	24	842,568	114,728	4,619,380	4,734,108
Total Air Force	36	879,865	121,495	4,864,831	4,986,326
Small Interruptible					
Sales	984	570,263	341,902	3,139,298	3,481,200
Transportation	678	703,084	401,449	0	401,449
Total Small IT	1,662	1,273,347	743,351	3,139,298	3,882,649
Large Interruptible					
Sales	0	0	0	0	0
Transportation	120	2,229,392	381,588	0	381,588
Total Large IT	120	2,229,392	381,588	0	381,588
Total North Dakota	1,039,230	18,282,548	\$20,610,489	\$99,479,660	\$120,090,149

RATE CLASS	Target Rate Design		Rate Design Results		
	Increase In Revenue	% Increase	Increase In Revenue	Total Revenues	% Incr
Residential	\$1,670,229	2.50%	\$1,667,572	\$68,476,749	2.50%
Firm General Service	829,771	1.88%	831,461	44,861,870	1.89%
Air Force					
Firm			0	252,218	0.00%
Interruptible			0	4,734,108	0.00%
Total Air Force	0	0.00%	0	4,986,326	0.00%
Small Interruptible					
Sales					
Transportation					
Total Small IT	0	0.00%	0	3,882,649	0.00%
Large Interruptible					
Sales					
Transportation					
Total Large IT	0	0.00%	0	381,588	0.00%
Total North Dakota	\$2,500,000	2.08%	\$2,499,033	\$122,589,182	2.08%

INPUTS

Requested Return on Rate Base	8.791%
Proposed Increase	\$2,500,000
% Increase	2.08%
Inverse Of Tax Rate	60.45%
% Increase Res & FG Only	2.255512%

Cost of Gas (Adjusted for Losses)

As of 3/1/04	COG	Surcharge	Total
Firm	\$6,581	\$0.072	\$6,653
Interruptible	5,505	0.256	5,761
Seasonal- W	6,677	0.072	6,749
Seasonal- S	5,575	0.072	5,647
AFB	5,480	0.014	5,494

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE RECONCILIATION
RESIDENTIAL GAS SERVICE - RATES 60 & 90
Projected 2005 - Final Compliance Rates**

	Billing Units	Current		Proposed		Change
		Rate	Amount	Rate	Amount	
Residential Rates 60 & 90						
Basic Service Charge (600 & 601)	74,919 Bills	\$0 29	\$7,930,176	\$0 30	\$8,203,631	\$273,455
Distribution Charge	8,152,728 dk	0 641	5,225,899	0 812	6,620,015	1,394,116
Cost of Gas	8,152,728 dk	6 581	<u>53,653,103</u>	6 581	<u>53,653,103</u>	<u>0</u>
Total Revenue Rates 60 & 90			\$66,809,178	\$68,476,749	\$1,667,571	

Total Distribution Revenues Per Design	\$14,823,646
Target Distribution Revenues	<u>14,826,304</u>
Difference	<u><u>(\$2,658)</u></u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RESIDENTIAL GAS SERVICE - RATES 60 & 90
Projected 2005 - Final Compliance Rates**

Current Non-Gas Revenues	\$13,156,075
Proposed Revenue Increase	<u>1,670,229</u>
Total Revenue Requirement	\$14,826,304
Less	
Proposed Base Rate Revenues	8,203,631
Remaining Revenues To Be Collected	<u>6,622,673</u>
Total Rates 60 & 90 (Res) Consumption	8,152,728
Base Distribution Charge	\$0 812

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE RECONCILIATION
FIRM GENERAL GAS SERVICE - RATE 70
Projected 2005 - Final Compliance Rates**

	<u>Billing Units</u>	<u>Current</u>		<u>Proposed</u>		<u>Change</u>
		<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	
<u>Firm General Rate 70</u>						
Basic Service Chg Rates 700, 720 & 725	8,370 Bills	\$0 50	\$1,527,525	\$0 52	\$1,588,626	\$61,101
Basic Service Chg Rates 701, 721 & 726	3,162 Bills	1 70	1,962,021	1 75	2,019,728	57,707
Subtotal	11,532		\$3,489,546		\$3,608,354	118,808
Distribution Delivery	5,747,216 Dk	0 473	2,718,433	0 597	3,431,088	712,655
Cost of Gas	5,747,216 Dk	6 581	37,822,428	6 581	37,822,428	0
Total Revenue			\$44,030,407		\$44,861,870	\$831,463

Total Distribution Revenues Per Design	\$7,039,442
Target Distribution Revenues	<u>7,037,752</u>
Difference	<u>\$1,690</u>

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
FIRM GENERAL GAS SERVICE - RATE 70
Projected 2005 - Final Compliance Rates

Current Non-Gas Revenues	\$6,207,981
Proposed Revenue Increase	<u>829,771</u>
Total Revenue Requirement	<u>\$7,037,752</u>
Less	
Base Rate Revenues	3,608,354
Remaining Revenues To Be Collected	<u>3,429,398</u>
Total Rates 70, 72 and 90 (Firm) Consumption	5,747,216
Base Commodity Charge	\$0 597

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE 60 BILL COMPARISON
RESIDENTIAL GAS SERVICE**

<u>Month</u>	<u>Dk</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>Amount of Increase</u>	<u>% Increase</u>
January	19	\$147 58	\$151 14	\$3 56	2 41%
February	14	110 24	112 91	2 67	2 42%
March	14	111 11	113 81	2 70	2 43%
April	9	74 35	76 19	1 84	2 47%
May	6	52 75	54 09	1 34	2 54%
June	3	30 58	31 40	0 82	2 68%
July	2	23 58	24 23	0 65	2 76%
August	2	23 58	24 23	0 65	2 76%
September	4	37 88	38 86	0 98	2 59%
October	8	67 34	69 02	1 68	2 49%
November	12	96 23	98 58	2 35	2 44%
December	17	132 99	136 21	3 22	2 42%
Total	110	\$908 21	\$930 67	\$22 46	2 47%

Average Increase per Month \$1 87

<u>RATE 60</u>	<u>Current 1/</u>	<u>Proposed 2/</u>
Basic Delivery Charge	\$0 29	\$0 30
Distribution Delivery	\$0 641	\$0 812
Cost of Gas	6 653	\$6 653

1/ Rate effective February 1, 2004

2/ Includes February 2004 cost of gas

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE 70 BILL COMPARISON
FIRM GENERAL GAS SERVICE (< 500 Cubic Feet Per Hour Meters)**

MONTH	DK	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE	% INCREASE
January	51	\$378 93	\$385 87	\$6 94	1 83%
February	39	291 91	297 31	5 40	1 85%
March	39	293 41	298 87	5 46	1 86%
April	24	186 02	189 60	3 58	1 92%
May	15	122 39	124 87	2 48	2 03%
June	9	79 13	80 85	1 72	2 17%
July	6	58 26	59 62	1 36	2 33%
August	6	58 26	59 62	1 36	2 33%
September	12	100 51	102 60	2 09	2 08%
October	21	165 15	168 37	3 22	1 95%
November	33	250 16	254 85	4 69	1 87%
December	45	336 17	342 37	6 20	1 84%
Total	300	\$2,320 30	\$2,364 80	\$44 50	1 92%

RATE 70	Current 1/	Proposed 2/
Basic Delivery Charge	\$0 50	\$0 52
Distribution Delivery	\$0 473	\$0 597
Cost of Gas	6 653	\$6 653

1/ Rate effective February 1, 2004

2/ Includes February 2004 cost of gas

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE 70 BILL COMPARISON
FIRM GENERAL GAS SERVICE (> 500 Cubic Feet Per Hour Meters)**

MONTH	DK	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE	% INCREASE
January	153	\$1,142 98	\$1,163 50	\$20 52	1 80%
February	117	881 34	897.25	15 91	1 81%
March	117	886 44	902 50	16 06	1 81%
April	72	564 07	574 50	10 43	1 85%
May	45	373 37	380 50	7 13	1 91%
June	27	243 40	248 25	4 85	1 99%
July	18	180 97	184 75	3 78	2 09%
August	18	180 97	184 75	3 78	2 09%
September	36	307 54	313 50	5 96	1 94%
October	63	501 64	511 00	9 36	1 87%
November	99	756 47	770 25	13 78	1 82%
December	135	1,014 71	1,033 00	18 29	1 80%
Total	900	\$7,033 90	\$7,163 75	\$129 85	1 85%

RATE 70	Current 1/	Proposed 2/
Basic Delivery Charge	\$1 70	\$1 75
Distribution Delivery	\$0 473	\$0 597
Cost of Gas	6 653	\$6 653

1/ Rate effective February 1, 2004

2/ Includes February 2004 cost of gas

ATTACHMENT C

**MONTANA-DAKOTA UTILITIES CO.
PGA TARIFF SHEET
NORTH DAKOTA GAS
EFFECTIVE OCTOBER 2004**

	Firm		Small & Large Interruptible	Air Force Interruptible
	Residential & General Service	Optional Seasonal		
<u>Gas Cost Adjustment:</u>				
Gas Cost Level (Exhibit B)	\$6 227	\$6.330	\$5 195	\$5 173
Prior Gas Cost	<u>7 106</u>	<u>6 138</u>	<u>6 054</u>	<u>6 027</u>
Current Gas Cost Adjustment	(\$0 879)	\$0 192	(\$0 859)	(\$0 854)
<u>Surcharge Adjustment:</u>				
Current Adjustment	\$0 274	\$0 274	\$0 431	\$0 241
Prior Adjustment	<u>0 274</u>	<u>0 274</u>	<u>0 431</u>	<u>0 241</u>
Change in Surcharge Adjustment	\$0 000	\$0 000	\$0 000	\$0 000
<u>Margin Sharing Provision</u>				
Current Adjustment	(\$0 009)	(\$0 009)	\$0 000	\$0 000
Prior Adjustment	<u>(0 009)</u>	<u>(0 009)</u>	<u>0 000</u>	<u>0 000</u>
Change in Margin Sharing Provision	\$0 000	\$0 000	\$0 000	\$0 000
Net Increase (Decrease) in Gas Costs	<u><u>(\$0.879)</u></u>	<u><u>\$0.192</u></u>	<u><u>(\$0.859)</u></u>	<u><u>(\$0.854)</u></u>
Gas Cost Level	\$6 227	\$6 330	\$5 195	\$5 173
Plus Surcharge	<u>0 274</u>	<u>0 274</u>	<u>0 431</u>	<u>0 241</u>
Total Gas Cost Level in Tariff Rates	<u><u>\$6 501</u></u>	<u><u>\$6 604</u></u>	<u><u>\$5 626</u></u>	<u><u>\$5 414</u></u>

**MONTANA-DAKOTA UTILITIES CO.
CURRENT GAS COST ADJUSTMENT - NORTH DAKOTA
RESIDENTIAL AND GENERAL SERVICE
EFFECTIVE OCTOBER 2004
COMPLIANCE FILING**

	Amount
Total Gas Costs 1/	\$84,053,588
Residential and General Service dk Requirements 2/	13,558,507
Average Cost of Gas per dk	\$6 199
Average Cost of Gas as Adjusted for Losses @ 99 55%	6 227
Less Gas Cost Level in Rates 3/	7 106
Current Gas Cost Adjustment	(\$0 879)

1/ Includes all pipeline demand and commodity charges See Exhibit B, pages 5 -12 for currently effective pipeline rates Also includes a return on prepaid demand, commodity and cycle storage balances as shown on Exhibit C

2/ Normalized dk sales for the twelve months ended July 31, 2004, adjusted for losses at 45%

3/ Gas Cost Level in Current Tariff Rates Case No PU-04-333

Cost of Purchased Gas	\$7 074
Adjustment for Distribution Losses	0 9955
Gas Cost Level in Base Tariff Rates	\$7 106

**MONTANA-DAKOTA UTILITIES CO.
CURRENT GAS COST ADJUSTMENT - NORTH DAKOTA
OPTIONAL SEASONAL - RATE 72
EFFECTIVE OCTOBER 2004
COMPLIANCE FILING**

<u>Summer - June - September</u>	
Total Gas Costs 1/	\$84,053,588
Less Annual MDDQ Costs 1/	<u>13,063,955</u>
Total Gas Costs excluding MDDQ	\$70,989,633
Firm Service Requirements 1/	13,558,507
Other Gas Costs per Dk (excluding MDDQ)	\$5 236
Summer Seasonal Rate, adjusted for losses 2/	<u><u>\$5 260</u></u>
 <u>Winter - October - May</u>	
Annual MDDQ Costs 1/	\$13,063,955
Winter Firm Service Requirements	12,258,021
MDDQ Costs per Winter Dk	\$1 066
Add Other Gas Costs per Dk	<u>5 236</u>
Winter Seasonal Rate	6 302
Winter Seasonal Rate, adjusted for losses 2/	6 330
Less Gas Cost Level in Rates 3/	<u>6 138</u>
Current Gas Cost Adjustment	<u><u>\$0 192</u></u>

1/ Exhibit B, page 1

2/ Loss factor of 45%

3/ Gas Cost Level in Current Tariff Rates Case No PU-04-333

	<u>Summer</u>	<u>Winter</u>
Cost of Purchased Gas	\$6 110	\$7 176
Adjustment for Distribution Losses	0 9955	0 9955
Gas Cost Level in Base Tariff Rates	\$6 138	\$7 208

**MONTANA-DAKOTA UTILITIES CO.
CURRENT GAS COST ADJUSTMENT - NORTH DAKOTA
INTERRUPTIBLE
EFFECTIVE OCTOBER 2004
COMPLIANCE FILING**

	Amount
Total Gas Costs 1/	\$18,117,838
Interruptible Service dk Requirements	3,502,739
Average Cost of Gas per dk	\$5 172
Average Cost of Gas as Adjusted for Losses @ 99 55%	5 195
Less Gas Cost Level in Rates 2/	6 054
Current Gas Cost Adjustment	(\$0 859)

1/ Includes all pipeline demand and commodity charges See Exhibit B, pages 5 -12 for currently effective pipeline rates Also includes a return on prepaid demand, commodity and cycle storage balances as shown on Exhibit C, allocated to interruptible on MDDQ

2/ Gas Cost Level in Current Tariff Rates Case No PU-04-333

Cost of Purchased Gas	\$6 027
Adjustment for Distribution Losses	0 9955
Gas Cost Level in Base Tariff Rates	\$6 054

**MONTANA-DAKOTA UTILITIES CO.
CURRENT GAS COST ADJUSTMENT - NORTH DAKOTA
AIR FORCE INTERRUPTIBLE
EFFECTIVE OCTOBER 2004
COMPLIANCE FILING**

	<u>Amount</u>
Total Gas Costs 1/	\$4,551,818
Air Force Interruptible dk Requirements	880,000
Average Cost of Gas per dk	\$5 173
Less Gas Cost Level in Rates 2/	<u>6 027</u>
Current Gas Cost Adjustment	<u><u>(\$0 854)</u></u>

1/ Includes all pipeline demand and commodity charges. See Exhibit B, pages 5 -12 for currently effective pipeline rates. Also includes a return on prepaid demand, commodity and cycle storage balances as shown on Exhibit C, allocated to Air Force interruptible on MDDQ

2/ Gas Cost Level in Current Tariff Rates Case No. PU-04-333
Cost of Purchased Gas \$6 027

**MONTANA-DAKOTA UTILITIES CO.
RETURN ON CYCLE STORAGE BALANCES
AND PREPAID DEMAND AND COMMODITY BALANCES
NORTH DAKOTA GAS
EFFECTIVE OCTOBER 2004**

	General Service		
	Storage Balance 1/	Prepaid Commodity Balance 2/	Prepaid Demand
October 2004	\$14,181,104	\$1,191,738	\$3,556,628
November	11,847,344	1,002,404	2,875,333
December	7,034,023	636,168	1,359,107
January 2005	(38,244)	197,668	(460,150)
February	(4,855,165)	(109,825)	(1,534,690)
March	(7,735,284)	(308,652)	(2,216,684)
April	(7,227,670)	(313,167)	(2,014,184)
May	(4,128,881)	(164,590)	(1,184,490)
June	108,905	51,470	(45,135)
July	4,782,393	291,080	1,150,125
August	9,399,920	527,446	2,322,472
September	13,303,651	1,176,507	3,253,027
October	15,047,141	1,241,840	3,554,257
13 month average	<u>\$3,978,403</u>	<u>\$416,930</u>	<u>\$816,586</u>
Rate of Return	8.791%	8.791%	8.791%
Return	\$349,741	\$36,652	\$71,786
Return Requirement - Revenue	<u>\$579,137</u>	<u>\$60,692</u>	<u>\$118,871</u>

1/ Monthly balance from SENDOUT Model, allocated to North Dakota on ratio of storage capacity MDDQ

2/ Monthly balance allocated to North Dakota on sales volumes

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired Print your name and address on the reverse so that we can return the card to you Attach this card to the back of the mailpiece, or on the front if space permits 		<p>A Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B Received by (Printed Name) C Date of Delivery</p> <p>D Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below</p>	
<p>1 Article Addressed to</p> <p>Dan Kuntz Montana-Dakota Utilities Co 400 N 4th St Bismarck ND 58501</p>		<p>3 Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> C O D</p>	
<p>2 Article Number (Transfer from service label)</p>		<p>4 Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
		<p>7003 2260 0001 3517 0814</p>	
PS Form 3811, February 2004		Domestic Return Receipt 102595-02-M-1540	

PU-04-97

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired Print your name and address on the reverse so that we can return the card to you Attach this card to the back of the mailpiece, or on the front if space permits 		<p>A Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B Received by (Printed Name) C Date of Delivery</p> <p>D Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below</p>	
<p>1 Article Addressed to</p> <p>Don Ball Montana-Dakota Utilities Co 400 N 4th St Bismarck ND 58501</p>		<p>3 Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> C O D</p>	
<p>2 Article Number (Transfer from service label)</p>		<p>4 Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
		<p>7003 2260 0001 3517 0807</p>	
PS Form 3811, February 2004		Domestic Return Receipt 102595-02-M-1540	

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that

she is over the age of 18 years and not a party to this action and, on the **23rd day of September day of September, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **two** envelopes with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of

Order

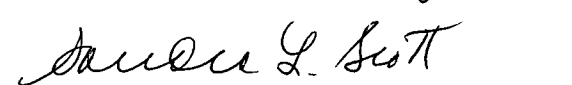
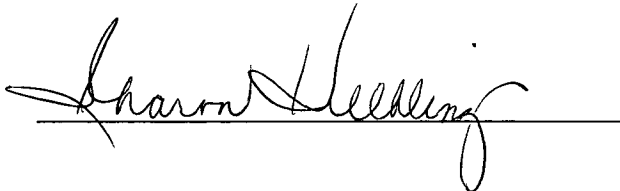
The envelopes were addressed as follows

Don Ball Montana-Dakota Utilities Co 400 N 4 th St Bismarck ND 58501 Cert. No. 7001 2260 0001 3517 0807	Dan Kuntz Montana-Dakota Utilities Co 400 N 4 th St Bismarck ND 58501 Cert. No. 7001 2260 0001 3517 0814
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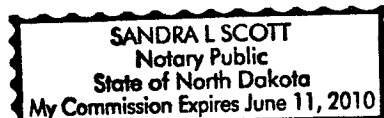
Each address shown is the respective addressee's last reasonably ascertainable post office address

Subscribed and sworn to before me
this **23rd day of September day of
September, 2004**

SEAL



Notary Public



APPROVED

MOTION

DATE: 9-22-04
KMF

September 22, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission adopt the Order Adopting Settlement in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application, Case No. PU-04-97.

sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

ORDER ADOPTING SETTLEMENT

September 22, 2004

Appearances

Commissioners: Anthony T. Clark, Susan E. Wefald, Kevin Cramer.

William W. Binek, Chief Counsel, Public Service Commission, State Capitol, 600 East Boulevard, Bismarck, ND 58505, appearing for the Public Service Commission advocacy staff.

Daniel S. Kuntz, Senior Attorney, MDU Resources Group, Inc., PO Box 5650, Bismarck, ND 58506-5650, appearing for Montana-Dakota Utilities Co.

Allen C. Hoberg, Director, Office of Administrative Hearings, 1707 North 9th Street - Lower Level, Bismarck, ND 58501-1882, appearing as procedural Hearing Officer.

Preliminary Statement

On March 3, 2004, Montana-Dakota Utilities Co. a division of MDU Resources Group, Inc (MDU) filed an application with the North Dakota Public Service Commission to increase its natural gas rates by 2.8% annually. The requested increase in rates would generate additional revenues of \$3,334,226 annually in North Dakota MDU's application is based on a calendar 2005 projected test year. MDU also included a request for interim rate relief, based on a 2004 test year, to generate additional annual revenues of \$1,869,539.

MDU proposed that all increases be flowed into the firm residential and commercial rate schedules, and that no change in rate levels be applied to the Air Force or small and large interruptible schedules. The proposed changes in rates by customer class are as follows: Residential, 3.5%, and Firm General Service, 2.3%. MDU estimates the proposed increase for a residential customer would average about \$31.45 per year.

MDU stated that the primary reason for its application is increased operating expenses driven largely by increases in labor and benefit costs.

On March 31, 2004, the Commission suspended MDU's rates filed with its application and issued a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline. The technical hearing was scheduled for August 31, 2004, and Public Input Sessions via interactive video teleconference were scheduled for May 10, 2004, in Bismarck, Devils Lake, Dickinson, Jamestown, Minot and Williston.

The Notice of Hearing specified the following issues to be considered:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are MDU's proposed rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?
6. Other relevant information or proposals concerning the proceeding.

The Notice of Intervention Deadline provided that any person wishing to intervene as a party in the proceeding must file a petition for intervention by May 24, 2004. No one petitioned to intervene as a party in the proceeding.

On April 15, 2004, Commission advisory staff filed a memo advising that MDU did not comply with the statute that authorizes interim rates because MDU did not properly adjust for inclusion of short-term debt in its capitalization structure, as was ordered by the Commission in MDU's most recent natural gas rate case, Case No. PU-399-02-183. Advisory staff further noted the law requires that any interim rate design may not change existing rate design and therefore advised that any interim rate increase must be applied equally to all customer classes, including the Air Force and interruptible customers.

On April 26, 2004, MDU submitted amended rate schedules for interim rate relief reflecting short-term debt in its capitalization structure resulting in a lower interim annual revenue requirement of \$1,714,000 or 1.4293 percent spread equally to all customer classes.

On April 27, 2004, the Commission ordered the amended interim rates effective for service rendered on or after May 3, 2004

Public Input Sessions were held via interactive video teleconference on May 10, 2004, in Bismarck, Devils Lake, Dickinson, Jamestown, Minot and Williston.

On July 15, 2004, the Commission advocacy staff (Staff) filed testimony recommending that MDU's revenue deficiency is \$603,000 for the 2005 test year. Staff agreed with MDU's rate design to modestly increase the daily basic service charge, with the remainder to be recovered through the distribution delivery charge on a per dekatherm basis. Staff's agreement to MDU's rate design proposal was predicated on the Commission's acceptance of MDU's proposed weather normalization adjustment referred to as the Distribution Delivery Stabilization Mechanism (DDSM). However, Staff recommended changes to administer the DDSM in real time so as to recover additional revenue during winter months that are warmer than normal and less revenue when winter months are colder than normal.

On August 2, 2004, MDU filed rebuttal testimony disputing the revenue deficiency recommended by Staff. MDU agreed with Staff's real-time DDSM recommendation but proposed that it be calculated based on each individual customer's usage rather than customer class average deviations.

On August 24, 2004, MDU and Staff filed a Settlement Agreement. MDU and Staff agreed to.

1. A net increase in rates to yield increased annual revenues of \$2,500,000 based on a return on rate base of 8.791 percent.
2. Basic service charge increases as proposed.
3. An increase to the residential customer class of approximately 2.5 percent and the general service class of approximately 1.9 percent with no increase to interruptible customers or to the Minot Air Force Base.
4. Establishment of the DDSM billing adjustment in form proposed by MDU in rebuttal testimony.

On August 31, 2004, a hearing was commenced as scheduled, but was immediately converted to an Informal Hearing to discuss the settlement agreement. At the Informal Hearing, MDU and staff discussed the settlement and summarized the basis for it. Generally, several issues originally disputed by staff were no longer disputed by staff after additional investigation and the filing of MDU rebuttal testimony. Consequently, the adjustments that these originally disputed items represented were no longer advocated by staff. In addition, at the Informal Hearing MDU addressed several questions and concerns raised by the Commission concerning language in the proposed DDSM tariff schedule. MDU agreed to revise the tariff language to address the Commission's concerns.

On September 8, 2004, the Commission issued a Notice of Rescheduled Hearing, rescheduling the hearing to September 20, 2004.

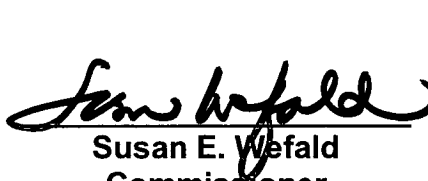
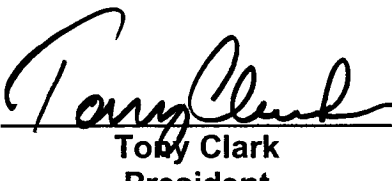

On September 10, 2004, MDU and Staff filed a Stipulation identifying issues no longer disputed and on which MDU and staff could agree in order to avoid holding a contested hearing on matters not in dispute. On September 20, 2004, a hearing was commenced as scheduled, but was immediately converted to a working session.

Having considered this matter, the Commission finds the Settlement Agreement filed August 24, 2004 is reasonable and should be approved. Therefore, the Commission issues the following:

Order

1. The Settlement Agreement filed August 24, 2004, a copy of which is attached to this Order and made a part of this Order, is APPROVED.
2. MDU's interim increase in annual revenues of approximately \$1,714,000 will remain effective until the revised tariff sheets contemplated by this order take effect, at which time the interim rates will expire and be replaced by the rates reflected in the compliance tariffs. Since the final rates exceed the interim rates, no refunds will be due.
3. MDU shall file compliance tariffs to implement final rates, as agreed to in the Settlement Agreement and at the Informal Hearing, to yield a final annual revenue increase of not more than \$2,500,000.

PUBLIC SERVICE COMMISSION

		
Susan E. Wefald Commissioner	Tony Clark President	Kevin Cramer Commissioner

interim increase in natural gas rates in the annual amount of \$1,871,000 to be effective 60 days from filing if the Commission suspended the proposed general rate increase. The Company subsequently revised its interim request to include short-term debt as part of the Company's cost of capital and to allocate the proposed interim rate increase equally to all customer classes with no change to existing rate design. The revised interim request sought an increase in annual revenue of \$1,714,000. On April 27, 2004, the Commission issued an Order approving the revised interim rates to become effective May 3, 2004.

3. The North Dakota Public Service Commission ("Commission") suspended Montana-Dakota's general rate increase application and set the matter for investigation and hearing.

4. On March 31, 2004, the Commission issued a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline which set forth the following issues to be considered in this case:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are MDU's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

6. Other relevant information or proposals concerning the proceeding.

5. On May 10, 2004, the Commission conducted a Public Input Session via interactive video conference with hearing sites in Bismarck, Minot, Dickinson, Jamestown, Devils Lake and Williston.

6. No person has filed a petition to intervene in this proceeding.

7. Discovery requests were served on Montana-Dakota by the Staff and responded to by the Company.

8. On July 15, 2004, the Staff filed direct testimony of Charles W. King, President of the economic consulting firm of Snavely King Majoros O'Connor & Lee. In his direct testimony, Mr. King recommended various adjustments to the 2005 test year that, if adopted, would reduce the test year revenue requirement to \$604,000. Mr. King further commented on Montana-Dakota's proposed rate design changes.

9. On August 2, 2004 and August 4, 2004, Montana-Dakota filed rebuttal testimony to the testimony of Mr. King. In its rebuttal testimony, Montana-Dakota responded to the adjustments recommended by Mr. King. The Company's rebuttal testimony included additional information and explanation on the test year items questioned by Mr. King.

10. Settlement discussions were held between the Parties on August 17, 2004 and August 20, 2004. As a result of those and subsequent discussions, the Parties reached this Settlement Agreement.

11. The Settlement Agreement is supported by the administrative record. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement in it's entirely, without conditions or modifications.

TERMS OF SETTLEMENT AGREEMENT

1. Revenue Increase. The Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$2,500,000 effective October 3, 2004. This revenue increase is based upon a return on rate base of 8.791 percent.

2. Basic Service Charge. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in Montana-Dakota's residential and general service Basic Service Charges as proposed by the Company.

3. Rate Design. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in residential and general service retail Distribution Delivery Charges which, when combined with the revenue yielded from the Basic Service Charge changes in paragraph 2, result in an overall increase of total residential test year revenues of approximately 2.5 percent and general service revenues of approximately 1.9 percent. The Parties agree to, and recommend the Commission approve, no increase in the rates for service to interruptible customers or to the Minot Air Force Base.

4. The Parties agree to, and recommend the Commission approve, the Company's proposed Distribution Delivery Stabilization Mechanism Rate 87 as filed with the Rebuttal Testimony of Tamie A. Aberle.

OTHER TERMS AND CONDITIONS

1. Basis of Settlement.

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. The Settlement Agreement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

2. Effect of the Settlement Negotiations.

It is understood and agreed that all offers of settlement and discussions related to this Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Public Service Commission does not approve this Settlement Agreement, it shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or otherwise.

3. Applicability and Scope.

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

4. Effective Date.

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by

this Settlement Agreement shall be effective on the dates specified herein.

5. Modification.

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any party files a letter with the Commission within three (3) business days of notice of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

Dated this 24th day of August, 2004.

MONTANA-DAKOTA UTILITIES CO.

By: Donald R. Ball
Its: Assistant Vice President –
Regulatory Affairs

Dated this 24th day of August, 2004.

NORTH DAKOTA PUBLIC SERVICE
COMMISSION STAFF

By: [Signature]
Its: Chief Counsel

MOTION

September 20, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission close the hearing and move into an immediate work session; in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application in Case No. PU-04-97.

sls

MOTION

August 31, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission close the formal hearing and move into an immediate informal hearing; in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application in Case No. PU-04-97.

sls



MONTANA-DAKOTA

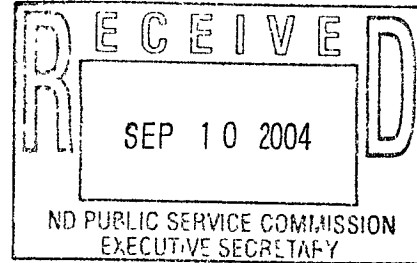
UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

September 10, 2004

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505



Re Natural Gas Rate Increase Application
Case No. PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc herewith submits the original and seven (7) copies of a Stipulation entered into by Montana-Dakota and the Staff of the North Dakota Public Service Commission.

One (1) copy of the Stipulation has been mailed to Charles King of Snaveley King Majoros O'Conner & Lee, Inc , 1220 L St NW, Suite 410, Washington, DC 20005.

Based on the Stipulation, Montana-Dakota will not be bringing witnesses Craig Keller and Steve Gaske to the hearing. If this causes any concern, please advise immediately.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Donald R. Ball
Assistant Vice President –
Regulatory Affairs

Attachment

cc: B T Imsdahl
D.W. Schulz
D.S. Kuntz

120 PU-04-97

Pages 1

Cover letter re Stipulation

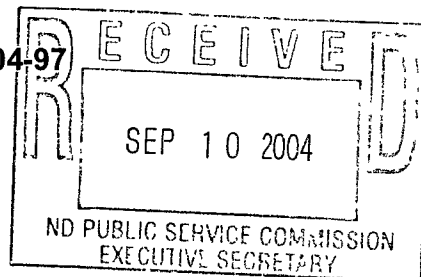
by Montana-Dakota Utilities Co a Division of MDU Resources Group, Inc
09/10/2004 CC Comm Legal PUD (3) Mike ALJ

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

)
)

Case No. PU-04-97



STIPULATION

This Stipulation is entered into by and between Montana-Dakota Utilities Co ("Montana-Dakota" or "Company") and the Staff of the North Dakota Public Service Commission ("Staff"), (collectively the "Parties") The Parties stipulate to the following for purposes of an order by the Public Service Commission establishing retail natural gas rates in this proceeding:

1. A fair and reasonable rate of return on the Company's rate base for the 2005 test year is 8.791 percent
2. The amounts of \$546,000 for 2005 test year pension expense and \$635,000 for 2005 test year Other Post Employment Benefits ("OPEBs") expenses are fair and reasonable
3. The Company's test year application of a conservation factor of one percent per year for residential and firm general service customers is fair and reasonable.
4. The amount of \$563,000 for 2005 test year vehicle and work equipment depreciation included in operation and maintenance expense is fair and reasonable
5. The Company's 2005 test year tax deduction and deferred income tax for pension expense are fair and reasonable.

6. The parties will not be required to present testimony or witnesses on the above issues at the hearing before the Commission in this proceeding.

Dated this 10th day of September, 2004.

MONTANA-DAKOTA UTILITIES CO.

By: Donald R. Ball

Its: Assistant Vice President –
Regulatory Affairs

Dated this 10th day of September, 2004.

NORTH DAKOTA PUBLIC SERVICE
COMMISSION STAFF

By: [Signature]

Its: Chief Counsel



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

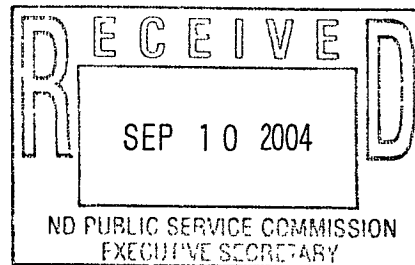
Executive Secretary
Illona A Jeffcoat-Sacco

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Bismarck, North Dakota 58505-0480
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TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

September 10, 2004

Ms Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E. Blvd. Ave., Dept. 408
Bismarck, ND 58505-0480

Re: Case No. PU-04-97
Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application



Dear Ms. Jeffcoat-Sacco

Enclosed for filing in the above case are the original and seven copies of the un-redacted Direct Testimony of Charles W. King on behalf of the Commission Adversary Staff.

Thank you.

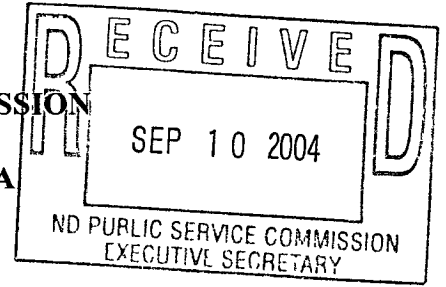
Sincerely,

William W. Binek
Chief Counsel

WWB/sls
Enclosure

C Douglas W Schulz
Daniel S Kuntz
Don Ball
Allen Hoberg

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**



In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES CO.,)
a Division of MDU Resources Group, Inc.)
for Authority to Establish Increased)
Rates for Natural Gas Service)

Case No. PU-04-97

**DIRECT TESTIMONY OF
CHARLES W. KING
ON BEHALF OF
THE COMMISSION ADVERSARY STAFF**

July 6, 2004

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CWK-6.....	Pipe Cost Variability
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**DIRECT TESTIMONY OF
CHARLES W. KING**

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INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Charles W. King. I am President of the economic consulting firm of Snavelly King Majoros O'Connor & Lee, Inc. ("Snavelly King"). My business address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. PLEASE DESCRIBE SNAVELLY KING.

A. Snavelly King, formerly Snavelly, King & Associates, Inc., was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. The firm has a professional staff of 12 economists, accountants, engineers and cost analysts. Most of its work involves the development, preparation and presentation of expert witness testimony before federal and state regulatory agencies. Over the course of its 34-year history, members of the firm have participated in over 1000 proceedings before almost all of the state commissions and all Federal commissions that regulate utilities or transportation industries.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. Attachment A is a summary of my qualifications and experience.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN REGULATORY PROCEEDINGS?

1 A. Yes. Attachment B is a tabulation of my appearances as an expert witness before
2 state and federal regulatory agencies.

3

4 **Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?**

5

6 A. I am appearing on behalf of the Advocacy Staff of the North Dakota Public
7 Service Commission.

8

9 **Q. WHAT SUBJECTS DOES YOUR TESTIMONY ADDRESS?**

10

11 A. My testimony addresses three broad subjects. Part I addresses the revenues,
12 expenses and rate base that Montana-Dakota Utilities, Inc. (“MDU” or “the
13 Company”) has claimed for its two test years, 2004 and 2005. Part II develops the
14 appropriate rate of return on the rate base associated with the North Dakota gas
15 distribution activities. It concludes with my recommendation as to the level of
16 rate relief to which the Company is entitled. Finally, Part III discusses issues of
17 class cost allocation, rate design and Company’s proposed Distribution Delivery
18 Stabilization Charge.

19

20 **Q. WHAT IS THE COMPANY SEEKING WITH RESPECT TO THE THREE**
21 **BROAD SUBJECT AREAS?**

22

23 A. Although the Company earned 9.55 percent on its rate base in 2003,¹ it claims that
24 unless rates are increased, its return on rate base will decline to 3.332 percent in
25 2004 and 0.244 percent in 2005. The Company is seeking an authorized rate of
26 return on rate base of 9.887 percent, inclusive of a 11.5 percent return on the 51.9
27 percent of its capital that is common equity. To achieve its proposed rate of
28 return, the Company contends that its 2004 rates must be increased by \$1,870,978
29 annualized and its 2005 rates by \$3,334,226.

30

¹ Net operating income of \$1,886,617 (Statement L, page 1) divided by rate base of \$19,755,709

1 Based on a projected 2005 cost of service study that shows a negative return on
2 residential service and very high returns on the Air Force and interruptible
3 services, MDU proposed to increase residential rates by 3.5 percent, firm general
4 service rates by 2.3 percent, and to hold Air Force and Interruptible rates at their
5 present levels.

6

7 Finally, the Company proposes a Distribution Delivery Stabilization Mechanism
8 that would adjust customers' bills for normal weather. Under this proposal, class
9 rates will be adjusted each year for the departure from normal weather
10 experienced the previous winter. Thus, if the weather is colder than normal in the
11 winter of 2004-2005, customers would receive a surcredit on their bills beginning
12 in May, 2005 for the effect of the Company's over-collection of revenue due to
13 that cold weather.

14

15 **Q. WOULD YOU PLEASE SUMMARIZE YOUR CONCLUSIONS WITH**
16 **RESPECT TO EACH OF THESE ISSUES?**

17

18 A. Yes. As regards revenue requirements, I have identified one revenue adjustment,
19 eight expense adjustments and one rate base adjustment that result in the
20 Company's earning and adjusted 7.440 percent return on rate base in 2004 and
21 6.177 percent return on rate base in 2005. I have applied all of the Commission's
22 findings as to rate of return in last MDU gas case, Case No. PU-399-02-183. In
23 that case, the Commission included short-term debt in MDU's capital structure,
24 and I have done likewise, using the quarterly balances of this debt at the end of
25 the last four quarters. When current data are applied to the Commission's
26 findings as regards return to equity, the result 8.8 percent, which I have rounded
27 up to 9.0 percent. The composite rate of return to rate base is 7.926 percent.

28

29 When 7.926 percent is used as the target return and applied to the adjusted
30 revenue requirements calculation, the indicated revenue deficiencies are \$162,000
31 in 2004 and \$603,000 in 2005.

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I find that 70 percent of mains costs are fixed relative to peak gas volume, and I allocate that proportion among customer classes based on the respective class's total annual consumption of gas. While this allocation does not reflect cost-causality, neither does the Company's allocation on a customer count basis. Annual gas consumption reflects instead the total value of gas service to the respective customer classes. This reallocation reduces the disparities among class rates of return exhibited by the Company's study, but it does not eliminate them. Accordingly, I recommend that the Company's proposed increases in Basic Service Charges be adopted, and any remaining revenue requirement be captured in the per-dekatherm Distribution Delivery Charges to the firm service customers.

I object to the Company's proposed Distribution Delivery Stabilization Mechanism on the grounds that the delay in the weather normalization adjustment could exaggerate, rather than diminish, the weather-related fluctuations in the Distribution Delivery Charge. I recommend instead a DDSM that operates on a real-time basis by applying a weather-related adjustment to the customers' current bills.

PART I – REVENUES, EXPENSES AND RATE BASE

Q. WHAT RATES ARE AT ISSUE IN THIS PROCEEDING?

A. The rates that are at issue in this proceeding are the rates that MDU charges for distributing gas to its customers in North Dakota. These rates principally cover the cost of operating and maintaining a system of gas mains and services that transport gas from the interstate pipelines to the customers' premises. They do not cover the cost of the gas itself, nor do they cover the cost of transporting and storing gas prior to its delivery to MDU's distribution system. These latter costs,

1 which are recovered through the Purchased Gas Cost Adjustment (“PGCA”), are
2 not at issue in this case.

3
4 In 2003, revenues from the North Dakota gas distribution charges at issue in this
5 case were \$21.2 million, or slightly over 20 percent of the total North Dakota
6 revenues, including the cost of gas, of \$103.1 million.

7
8 **Q. HOW DOES THE COMMISSION DETERMINE WHETHER MDU**
9 **NEEDS TO INCREASE ITS GAS DISTRIBUTION RATES?**

10
11 A. The Commission identifies a test year jurisdictional revenue requirement and
12 compares that amount with the jurisdictional revenues the Company will receive
13 during the same test year. If the revenue requirement is greater than the revenues,
14 then the rates are increased sufficiently to recover the revenue requirement.

15
16 **Q. WHAT DO YOU MEAN BY “JURISDICTIONAL” REVENUES AND**
17 **REVENUE REQUIREMENT?**

18
19 A. In spite of its name, there is no corporate entity known as Montana-Dakota
20 Utilities Company. Montana-Dakota Utilities is the public utility division within
21 MDU Resources Group, Inc.² Aside from operating the utilities division, MDU
22 Resources Group has a wholly-owned subsidiary, Centennial Holdings, which in
23 turn owns subsidiaries engaged in gas pipeline service, construction and
24 construction products, and foreign utility operations.

25
26 The MDU utilities division provides both gas and electric utility services, and it
27 operates in five different states. All of this means that “jurisdictional” revenues
28 and revenue requirements in this case are:

- 29
- the utilities division of MDU Resources,

² Great Plains Natural Gas is another utility division within MDU Resources and is considered as part of Montana-Dakota Utilities Co for purposes of this case

- 1 • the gas portion of the utilities division, and
2 • the North Dakota portion of the gas utilities division.
3

4 Fortunately, most of the revenues at issue in this case are discrete to North Dakota
5 gas operations. They are collected from residents and businesses in North Dakota
6 under the P.S.C. gas tariff schedules. A substantial portion of the plant is discrete
7 to North Dakota as well. It consists of “*situs*” mains, services, regulator stations
8 and meters physically located in North Dakota. More complicated are the
9 headquarters functions, most of which are located in Bismarck but apply to all
10 MDU states, some to both gas and electric, and at the top, to both regulated and
11 unregulated activities.
12

13 **Q. WHAT ARE THE COMPONENTS OF THE REVENUE REQUIREMENT?**
14

15 A. The components are maintenance and operating expenses, including depreciation,
16 income taxes, and a return on rate base. The term “return” is synonymous with
17 “profit,” but in utility regulation it is treated as a cost, specifically the cost of
18 equity capital. That cost will be the subject of Part II of this testimony.
19

20 **Q. WHAT TEST YEAR DOES THE COMPANY PROPOSE IN THIS CASE?**
21

22 A. The Company proposes two test years, 2004 and 2005. Calendar year 2004 is the
23 basis for MDU’s “interim” relief, presumably to take effect as soon as the
24 Commission reaches a decision in this case. Calendar year 2005 is proposed as
25 the basis for MDU’s “permanent” relief, with rates presumably taking effect on
26 January 1, 2005.
27

28 **Q. THESE ARE BOTH FORECAST YEARS. WHAT STANDARDS**
29 **GOVERN THE USE OF FORECAST TEST YEARS?**
30

1 A. In 1995, the North Dakota legislature enacted legislation that offered utilities a
2 choice as to test years:³

3
4 1. A public utility, at its option, may use any one of the following
5 twelve-month periods as its test year for rate filings with the commission:
6

7 a. A historical test year, which may be either the latest twelve-month
8 period for which actual data is available at the time of filing new
9 schedules or the latest calendar or fiscal year for which actual data is
10 available at the time of filing new schedules.

11
12 b. A current test year, which is any consecutive twelve-month period
13 ending not later than twelve months after the date new schedules are filed.
14 A public utility selecting a current test year also shall file data for the
15 twelve-month period immediately preceding the current test year selected
16 and that period is the "historical period" for the public utility.

17
18 c. A future test year, which is any consecutive twelve-month period
19 ending no later than twenty-four months after the date new schedules are
20 filed. A public utility selecting a future test year must file data for the
21 twelve consecutive months immediately preceding the future test year and
22 that period is the "current period" for the public utility.
23

24 2. A public utility selecting a current or future test year shall present the following
25 information:
26

27 a. A comparison of forecast data to historical period data to demonstrate
28 the reliability and accuracy of the utility's forecast including a comparison
29 of the prior years' forecast or budgeted data to actual data for those
30 periods.
31

32 b. A statement that the public utility's forecast is reasonable, reliable,
33 and was made in good faith and that all basic assumptions used in making
34 or supporting the forecast are reasonable, evaluated, identified, and
35 justified to allow the commission to test the appropriateness of the
36 forecast.
37

38 c. A statement that the accounting treatment that has been applied to
39 anticipated events and transactions in the forecast is the same as the
40 accounting treatment to be applied in recording the events once they have
41 occurred.
42

43 3. The public utility may update its filing for material changes as actual data
44 becomes available up to thirty days before the hearing. Except for good cause

³ ¶49 05 04.1

1 shown, a public utility may not submit more than one updated filing before the
2 hearing. In the absence of an updated filing by the public utility, the commission
3 may require a public utility to update its filing when the commission staff
4 introduces evidence that a material change has occurred.

5
6 4. A public utility may propose estimated or calculated adjustments to the selected
7 historical or current test year for all known and measurable changes in operating
8 results as measured in the test year. The adjustments must be made in the same
9 context and format as the information was provided in the original filing. The
10 adjustments may reflect material changes in plant investment, operating revenues,
11 expenses, and capital structure if the changes occurred during the selected
12 historical or current test year or are reasonably certain to occur subsequent to the
13 selected test year within twelve months from the date of the rate filing.
14

15 **Q. IS MDU'S SELECTION OF 2004 AND 2005 IN ACCORDANCE WITH**
16 **PARAGRAPH 1c QUOTED ABOVE?**

17
18 A. Yes. The latest test year, calendar year 2005, ends two months before the
19 24-month limit from the date the Company filed its application and
20 schedules, March 3, 2004.
21

22 **Q. HAS MDU SUBMITTED A COMPARISON OF FORECAST DATA TO**
23 **HISTORICAL PERIOD DATA, AS REQUIRED BY PARAGRAPH 2a**
24 **QUOTED ABOVE?**

25
26 A. Yes. That information is provided in Statement N. Further detail, comparing
27 2003 actual expenses with budgeted 2004 expenses, is found in the Statement N
28 workpapers.
29

30 **Q. HAS MDU DEMONSTRATED THAT "ALL BASIC ASSUMPTIONS**
31 **USED IN MAKING OR SUPPORTING THE FORECAST ARE**
32 **REASONABLE, EVALUATED, IDENTIFIED AND JUSTIFIED TO**
33 **ALLOW THE COMMISSION TO TEST THE APPROPRIATENESS OF**
34 **THE FORECAST," AS REQUIRED BY PARAGRAPH 2b QUOTED**
35 **ABOVE?**

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A. Not in every case, as I shall discuss subsequently in this testimony.

Q. ARE THE TEST YEAR ADJUSTMENTS “KNOWN AND MEASURABLE CHANGES” THAT “ARE REASONABLY CERTAIN TO OCCUR” AS REQUIRED BY PARAGRAPH 4 ABOVE?

A. Again, not in every case, as I shall discuss subsequently in this testimony.

Q. WHAT SPECIFIC ITEMS IN THE COMPANY’S FORECAST TEST YEAR RESULTS FAIL THE “REASONABLE, EVALUATED, IDENTIFIED AND JUSTIFIED”, “KNOWN AND MEASURABLE” AND “REASONABLY CERTAIN TO OCCUR” TESTS SET FORTH IN THE LEGISLATION QUOTED ABOVE?

A. I have identified one revenue assumption, eight expense elements, and one rate base adjustment that fail these tests. They relate to the following items:

- The assumption that a one percent conservation adjustment applies to commercial and industrial customers;
- The inclusion of the Company’s Supplemental Income Support Plan (“SISP”) as an expense item;
- The inclusion of the cost of SISP-related testimony in the Company’s rate case expenses and a three-year amortization of those expenses;
- The inclusion of bonuses related to Company profitability;
- The inclusion of institutional advertising a recoverable expense;
- The projection of vehicles and work equipment expense based on their depreciation charges;
- The projection of 2005 pension and post-employment benefit costs;
- The projection of miscellaneous costs into 2005;
- The incorporation of officers compensation increases since 1999; and
- The failure to reflect growth in contributions in aid of construction.

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Q. HAVE YOU SUMMARIZED THE EFFECT OF THE ADJUSTMENTS YOU PROPOSE ON MDU’S CLAIMED 2004 AND 2005 REVENUE REQUIREMENT?

A. Yes. The effect of these adjustments is shown on page 1 of Exhibit CWK-1.

ADJUSTMENT 1 – CONSERVATION REDUCTION

Q. WHAT IS THE CONSERVATION ADJUSTMENT TO WHICH YOU REFER?

A. In projecting its revenues into late 2004 and 2005, MDU has reduced the forecast consumption of all firm service customers by one percent to recognize the effect of improved appliance efficiency and improved insulation. This adjustment begins in September 2004 and runs through 2005.

Q. HAS THE COMPANY SUPPORTED THIS ADJUSTMENT?

A. Yes, but only for residential customers. In response to my data requests, the Company has provided several studies that persuasively support the one percent conservation adjustment for residential gas users.⁴ However, the Company has provided no support whatever for the proposition, implicit in its adjustment, that the same degree of conservation will apply to commercial and industrial customers. Since it is the Company’s burden to justify its adjustments, I consider the one percent reduction in commercial and industrial consumption as unsupported. It should therefore be disallowed.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

⁴ MDU response to Staff Data Request No 3, Question 15

1 A. As shown on page 2 of Exhibit CWK-1, the effect of eliminating the assumed one
2 percent conservation reduction in commercial and industrial consumption during
3 the last four months of 2004 is to increase total revenue for the year by \$491,558.
4 Of this amount, \$458,597 represents revenue from the purchased gas adjustment,
5 which would be offset by a corresponding reduction in cost. The net effect is to
6 increase the Company's revenues by \$32,961.

7
8 The impact on 2005 revenues is much greater because the Company has applied
9 the adjustment throughout the entire year. When this adjustment to commercial
10 and industrial consumption is eliminated, total revenues increase by \$5,344,356,
11 of which \$4,985,995 represents fuel costs, leaving a net increase in 2005 revenue
12 of \$358,361.

13

14 **ADJUSTMENT 2 – SUPPLEMENTAL INCOME SECURITY PLAN**

15

16 **Q. WHAT IS THE SUPPLEMENTAL INCOME SECURITY PLAN?**

17

18 A. MDU's Supplemental Income Security Plan ("SISP") is a supplemental pension
19 benefit to 48 officers and senior managers of MDU Resources, Inc. It provides
20 "income replacement" at retirement of up to 80 percent for lower income
21 employees qualifying for the plan to 50 percent for the higher income levels. SISP
22 supplements the retirement income that these employees receive from Social
23 Security, 401k plans, and the "qualifying" pensions that are available to all 1,013
24 employees of MDU Resources.

25

26 **Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO SISP?**

27

28 A. I recommend that SISP expenses be disallowed. MDU did not seek recovery of
29 SISP expenses until the 2001-2002 electric rate case, Case No. PU-399-01-186,
30 even though the plan has been in effect since 1982. In that case Staff argued that
31 SISP is a double pension for senior management staff and is unduly weighted in

1 favor of the highest income employees. The Commission agreed with Staff and
2 excluded SISP from recoverable expenses. The Commission again excluded SISP
3 in the 2002 gas rate case, Case No. PU-399-02-183. The issue arose yet again in
4 the recent electric case PU-399-03-296, but the case was settled, so the matter was
5 never decided.

6
7 Quite apart from Commission precedent, an additional reason for disallowing
8 SISP costs relates to incentives. The Internal Revenue Service treats payments
9 into special retirement plans such as SISP that apply only to highly-paid senior
10 executive managers and directors, most of whom are probably also stockholders,
11 as taxable income of the Company. If these costs were allowed to be deductible,
12 the managers and directors would have an incentive to hide corporate income by
13 paying benefits to themselves through these plans.⁵

14
15 The same principle applies to the establishment of the regulated revenue
16 requirement. The personnel who recommend the level of benefits are the same
17 personnel who receive them.⁶ If those benefits (along with associated income
18 taxes) are incorporated into the revenue requirement, then the incentive will be
19 make them very, very generous. That generosity would be entirely at the expense
20 of the ratepayers.

21
22 **Q. HOW DO YOU RESPOND TO MR. CONLEY'S ASSERTION THAT SISP**
23 **IS A CONVENTIONAL AND NECESSARY PART OF THE**
24 **COMPENSATION PACKAGE TO KEY EMPLOYEES AND IS**
25 **REQUIRED TO MAKE MDU COMPETITIVE WITH OTHER**
26 **EMPLOYMENT OPPORUNITIES AVAILABLE TO THESE HIGHLY**
27 **SKILLED INDIVIDUALS?**

⁵ It is my understanding that the IRS does allow deduction of pension payments to retired employees

⁶ Executive compensation is ultimately determined by a Compensation Committee consisting of three outside (non-employee) directors. However, this committee acts on the recommendations of management

1 A. Even if the managers and directors exert self-control and avoid overly generous
2 benefits, the benefits should still be paid by shareholders. As Mr. Conley
3 accurately points out, the employees who receive SISP “are responsible for
4 planning for the future, identifying and implementing appropriate strategies for
5 the Company, implementing effective cost reduction programs, streamlining the
6 organization, implementing new technologies and maintaining and increasing the
7 efficiencies of the Company.” As such, they are the direct representatives of the
8 Company’s stockholders, and they are the employees most responsible for
9 providing the profits that those stockholders expect. For this reason, I believe that
10 the stockholders, not ratepayers, should bear the relatively minor cost of
11 supplementing the retirement income of these key individuals.

12
13 **Q. WHAT ARE THE COSTS OF SISP THAT YOU ARE RECOMMENDING**
14 **BE DISALLOWED?**

15
16 A. On Statement N, page 10, MDU reports that its 2004 SISP costs are expected to
17 be \$260,000 and its 2005 SISP costs are forecast as \$243,000.

18
19 **ADJUSTMENT 3 – RATE CASE EXPENSES**

20
21 **Q. WHAT RATE CASE EXPENSES DOES THE COMPANY PROPOSE TO**
22 **INCLUDE IN ITS REVENUE REQUIREMENT?**

23
24 A. The Company is seeking to incorporate \$124,610 in rate case expenses into its
25 revenue requirement for both 2004 and 2005. These include a three-year
26 amortization of \$244,557 in expenses for this case, \$42,000 in amortization for
27 the last gas case, No. PU-399-02-183, and \$1,091 in recurring annual regulatory
28 expenses.

29

supplemented by reports from outside compensation consultants such as The Hay Group and Towers
Perrin

1 **Q. WHAT ADJUSTMENTS DO YOU PROPOSE IN THESE EXPENSES?**

2

3 A. I propose two adjustments. The first is a follow-through from the last adjustment.
4 If SISP costs are to be disallowed, then the cost of hiring the witness to support
5 SISP's inclusion should likewise be disallowed. That amount is \$79,400.
6 Second, I propose that the remaining expenses from this rate case be amortized
7 over four years, consistent with the amortization period of expenses from the last
8 rate case.

9

10 **Q. WHAT IS THE EFFECT OF THESE TWO ADJUSTMENTS ON THE**
11 **ANNUAL RECOVERY OF RATE CASE EXPENSES?**

12

13 A. As shown on page 3 of Exhibit CWK-1, I propose that rate case expenses be
14 reduced from \$124,610 to \$84,380, or by \$40,230.

15

16 **ADJUSTMENT 4 – BONUSES**

17

18 **Q. WHAT BONUS AMOUNTS HAS MDU INCLUDED WITH ITS LABOR**
19 **EXPENSES?**

20

21 A. The Company has based its 2004 and 2005 North Dakota labor costs on the
22 expected percentage changes in total Company-wide labor costs from the
23 preceding year. In projecting its 2004 labor cost, however, the Company did not
24 include its forecast 2004 bonuses, but instead a three-year average of bonuses
25 during 2002 through 2004. This treatment appears to reduce 2004 gas service
26 bonuses on a Company-wide basis from \$2,839,960 to \$1,875,113. It has the
27 effect of reducing the 2003-2004 inflator for North Dakota labor costs from 7.77
28 percent to 6.82 percent.

29

30 **Q. IS THERE ANY OBJECTION TO THIS PROCEDURE?**

31

1 A. Yes. Bonuses are based in part on Company-wide profitability. I have no
 2 objection to flowing through to employees some of the benefits of improved
 3 profits when prices are stable. However, when profits increase due to rate cases,
 4 the incorporation into the subsequent rate case of bonuses resulting from those
 5 increased profits becomes circular. Rate case increases cause bonuses to increase,
 6 which then inflate the next rate case increase.

7

8 In this specific case, it would appear that one of the reasons that Company-wide
 9 gas service bonuses increased from \$834,870 in 2002 to \$1,950,510 in 2003 was
 10 the success of the Company in receiving, in December 2002, \$1.972 million in
 11 additional revenue as a result of Case No. PU-399-02-183. One of the reasons
 12 that the Company expects its 2004 gas service bonuses to increase further to
 13 \$2,839,960 may be the rate increase the Company hopes to obtain in this case.

14

15 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO BONUSES?**

16

17 I recommend that a portion of the increase in bonuses from their 2002 level to the
 18 three-year average used by the Company be disallowed. This portion would be
 19 the proportion of each bonus that is based on the profitability of the Company.

20

21 **Q. WHAT SPECIFIC BONUS PLANS DOES THE COMPANY MAINTAIN?**

22

23 A. The company has four separate bonus plans:

24

	<u>2003 Amount</u> ⁷
25 • Executive Incentive Compensation Plan (“EICP”)	\$624,510
26 • Management Incentive Compensation Plan (“MICP”)	165,539
27 • Mid-Management Plan	528,317
28 • BETA Plan	<u>1,084,622</u>
29 Total	\$2,402,988

30

⁷ Response to Staff Data Request No 2, Question 13, Attachment B **Confidential**

1 Q. TO WHAT EXTENT ARE THESE BONUS PLANS BASED ON THE
2 PROFITABILITY OF THE COMPANY?

3
4 A. The largest plan, and the clearest from the standpoint of identifying profit
5 relationship, is the BETA plan. The maximum bonus is 7.0 percentage points of
6 salary, and there are six measures comprising this total. The first measure is
7 “utility earnings” which is up to 5 percentage points. The third measure is “group
8 service and repair activities”, which is up 0.5 percentage points. In spite of its
9 name, this measure is profit-related because it depends specifically on district
10 gross profits. Therefore, 5.5% of the 7.0% total (78.5 percent) is explicitly profit
11 related.

12
13 Next clearest is the Mid-Management Bonus plan. The description furnished by
14 the company states that “(t)he employee will receive 50% of the maximum payout
15 based on achieving the corporate performance factor and will receive up to
16 another 50% based upon achievement of individual goals.”⁸ Therefore,
17 approximately 50 percent of this bonus is profit related. Indeed, the company’s
18 worksheet calls this component “utility profitability payout.”

19
20 The other two plans, Executive Incentive Compensation Plan (“EICP”) and
21 Management Incentive Compensation Plan (“MICP”), are much more amorphous.
22 Both plans are designed to reward successful corporate performance as measured
23 against specified performance goals, as well as exceptional individual
24 performance. Quoting from the EICP description, the primary basic concept is
25 “(t)he performance measures used reflect both shareholder’s interests (earnings)
26 and customer interests (cost efficiency). In addition, individual performance will
27 be evaluated and appropriate adjustments to target award levels may be made.”⁹
28 Nothing is actually specified or quantified in the Company’s documentation we
29 received. However, since these plans apply to senior executives, it would be

⁸ Response to Staff Data Request No 2, Question 13, Attachment A

⁹ Id

1 very conservative to assume that 50 percent of the total is determined on the basis
2 of profitability measures.

3

4 **Q. HAVE YOU CALCULATED AN ADJUSTMENT THAT WOULD**
5 **ELIMINATE THE PROFIT-RELATED PORTION OF THE INCREASES**
6 **IN BONUSES?**

7

8 A. Yes. Page 4 of Exhibit CWK-1 shows this calculation. The first five lines
9 calculate the increases in bonuses from 2002 to the three-year average 2002-2004.
10 That increase is \$1.04 million for all gas operations. On lines 6 through 10, I
11 calculate that 62.9 percent of this increase is related to the profitability of the
12 Company. For total gas operations, the profit-related increase in bonuses is
13 \$653,937, or 2.68 percent of total labor costs. When applied to North Dakota, the
14 disallowance or the profit-based bonus increase is \$244,613 in 2004 and \$257,670
15 in 2005.

16

17 **ADJUSTMENT 5- INSTITUTIONAL ADVERTISING**

18

19 **Q. WHAT FORMS OF ADVERTISING DOES THE COMPANY**
20 **PURCHASE?**

21

22 A. There are three forms of advertising that the Company purchases, informational,
23 promotional and institutional. In 2003, the Company paid \$27,000 for
24 informational advertising, \$35,000 for promotional advertising, and \$111,000 for
25 institutional advertising, for a total of \$173,000 in advertising expenses.

26

27 **Q. HOW MUCH OF THIS ADVERTISING EXPENSE DOES THE**
28 **COMPANY SEEK TO RECOVER FROM RATEPAYERS?**

29

1 A. The Company seeks to recover \$138,000 from ratepayers in both 2004 and 2005.
2 This amount includes informational and institutional advertising, but no
3 promotional advertising.
4

5 **Q. HOW ARE “INFORMATIONAL” AND “INSTITUTIONAL”**
6 **ADVERTISING DEFINED?**
7

8 A. The Uniform System of Accounts of the Federal Energy Regulatory Commission
9 (“FERC”) defines informational advertising as follows:

10 (A)ctivities which primarily convey information as to what the utility
11 urges or suggests customers should do in utilizing gas service to protect
12 health and safety, to encourage environmental protection, to utilize their
13 gas equipment safely and economically, or to conserve natural gas.¹⁰
14

15 NDCC 69-09-01-29 states as follows:

16 “Institutional advertising” means advertising which has as its primary
17 objective the enhancement or preservation of the corporate image of the
18 utility and to present it in a favorable light to the general public and
19 investors.
20

21 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THESE**
22 **TWO FORMS OF ADVERTISING?**
23

24 A. It is obvious that informational advertising benefits ratepayers because it conveys
25 to them information they need for the safe and efficient use of their gas
26 appliances. The same cannot be said of institutional advertising. As defined by
27 the North Dakota code, it appears to accrue to the primary benefit of stockholders
28 by persuading the public to take a more favorable view of the Company. It is also
29 designed to influence investors favorably, with the immediate effect of increasing
30 the share prices of the Company’s stock. For this reason, I recommend that
31 institutional advertising be supported by the Company’s shareholders, not by its
32 ratepayers.
33

1 **Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT ON THE COMPANY'S**
2 **REVENUE REQUIREMENT?**

3

4 A. The Company predicts that its institutional advertising budget will remain at its
5 2003 level through 2004 and 2005. That level is \$111,000 per year. This amount
6 should be removed from the Company's revenue requirement in each year.

7

8 **ADJUSTMENT 6 – VEHICLES AND WORK EQUIPMENT**

9

10 **Q. HOW HAS THE COMPANY FORECAST THE OPERATING AND**
11 **MAINTENANCE EXPENSE OF ITS VEHICLES AND WORK**
12 **EQUIPMENT FOR THE YEARS 2004 AND 2005?**

13

14 A. The Company has forecast its vehicles and work equipment expense based on the
15 predicted depreciation charges for these categories of equipment from 2003 to
16 2004 and 2005.

17

18 **Q. IS THIS A REASONABLE BASIS FOR FORECASTING OPERATING**
19 **AND MAINTENANCE EXPENSES?**

20

21 A. No. In a delayed phase of the last rate case, Case No. PU-399-02-183, MDU and
22 the Staff agreed to a settlement that changed the Company's gas and common
23 plant depreciation rates. Among the most radical changes were increases in the
24 depreciation rates for vehicles. The settlement was approved on July 31, 2003 and
25 the rates became effective September 1, 2003. This Commission-approved
26 depreciation rate increase accounts for the dramatic increase in vehicle
27 depreciation from \$290,000 in 2003 to a projected \$606,000 in 2004.¹¹

28

¹⁰ 18 CFR Ch 1, ¶ 909

¹¹ See Statement N workpapers, page 67

1 The change in depreciation expense might be an appropriate predictor of
2 operating and maintenance expense if the depreciation rate remained the same,
3 but there is no reason whatever to believe that O&M expenses would increase
4 when the depreciation rate changes.

5

6 **Q. WHAT IS THE APPROPRIATE BASIS FOR PREDICTING VEHICLE
7 AND WORK EQUIPMENT O&M EXPENSES?**

8

9 A. It is fairly obvious that gross plant would be a much better indicator of the
10 requirements for operating and maintaining vehicles and work equipment.

11

12 **Q. HAVE YOU CALCULATED THE ADJUSTMENT REQUIRED TO
13 RESTATE 2004 AND 2005 VEHICLE AND WORK EQUIPMENT O&M
14 EXPENSES ON THE BASIS OF GROWTH IN GROSS PLANT
15 INVESTMENT?**

16

17 A. Yes. That calculation is presented on page 5 of Exhibit CWK-1. It shows that if
18 vehicle and work equipment O&M expenses are forecast on the basis of gross
19 plant, the 2004 expenses are reduced by \$265,000, and the 2005 expenses are
20 reduced by \$297,000.

21

22 **ADJUSTMENT 7 – PENSION AND OPEBs**

23

24 **Q. WHAT COSTS HAS MDU INCLUDED IN ITS TEST YEAR REVENUE
25 REQUIREMENTS FOR PENSIONS AND OTHER POST-EMPLOYMENT
26 BENEFITS?**

27

28 A. The Company has included \$295,000 for pensions and \$619,000 for Other Post-
29 Employment Benefits (“OPEBs”) – principally health insurance – in its 2004
30 revenue requirement, for a total of \$914,000. The Company predicts that in 2005

1 pension costs will almost double to \$546,000, and OPEBs will increase to
2 \$635,000, for a total cost in that year of \$1,181,000.¹²

3

4 **Q. WHAT WERE THE COSTS FOR THESE ITEMS IN 2003?**

5

6 A. In 2003, pension costs were negative 201,000, and OPEB costs were \$579,000.

7

8 **Q. WHAT ACCOUNTS FOR THE VERY DRAMATIC INCREASE IN**
9 **PENSION COSTS?**

10

11 A. Under Statement of Financial Accounting Standards No. 87, the annual
12 recognition of pension costs is very much affected by the relationship of the asset
13 value of the pension fund to the Projected Benefit Obligation (“PBO”). The PBO
14 is based on an actuarial analysis of the cumulative future obligations to pay
15 pensions to existing and retired employees. Those obligations are discounted to
16 their present value based on the current yield of corporate bonds. When the asset
17 value of the pension fund is greater than the PBO, then pension costs are negative,
18 as happened in 2003. But when the PBO exceeds the asset value of the pension
19 fund, then pension costs can become quite large.

20

21 Both the asset value of the pension fund and the PBO are somewhat unstable
22 numbers. The value of the pension fund is heavily influenced by changes in the
23 securities markets. If the stock market declines, the value of the pension fund
24 declines, and a shortfall against the PBO develops. Also, if the current earnings
25 of the fund decline, then there is less money to offset current pension payments,
26 and again, the pension costs increase.

27

28 The PBO is also subject to change, principally due to changes in interest rates.
29 Paradoxically, when interest rates decline, the PBO increases. That is because the
30 factor used to discount the future obligations to their present value declines,

¹² Statement N, page 10.

1 increasing the PBO. Conversely, if interest rates increase, then the present value
2 of the PBO declines, all else being equal.

3
4 Between 2003 and 2004, the asset value of MDU's pension funds declined due to
5 the poor performance of the stock market. Meanwhile, interest rates fell to their
6 lowest levels in decades, so that the present value of the PBO increased. The
7 result was a PBO that exceeded the value of the pension fund, creating a sudden
8 jump in pension costs.

9
10 **Q. WHAT ACCOUNTS FOR THE DRAMATIC INCREASE IN PENSION**
11 **COSTS IN 2005.**

12
13 A. The Company has forecast both the asset value of its fund and its PBO. That
14 forecast shows a much higher pension cost in 2005 than 2004.

15
16 **Q. IS THIS FORECAST REASONABLE?**

17
18 A. I do not see how it can be. To forecast 2005 pension costs requires the Company
19 to predict measures that it cannot possibly know. Specifically, the Company must
20 predict the asset value of its pension fund, it must predict the earnings of the
21 pension fund, and it must forecast the interest rate on corporate bonds, all as of
22 the end of 2004. These values are not "known and measurable" as required by
23 North Dakota law. That being the case, the Company's pension costs are not
24 known and measurable.

25
26 **Q. WHAT ADJUSTMENT DO YOU PROPOSE FOR PENSION COSTS?**

27
28 A. I recommend using the latest "known and measurable" cost of pensions, which is
29 the 2004 cost, calculated at the beginning of that year, as the costs for 2005.

30
31 **Q. DO THE SAME CONSIDERATIONS APPLY TO OPEBs?**

1

2 A. Yes Statement of Financial Accounting Standards No. 106 (“SFAS 106”), which
3 covers OPEBs, parallels SFAS 87, which covers pensions. The same problem
4 with “known and measurable” costs applies to OPEB costs as well.

5

6 **Q. WHAT IS THE EFFECT OF YOUR PROPOSED ADJUSTMENT TO**
7 **PENSION AND OPEB COSTS?**

8

9 A. As shown on page 6 of Exhibit CWK-1, the effect of holding 2005 pension and
10 OPEB costs to their 2004 levels is to reduce the Company’s 2005 revenue
11 requirement by \$267,000.

12

13 **ADJUSTMENT 8 – 2.5 PERCENT INFLATION FACTOR**

14

15 **Q. WHAT IS THE 2.5 PERCENT INFLATION FACTOR?**

16

17 A. In forecasting its 2005 expenses, MDU made specific predictions with respect to
18 most of its costs. Labor, for example, was forecast based on the Company’s
19 union contract. Depreciation reflected its capital additions budget. But for the
20 remainder of its expenses, it used a 2.5 percent inflation factor from the budgeted
21 2004 costs. The specific costs that were inflated by this factor were:

22

- 23 • Contract Labor,
- 24 • Materials, net of capital installation credits and reimbursements,
- 25 • Postage,
- 26 • Telephone,
- 27 • Office Supplies, and
- 28 • All other operating and maintenance costs.

29

30 **Q. WHAT IS THE BASIS FOR THE 2.5 PERCENT FACTOR?**

31

1 A. The 2.5 percent factor is intended to be the overall rate of inflation between the
2 year 2004 and 2005. It is presumably based on 10 different forecasts of consumer
3 price inflation that the Company presented on page 9 of its Statement N
4 workpapers.

5

6 **Q. DO THE 10 FORECASTS SUPPORT A 2.5 PERCENT INFLATION**
7 **FACTOR BETWEEN 2004 AND 2005?**

8

9 A. No. The average of the 10 forecasts for 2004 is 1.84 percent, and for 2005 it is
10 2.22 percent. The simple average of these two numbers is 2.03 percent.

11

12 **Q. DOES THE USE OF A 2.5 PERCENT INFLATION FACTOR REFLECT**
13 **“KNOWN AND MEASURABLE” CHANGES THAT ARE**
14 **“REASONABLY CERTAIN TO OCCUR,” AS REQUIRED BY NORTH**
15 **DAKOTA LAW?**

16

17 A. No. The Company has put forth no data to demonstrate that these various items
18 of cost will change in lock step with changes in the Consumer Price Index. It is
19 possible that some of these costs may, in fact, decline between 2004 and 2005.
20 Postage, for example could decline if the Company uses more electronic billing.
21 The increased use of e-mail could cause telephone costs to decrease. Contract
22 labor appears to vary erratically. Page 12 of Statement N shows that two of the
23 four categories of contract labor costs are budgeted to decline between 2003 and
24 2004.

25

26 **Q. BUT DOESN'T IT STAND TO REASON THAT COSTS WILL INCREASE**
27 **BETWEEN 2004 AND 2005?**

28

29 A. No. Between November 1993 and December 2003, MDU's gas rates (exclusive
30 of the cost of gas) did not increase. In fact, rates were reduced by \$800,000 in

1 1999.¹³ During that ten-year period, the CPI increased 26.4 percent.¹⁴
2 Apparently, MDU was able during those years to hold its cost increases relative to
3 its revenue growth well below the rate of inflation.

4

5 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THESE COSTS?**

6

7 A. Since the Company apparently has no specific bases for predicting the 2005 level
8 of these various cost categories, I recommend that they be held to their budgeted
9 2004 levels for the year 2005.

10

11 **Q. WHAT IS EFFECT OF THIS ADJUSTMENT?**

12

13 A. Page 7 of Exhibit CWK-1 shows that the impact of holding these six categories of
14 expense to their 2004 levels is to reduce the Company's 2005 revenue
15 requirement by \$85,000.

16

17 **ADJUSTMENT 9 – OFFICERS' COMPENSATION INCREASES**

18

19 **Q. WHAT IS THE ISSUE WITH RESPECT TO OFFICERS'**
20 **COMPENSATION?**

21

22 A. The issue is presented on page 8 of Exhibit CWK-1. At the top of the page, I
23 show the number of employees, the average annual compensation, and the
24 average annual increase in per-employee direct compensation between 1999 and
25 2003 for each category of MDU's employees. The tabulation reveals that the
26 Company's officers enjoyed average annual increases in compensation of 19.5
27 percent. The only other categories that even approached this level of increase
28 were the next levels down, the regional managers and the directors, who received

¹³ See Order Approving Settlement Offer, Case No PU-399-96-325, December 16, 1998

¹⁴ All urban consumers, November 1993 145 8, December 2003 184 3 bls.gov/pub/special requests/cpi

1 8.8 and 8.1 percent annual increases, respectively. All other categories received
2 increases within the range of 2.6 to 6.2 percent annually.

3
4 In the middle of the page, I display the annual numbers for officers and all other
5 employees for each year since 1999. This tabulation reveals that, in addition to
6 receiving annual increases more than twice those of any other category of
7 employees, the number of officers increased from 7 to 10, accounting for three of
8 the four net employee increase between 1999 and 2003. Total officer
9 compensation increased 30.2 percent annually as against 4.9 percent for all other
10 employees. In 1999, officer compensation amounted to 3.4 percent of all other
11 compensation. By 2003, that percentage had increased to 8.1 percent.

12
13 The issue is whether these highly disproportionate compensation increases should
14 be passed through to ratepayers in the form of higher rates, or whether
15 shareholders should be required to absorb some or all of these increases.

16
17 **Q. DOES THIS ISSUE INVOLVE THE SAME CONSIDERATIONS AS**
18 **THOSE RELATED TO THE SUPPLEMENTAL INCOME SECURITY**
19 **PLAN (SISP)?**

20
21 **A.** Yes, it does. These disproportionate compensation increases have been awarded
22 solely to the handful of top management personnel. No other class of employees
23 has enjoyed even half the rate of compensation increase. The determination of
24 management compensation is made by a three-member compensation committee
25 selected from the outside (non-employee) directors of the Company.
26 Nevertheless, this compensation committee acts on the advice and
27 recommendations of management, augmented by consultants' reports that may
28 reflect a bias toward pleasing their clients. For this reason, it is not unfair to argue
29 that the compensation awards to senior officers are influenced, if not directly
30 determined by the recipient officers themselves. A check against the possibility

1 of such self-serving activity is to challenge the incorporation of the
2 disproportionate compensation increases into the ratepayers' revenue requirement.

3
4 Additionally, as with SISP, the officers who receive these benefits are the direct
5 representatives of the shareholders. They, more than any other employees, are
6 beholden to the shareholders to maximize profits, build shareholder value, and
7 ensure the integrity of the shareholders' equity investment. For this reason, it is
8 not unreasonable to ask shareholders to support the portion of the officers'
9 compensation increases that exceeds those of other employees of the Company.

10
11 **Q. ARE THERE ANY OTHER CONSIDERATIONS THAT BEAR**
12 **DIRECTLY ON THE OFFICER' COMPENSATION INCREASES?**

13
14 A. Yes. The request to incorporate these disproportionate officer compensation
15 increases comes in the context of two rate increase applications in as many years.
16 To some extent, these applications reflect a failure of management. Between
17 1993 and 2001, MDU was able to resist seeking rate increases without suffering
18 any significant loss in net income. Indeed, the Company agreed to reduce rates in
19 1998. Then, in 2002, the Company approached this Commission for a rate
20 increase. This was the same year that the Company's officers enjoyed an 11.2
21 percent increase in direct compensation, and the number of officers increased
22 from seven in 2000 to nine in 2002. Following the end of 2003, the Company
23 again approached the Commission for a rate increase. This filing followed a year
24 during which average officer compensation vaulted 25.2 percent, and the number
25 of officers increased again, now to 10. To my knowledge, this increase in the
26 number of officers has not coincided with any expansion in the scope of activities
27 conducted by the Company.

28
29 It seems highly inappropriate to impose rate increases on ratepayers that reflect
30 disproportionate compensation increases to the very employees who were
31 positioned to avoid those rate increases. One might even argue that those

1 employees should be penalized, not rewarded, for the fact that now, after almost a
2 decade of rate stability, they suddenly find that they cannot maintain the
3 profitability of the operation without two rate increases in two years.

4
5 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND WITH REGARD TO**
6 **OFFICERS' COMPENSATION?**

7
8 A. I recommend that the base year 2003 revenue requirement be reduced by the
9 extent to which increases in officers' compensation since 1999 have exceeded
10 increases in compensation to all other employees.

11
12 The calculation of the adjustment is presented at the bottom of page 8 of Exhibit
13 CWK-1. Non-officer compensation has increased at an annual rate of 4.9 percent
14 since 1999. Had officers' compensation increased at that rate, it would have been
15 \$2,210,750 less in 2003 than it actually was. To identify the portion of this
16 disproportionate increase allocable to North Dakota gas operations, I used the
17 ratio of total company SISP costs to North Dakota gas SISP costs, as claimed by
18 the Company. That proportion is 13.125 percent, so that the recommend
19 disallowance is \$290,154. This disallowance applies to both test years, 2004 and
20 2005.

21
22 **ADJUSTMENT 10 – CUSTOMER ADVANCES FOR CONSTRUCTION**

23
24 **Q. WHAT ARE CUSTOMER ADVANCES FOR CONSTRUCTION?**

25
26 A. These are advances that customers make to cover their allotted portion of new
27 construction when the Company extends (or expands) gas lines to service specific
28 customers or, in the case of developers, new neighborhoods. These advances are
29 an offset to capital costs included in rate base.

30

1 **Q. WHAT ASSUMPTION HAS THE COMPANY MADE WITH RESPECT**
2 **TO THE TEST YEAR AMOUNTS OF THESE ADVANCES?**

3

4 A. As shown on page 12 of Statement N, the Company has assumed that customer
5 advances during 2004 and 2005 will remain at their 2003 average level.

6

7 **Q. IS THIS A REASONABLE ASSUMPTION?**

8

9 A. No. A much more reasonable assumption would be that customer advances
10 would change as the level of construction changes. Since the Company is
11 assuming that its construction budget will increase, it should as well assume that
12 customer advances will increase.

13

14 **Q. WHAT IS THE EFFECT OF MATCHING THE RATE OF CUSTOMER**
15 **ADVANCES TO THE RATE OF CONSTRUCTION DURING THE**
16 **YEARS 2004 AND 2005?**

17

18 A. Page 9 of Exhibit CWK-1 shows that MDU has forecast increases in capital
19 additions of 20.2 percent in 2004 over 2003 and 8.8 percent in 2005 over 2004.
20 Applying these percentage increases to customer advances has the effect of
21 reducing rate base by \$51,000 in 2004 and by \$78,000 in 2005. The
22 corresponding reduction in depreciation during 2004 is \$2000 and in 2005 it is
23 \$3000.

24

25 **SUMMARY OF ADJUSTMENTS**

26

27 **Q. WHAT IS THE OVERALL EFFECT OF ALL OF THE REVENUE,**
28 **EXPENSE AND RATE BASE ADJUSTMENTS YOU HAVE**
29 **RECOMMENDED?**

30

1 A. Page 1 of Exhibit CWK-1 shows that the cumulative effect of the adjustments I
2 have made is to increase the Company's net operating income from North Dakota
3 gas distribution operations during 2004 from \$672,000 to \$1,497,000 and from
4 \$51,000 to \$1,287,000 in 2005. These figures reflect the calculation of income
5 taxes on page 10 of Exhibit CWK-1. The after-tax rate of return in 2004 is 7.440
6 percent in 2004, rather than 3.332 percent. In 2005, the rate of return is 6.177
7 percent, rather than the Company's asserted 0.244 percent.

8
9

10 **PART II – RATE OF RETURN**

11

12 **Q. WHAT HAVE YOU FOUND TO BE THE APPROPRIATE RATE OF**
13 **RETURN ON MSU'S NORTH DAKOTA GAS RATE BASE?**

14

15 A. Based on the analyses presented in this testimony, I find that the appropriate rate
16 of return on the Company's gas rate base in North Dakota is **7.926 percent**,
17 inclusive of a return to equity of **9.0 percent**. These percentages are presented in
18 Exhibit CWK-2.

19

20 **Q. WHAT INFORMATION DID YOU EXAMINE IN PREPARING YOUR**
21 **TESTIMONY ON RATE OF RETURN?**

22

23 A. I began by reading the testimonies of MDU witnesses Craig Keller and J. Stephen
24 Gaske and their associated exhibits and statements. I prepared a series of data
25 requests to which the Company responded. These responses in turn prompted a
26 further round of data requests to which the Company has since responded. I also
27 reviewed the rate of return portion of the Commission's December 10, 2002
28 decision in Case No. PU-399-02-183, MDU's last gas case, which as I shall
29 discuss, is the basis for my recommendation in this case.

30

31 **Q. WHAT COMPONENTS MAKE UP MDU'S RATE OF RETURN?**

1

2 A. There are three components to MDU's rate of return, the capital structure, the cost
3 of preferred stock and debt, and the cost of equity.

4

5 **Q. WHAT CAPITAL STRUCTURE DOES THE COMPANY PROPOSE?**

6

7 A. The Company proposes a forecast capital structure for the year 2005, as follows:¹⁵

8

9	Long Term Debt	\$153,350,000	43.535%
10	Preferred Stock	16,050,000	4.614%
11	Common Equity	<u>182,743,012</u>	51.908%
12	Total	\$352,243,012	100.000%

13

14 **Q. IS THIS AN APPROPRIATE CAPITAL STRUCTURE?**

15

16 A. No. In its order in the last gas rate case, Case No. PU-399-02-183, the
17 Commission agreed with me that the capital structure should reflect the makeup
18 of the rate base. The rate base includes elements such as materials and supplies
19 inventories, fuel stocks and prepayments, which are short-term commitments that
20 would be financed with short-term debt. Accordingly, the Commission included
21 short-term debt in MDU's capital structure.

22

23 **Q. HOW HAVE YOU CALCULATED SHORT-TERM DEBT FOR**
24 **PURPOSES OF INCORPORATING IT INTO MDU'S CAPITAL**
25 **STRUCTURE?**

26

27 A. MDU uses a forecast 2005 capital structure, which it is entitled to do under North
28 Dakota law. Since short-term debt is quite variable, it is difficult to predict with
29 any precision. For this reason, I have used the average amount of short-term debt
30 outstanding during the four most recent quarters for which data are available. As

¹⁵ MDU Statement F, page 3

1 shown in Note 3 on Exhibit CWK-2, the average daily amount of short-term debt
 2 outstanding during the four quarters ending March 31, 2004 was \$34.67 million,
 3 and the average annualized cost was 1.18 percent.

4
 5 **Q. WHAT IS THE CAPITAL STRUCTURE THAT INCLUDES THIS**
 6 **ESTIMATE OF SHORT-TERM DEBT?**

7
 8 A. That capital structure is developed in Exhibit CWK-2. It consists of the following
 9 components:

11	Long Term Debt	\$153,350,000	39.634%
12	Short Term Debt	34,670,505	8.961%
13	Preferred Stock	16,250,000	4.614%
14	Common Equity	<u>182,843,012</u>	<u>47.257%</u>
15	Total	\$386,913,517	100.000%

16
 17 **Q. WHAT DO YOU RECOMMEND AS THE COST OF DEBT AND**
 18 **PREFERRED STOCK?**

19
 20 A. I have accepted the Company's estimate that its 2005 cost of debt will be 8.518
 21 percent and its cost of preferred stock will be 4.614 percent.

22
 23 **Q. WHAT RETURN TO EQUITY DO YOU RECOMMEND?**

24
 25 A. I recommend a return to equity of 9.0 percent.

26
 27 **Q. HOW DID YOU ARRIVE AT THIS FIGURE OF 9.0 PERCENT?**

28
 29 A. I have simply implemented all of the Commission's findings with respect to
 30 equity return in its December 10, 2002 decision in Case No. PU-399-183. In that
 31 case, I disputed the Company's witness, Stephen Gaske, on a number of topics.

1 On some, the Commission sided with me, on others with Dr. Gaske, and on still
2 others, it acknowledged both our arguments but declined to adjust the rate of
3 return based on them. A summary of the Commission's findings is as follows:

- 4 • The Commission agreed with me that Dr. Gaske's flotation cost adder should
5 be rejected.
- 6 • The Commission agreed with my broader selection of comparison gas
7 distribution companies.
- 8 • The Commission adopted Dr. Gaske's factor of 1.625 for calculating next
9 year's dividends.
- 10 • The Commission adopted the more current data that I presented.
- 11 • The Commission found the "basic DCF" calculation most useful and rejected
12 the modifications of it recommended by both Dr. Gaske and myself.
- 13 • The Commission declined to adjust the basic DCF findings for the risk
14 considerations recommended by both Dr. Gaske and myself.
- 15 • The Commission declined to adjust the basic DCF findings based on
16 "benchmark" analyses recommended by both Dr. Gaske and myself.

17
18 **Q. DOES DR. GASKE'S PRESENTATION IN THIS CASE REFLECT THE**
19 **COMMISSION'S FINDINGS IN CASE NO. PU-399-02-183?**

20
21 A. Only in one respect. Dr. Gaske has expanded his selection of comparison
22 companies from six to ten. Otherwise, Dr. Gaske repeats virtually all of the
23 arguments and makes the same adjustments that he made in the last case.

24
25 **Q. WHAT IS THE RESULT OF DR. GASKE'S ANALYSES IF YOU ADOPT**
26 **ALL OF THE FINDINGS THAT THE COMMISSION MADE IN THE**
27 **LAST CASE?**

28
29 A. Exhibit CWK-3 replicates the table on page 19 (para. 79) in the Commission's
30 order in Case No. PU-399-02-183. It was from that table that the Commission
31 found MDU's rate of return. All of the data are drawn from Dr. Gaske's Exhibit

1 (SJG-2). Page 1 of Exhibit CWK-3 shows the results of the “basic” DCF
2 analysis. Page 2 uses Dr. Gaske’s “second-stage retention growth rate estimates”
3 in which he weighted the growth factor two-thirds based on analysts’ predictions
4 and one third on a calculation of the ability of the utilities’ to fund earnings
5 growth given their pattern of reinvestment. The exhibit reveals that the basic
6 DCF procedure yields a return of 9.96 percent, while the second-stage retention
7 growth method shows a DCF return of 10.06 percent.

8
9 **Q. HAVE YOU UPDATED THE DATA THAT YOU EXTRACTED FROM**
10 **DR. GASKE’S EXHIBIT?**

11
12 A. Yes. That updating is presented in Exhibit CWK-4. Page 1 of this exhibit reveals
13 that an updating of Dr. Gaske’s “basic” DCF analysis yields an average rate of
14 return of 8.67 percent. On page 2 of Exhibit CWK-4, I have updated Dr. Gaske’s
15 “Second-stage Projected Earnings Retention Growth Rates” which are weighted
16 one third by the retention growth potential and two-thirds by Zack’s forecasts.
17 The result of this calculation is a growth factor of 5 percent. Page 3 of Exhibit
18 CWK-4 shows that this formulation of the DCF procedure yields a return of 8.93
19 percent.

20
21 **Q. BASED ON THESE EXHIBITS, WHAT RETURN TO EQUITY DO YOU**
22 **RECOMMEND?**

23
24 A. Based purely on the results presented in Exhibit CWK-4, I could recommend a
25 return to equity of 8.8 percent. However, this simple average contrasts strongly
26 with the 10.0 percent that results from simply plugging Dr. Gaske’s six-month old
27 numbers into the calculation. It is also dramatically below the 11.329 percent
28 found by the Commission in Case No. PU-399-02-183, decided December 10,
29 2002. For this reason, I recommend that the Exhibit CWK-4 results be rounded
30 upward to **9.0 percent**.

31

1 **Q. WHAT OVERALL RATE OF RETURN ON RATE BASE DO YOU**
2 **RECOMMEND?**

3

4 A. I recommend an overall post-tax rate of return on rate base of 7.926 percent. The
5 calculation of this number is presented on Exhibit CWK-2.

6

7 **Q. BASED ON YOUR RECOMMENDED RATE OF RETURN AND**
8 **RATEMAKING ADJUSTMENTS, WHAT LEVEL OF RATE RELIEF**
9 **DOES THE COMPANY REQUIRE?**

10

11 A. My calculation of the revenue relief required by the Company is presented in
12 Exhibit CWK-5. As calculated on page 1 of Exhibit CWK-1, the Company will
13 earn an adjusted rate of return of 7.440 percent in 2004. It will require a revenue
14 increase of \$162,000 to bring this return up to the target of 7.926 percent in that
15 year. In 2005, the Company will earn 6.177 percent on its adjusted rate base, and
16 a revenue increase of \$603,000 will be required to bring that return up to 7.926
17 percent.

18

19 **PART III – COST ALLOCATION AND RATE DESIGN**

20

21 **Q. WHAT IS MEANT BY “COST ALLOCATION AND RATE DESIGN?”**

22

23 A. Cost allocation conventionally refers to the process of distributing the revenue
24 requirement among the respective classes of customers. In MDU’s case, there are
25 five classes of customers:

26

- Residential

27

- Firm General (non-residential)

28

- Air Force

29

- Small Interruptible

30

- Large Interruptible

1 These customer classes are not altogether mutually exclusive. Specifically, a
 2 number of the firm service customers have portions of their load on the
 3 interruptible rate schedules. For purposes of cost allocation, however, the firm
 4 and interruptible loads are considered to be in separate classes.

5
 6 Rate design refers to the actual rates by which MDU collects its revenue. Gas
 7 service rate design is quite simple. There are only three rates:

- 8 • a Basic Delivery Charge per customer per day or per month,
- 9 • a Distribution Delivery Charge per dekatherm,
- 10 • a Cost of Gas Charge per dekatherm.

11 The first rate, the Basic Delivery Charge, is fixed for each class of customers.
 12 The Distribution Delivery Charge is fixed for firm service customers, including
 13 residential, but may be negotiated within maximums and minimums for
 14 interruptible customers. The Cost of Gas Charge changes quarterly based on the
 15 market price for gas and the pipeline charges for transportation and storage of gas.

16
 17 **Q. HAS MDU PERFORMED A COST ALLOCATION STUDY?**

18
 19 A. Yes. MDU's cost allocation study is Statement M in the Company's filing. It is
 20 sponsored by MDU witness Tamie Aberle. Ms. Aberle distributed the
 21 Company's 2005 expenses and rate base among the five classes. She then
 22 identified the revenue that each class would generate under present rates in 2005.
 23 From these data, she developed class rates of return, as follows:¹⁶

24	Residential Service	(3.26%)
25	Firm General Service	2.69%
26	Air Force	27.12%
27	Small Interruptible	18.91%
28	Large Interruptible	39.26%
29	Total Jurisdictional	0.243%

¹⁶ Testimony of Tamie A Aberle, page 4

1

2 **Q. DO YOU AGREE WITH MS. ABERLE'S STUDY?**

3

4 A. No. I disagree with Ms. Aberle's allocation of the cost of distribution mains.
5 Mains account for 36 percent of all North Dakota jurisdictional gas plant in
6 service. The allocation of mains cost also "drives" the allocation of a number of
7 other overhead costs. An inappropriate allocation of mains therefore results in a
8 severely flawed cost allocation study.

9

10 **Q. HOW DID MS. ABERLE ALLOCATE THE COST OF DISTRIBUTION**
11 **MAINS?**

12

13 A. Ms. Aberle has apparently assumed that one third of mains costs are "fixed", that
14 is, not associated with the volume of gas that flows through the mains. She has
15 allocated this one third based on the number of customers in the respective
16 classes. She has allocated the remaining two-thirds "variable" mains costs on the
17 basis of the respective classes' peak day consumption at the distribution level.

18

19 **Q. WITH WHAT PORTIONS OF THIS ALLOCATION DO YOU**
20 **DISAGREE?**

21

22 A. I disagree with Ms. Aberle's one-third/two-thirds allocation between base and
23 variable costs, and I disagree with her allocation of fixed costs on the basis of the
24 number of customers.

25

26 **Q. WHY DO YOU DISAGREE WITH MS. ABERLE'S ONE-THIRD/TWO-**
27 **THIRDS BASE/VARIABLE ALLOCATION?**

28

29 A. In response to a data request, the Company identified the total number of feet of
30 plastic and metallic pipe of various diameters that it has installed over the last five
31 years and the fully-loaded cost of that pipe and its installation. From these data, I

1 was able to identify the per-foot cost of installing pipe of various diameters, and
2 therefore of various throughput capacities.

3

4 I then conducted regression studies of plastic and metallic pipe, using capacity
5 (area within the pipe) as the independent variable, and cost per foot as the
6 dependent variable. Because of the variation in the amount of steel pipe of
7 varying diameters, I was not able to derive useful results from my metallic pipe
8 regression. However, for the plastic pipe – which constitutes the majority of pipe
9 installed – I was able to derive useful results. They are reported in Exhibit CWK-
10 6. That exhibit demonstrates that the installation cost of plastic pipe is 30 percent
11 variable and 70 percent fixed.

12

13 **Q. WHY DO YOU OBJECT TO THE ALLOCATION OF FIXED MAINS**
14 **COSTS ON THE BASIS OF THE NUMBER OF CUSTOMERS?**

15

16 A. The difficulty with allocating fixed costs is that their very “fixedness” means that
17 it is impossible to identify causality. The fixed costs of mains do not vary
18 according to the amount of gas that passes through them. That being the case,
19 Ms. Aberle has assumed that they must vary with the number of customers
20 served. The problem with that argument is that, except for extensions on the very
21 edge of the system, fixed mains costs do not vary by the number of customers
22 either. A 100-yard section of 4.5 inch main will cost the same whether there are
23 1, 10, 100 or 1000 customers attached to it. The fixed costs of the main will not
24 increase if customers are added, nor will they decrease if customers drop off.

25

26 Why were the mains constructed in the first place? Was it to reach customers, or
27 was it to deliver gas? The answer is that it was to reach customers so that gas
28 could be sold to those customers. The element of value is not the customer, but
29 the gas that can be sold to the customer. To the extent there is causality to fixed
30 mains costs, it is associated with this element of value, that is, gas delivered. For
31 this reason, I have allocated fixed mains costs among the customer classes on the

1 basis of gas consumed. Other costs that are clearly related to the number of
 2 customers, e.g. services, meters, billing and collecting, continue to be allocated on
 3 that basis.

4
 5 **Q. HAVE YOU PERFORMED A REVISED COST OF SERVICE STUDY**
 6 **THAT INCORPORATES YOU PROPOSED CHANGES TO THE MAINS**
 7 **ALLOCATION?**

8
 9 A. Yes. Exhibit CWK-7 is a summary of the Company's cost of service study
 10 (Statement M) with the following changes to the allocation of mains investment:

- 11 • 30% allocated on the basis peak day demand at distribution level;
- 12 • 70% allocated on the basis of dekatherm throughput at distribution.

13
 14 **Q. WHAT ARE THE RESULTS OF YOUR REVISED COST OF SERVICE**
 15 **STUDY?**

16
 17 A. Exhibit CWK-7 reveals the following class rates of return. For purposes of
 18 comparison, I show the corresponding results from the Company's cost of service
 19 study:

	Staff Study	Company Study
20 Residential Service	-0.75%	-3.26%
21 Firm General Service	0.63%	2.69%
22 Air Force	12.78%	27.12%
23 Small Interruptible	1.56%	18.91%
24 Large Interruptible	5.68%	39.26%
25 Total Jurisdictional	0.243%	0.243%

26
 27
 28 The principal effect of my revision to the Company's study is to reduce the
 29 disparity in rates of return among the customer classes. However, the relative
 30 profitability among the classes remains much the same. Residential service
 31 continues to show the lowest rate of return. The negative numbers for this class

1 should be disregarded, however, as this study reflects 2005 costs that are
 2 overstated for reasons discussed earlier in this testimony. Firm general service
 3 generates the next higher return, although the disparity relative to residential
 4 service has now much reduced. The Air Force rates continue to generate the
 5 largest return, but again, the disparity relative to other classes is much reduced.
 6 The same can be said of the higher rates of return for the two interruptible classes.

7
 8 **Q. HOW, IF AT ALL, DO THESE REVISED RESULTS AFFECT THE**
 9 **DISTRIBUTION OF ANY REVENUE INCREASE AMONG CUSTOMER**
 10 **CLASSES?**

11
 12 A. As noted, the Company's proposal is to increase the residential rates by the largest
 13 percentage, firm general service rates by a somewhat smaller percentage, and to
 14 hold the Air Force and interruptible service rates at their present levels. My study
 15 reduces the apparent need for these disparate class treatments, but it does not
 16 eliminate them. For this reason, I believe that the general format of the
 17 Company's revenue increase distribution should be maintained. Obviously, the
 18 amount of the increases will differ, since I find that the Company needs much less
 19 new revenue than it claims.

20
 21 **Q. WHAT SPECIFIC CHANGES IN RATES DOES THE COMPANY**
 22 **PROPOSE?**

23
 24 A. Concentrating solely on the final 2005 rates, the Company is proposing the
 25 following rate changes:

26

Rate Schedule	Basic Service Charge (per day)			Distribution Delivery (per dk)		
	Pres.	Prop.	% Inc.	Pres.	Prop.	% Inc.
Residential Rate 60	\$0.29	\$0.30	3.4%	\$0.641	\$0.894	39.5%
General Svs. Rate 70 <500 cf. mtr	\$0.50	\$0.52	4.0%	\$0.473	\$0.626	32.3%
General Svs. Rate 70 >500 cf mtr.	\$1.70	\$1.75	2.9%	\$0.473	\$0.626	32.3%

27

1 The Company proposes modest increases in the Basic Service Charges. The bulk
2 of its increases are collected through the Distribution Delivery Charges.

3

4 **Q. DO YOU AGREE WITH THIS METHOD OF RECOVERING REVENUE?**

5

6 A. If the Company were to receive all the revenue it is requesting, I would object to
7 the recovery of most of it through the Distribution Delivery Charges. Being based
8 on consumption, those charges are most susceptible to the effect of weather, and
9 they come on top of what will probably be very large increases in the cost of gas
10 this coming winter. Were the Company to receive its full revenue award, I would
11 recommend that the increases be spread proportionally between the Basic Service
12 Charge and the Distribution Delivery Charge.

13

14 However, I am proposing much more modest increases than the Company is
15 seeking. Furthermore, I am also proposing a concurrent Distribution Delivery
16 Stabilization Mechanism (“DDSM”) that will have the effect of stabilizing the bill
17 impact of the Distribution Delivery Charge in the face of unusually warm or
18 unusually cold winters. If the Commission adopts my DDSM recommendation,
19 then I would support an approach that adopts the Company’s proposed small
20 increases in the Basic Service Charge, and then recovers whatever further revenue
21 that is required through the Distribution Delivery Charge.

22

23 **Q. WHAT IS THE DDSM?**

24

25 A. The DDSM – Distribution Delivery Stabilization Mechanism – is designed to
26 adjust rates each year to correct for the under or over- collection of the
27 distribution delivery charge during the previous heating season. The Company
28 will calculate the extent to which revenue collections from each rate schedule
29 departed from normal during each heating season, and it will surcharge or
30 surcredit the Distribution Delivery Charge in each monthly bill beginning May 1
31 and the following 12 months.

1

2 **Q. WHAT IS THE LOGIC BEHIND THE DDSM?**

3

4 A. The theory underlying the DDSM is that the Company will be protected from the
5 adverse effects of unusually warm winters by allowing it to recover the under-
6 collections that result from relatively low gas sales. When there is unusually cold
7 weather, the DDSM will reduce the appearance of excessive profitability that can
8 result in pressure for rate reductions when, under normal weather conditions, no
9 reductions are justified.

10

11 **Q. WILL THE DDSM, AS PROPOSED BY THE COMPANY, ACHIEVE**
12 **THESE BENEFITS?**

13

14 A. No. To the contrary, the DDSM proposed by MDU could seriously aggravate the
15 instability of revenue collection from year to year. That is because the one-year
16 lag between heating seasons imposes the weather effects of the prior year on
17 ratepayers without regard to the weather conditions during the current year.
18 Assume that there is an unusually warm winter. As recommended by the
19 Company, a DDSM surcharge would be imposed on all firm service customers
20 beginning in May and running through to the following April. If the next heating
21 season were unusually cold, then the Company would not only over-collect for
22 the current cold season, it would compound that over-collection by recovering
23 more than it intended from the prior warm winter.

24

25 The same thing would happen in reverse if a cold winter is followed by a warm
26 one. The surcredit from the prior year would reduce the Company's revenue
27 recovery, which would further be reduced by the unusually low dekatherm sales
28 during the subsequent mild winter.

29

30 The exaggerated instability in revenue recovery would be passed through to
31 customers. Whenever there are two consecutive winters with widely varying

1 average temperatures, ratepayers would experience changes in their bills that
2 would be more exaggerated up or down than if there were no DDSM.

3

4 **Q. CAN THIS DEFECT OF THE DDSM BE RECTIFIED?**

5

6 A. Yes. If the DDSM operates concurrently with the variations in weather, then it
7 will avoid exaggerating the effects of unusual weather. Instead, it will stabilize
8 rates and revenues so as to cushion the effect of very cold or very mild winters on
9 both customers and the Company.

10

11 **Q. CAN THE DDSM BE MADE TO OPERATE ON A CONCURRENT**
12 **BASIS?**

13

14 A. Yes. The Company has indicated that the DDSM could be administered on a real-
15 time basis so that the adjustment applies to the current billing period.¹⁷

16

17 **Q. CAN YOU PROVIDE A RECOMMENDED TARIFF FOR A REAL-TIME**
18 **DDSM?**

19

20 A. Yes. Exhibit CWK-8 is copied largely word-for-word from the tariff of the Delta
21 Natural Gas Company, a small gas distribution company operating in the
22 Commonwealth of Kentucky. This provision, called the "Weather Normalization
23 Adjustment" has been in effect since January 1, 2000. It differs from MDU's
24 proposal in that it operates concurrently with the current billing cycle. It increases
25 or decreases the per-dekatherm Distribution Delivery Charge in the customer's
26 bill based on a factor representing the departure of the customer class's actual
27 heat load from its normal heat load.

28

29 **Q. ASIDE FROM STABILIZING CUSTOMERS' BILLS AND THE**
30 **COMPANY'S REVENUES, HAS THERE BEEN ANY OTHER BENEFIT**

¹⁷ MDU Response to Data Request No 1, Question 70

1 **FROM THE WEATHER NORMALIZATION ADJUSTMENT TO DELTA**
2 **NATURAL GAS?**

3

4 A. Yes. Virtually every investment analyst that has examined Delta Natural Gas has
5 cited the Weather Normalization Adjustment as a factor reducing the risk of the
6 Company's stock. There is little question that the Adjustment has resulted in a
7 lower cost of capital for this company. There is every reason to believe that it
8 would have the same effect on MDU.

9

10 **Q. DO YOU THEREFORE RECOMMEND ADOPTION OF EXHIBIT CWK-**
11 **8 AS PART OF MDU'S NORTH DAKOTA TARIFF?**

12

13 A. Yes. I do.

14

15 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

16

17 A. Yes. It does.

Experience

Snavely King Majoros O'Connor & Lee, Inc. Washington, DC

*President (1989 to Present)
Vice President (1970 - 1989)*

Mr King, a founder of the firm and acknowledged authority on regulatory economics, brings over thirty years of experience in economic consulting to his direction of the firm's work in transportation, utility and telecommunications economics

Mr. King has appeared as an expert witness on over 300 separate occasions before more than thirty state and nine U.S. Canadian federal regulatory agencies, presenting testimony on rate base calculations, rate of return, rate design, costing methodology, depreciation market forecasting, and ratemaking principles. Mr King has also testified before House and Senate Committees on energy and telecommunications legislation pending before the U.S. Congress

In telecommunications, Mr King has testified before the Federal Communications Commission on a number of policy issues, service authorization, competitive impacts, video dialtone, and prescription of interstate depreciation rates. Before state regulatory bodies, he has presented testimony in proceedings on intrastate rates, earnings and depreciation. Mr. King recently directed analyses of the prices of services under Federal Government's FTS2000 long distance system

In addition to his appearances as a witness in judicial and administrative proceedings, Mr. King has negotiated settlements among private parties and between private parties and regulatory offices. Mr. King also has directed depreciation studies, investment cost benefit analyses, demand forecasts, cost allocation studies and antitrust damage calculations

In Canada, Mr King designed and directed an extended inquiry into the principles and procedures for regulating the telecommunication carriers subject to the jurisdiction of the Canadian Transport Commission. He also was the principal investigator in the Canadian Transport Commission's comprehensive review of rail costing procedures

EBS Management Consultants, Inc., Washington, DC

*Director, Economic Development Department
(1968-1970)*

Mr. King organized and directed a five-person staff of economists performing research, evaluation, and planning relating to economic development of depressed areas and communities within the U.S. Most of this work was on behalf of federal, state, and municipal agencies responsible for community or regional economic development

Principal Consultant (1966-1968)

Mr King conducted research on a broad range of economic topics, including transportation, regional economic development, communications, and physical distribution.

W.B. Saunders & Company, Inc., Washington, DC

Staff Economist (1962-1966)

For this economic consulting firm, which later merged with EBS Management Consultants, Inc., Mr King engaged in numerous research efforts relating primarily to economic development and transportation

U.S. Bureau of the Budget, Office of Statistical Standards

Analytical Statistician (1961-1962)

Mr King was responsible for the review of all federal statistical and data-gathering programs relating to transportation.

Education

Washington & Lee University, B.A. in Economics

*The George Washington University, M.A. in
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Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AK	Exxon USA	P-89-1,2	Trans Alaska Pipeline System	October 18, 1990
AZ	Arizona Corporation Commission Arizona Retailers Association	U-1345-I U-1345-II	Arizona Public Service Co Arizona Public Service Co	December 16, 1980 January 15, 1981
CA	California Retailers Association California Retailers Association California Retailers Association California Retailers & California Manufacturers California Retailers Association	57666 57602 59351 59351 61138	Pacific Gas & Electric Co Southern California Edison Pacific Gas & Electric Co Southern California Edison Southern California Edison	March 6, 1978 April 25, 1978 June 12, 1981 May 20, 1982 May 28, 1982
CO	U S Department of Defense J C Penny Company U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense	I&S 1100 5693 I&S 1339 I&S 1540 C Council C Council C Council C Council	Colorado Springs (Elec) All Electric Utilities Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec)	June 14, 1977 March 8, 1978 October 18, 1979 February 9, 1982 September 30, 1984 June 6, 1985 May 19, 1986 June 30, 1987
CT	Retailers Merchants Association Division of Consumer Counsel Public Utilities Control Auto Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Coalition of Hotels, Alloys & Retailers Coalition of Hotels, Alloys & Retailers	72-0204 76-0604,5 78-0303 80-0403,4 81-0413 81-0602,4 82-0701 85-10-22 87-07-01	Various Electric Utilities CL&P and HELCO Bridgeport Hydraulic Co CL&P and HELCO United Illuminating Company CL&P and HELCO CL&P CL&P CL&P	July 22, 1976 November 10, 1977 (none) August 11, 1980 July 20, 1981 October 5, 1981 September 28, 1982 (none) April 25, 1988

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
DC	D C People's Counsel	685	Potomac Electric Power Company	March 6, 1978
	D C People's Counsel	715	Potomac Electric Power Company	(none)
	D C People's Counsel	725	Potomac Electric Power Company	April 4, 1980
	D C People's Counsel	737	Potomac Electric Power Company	January 1, 1981
	Washington Metro Area Transit Authority	748	Potomac Electric Power Company	June 26, 1981
	Washington Metro Area Transit Authority	758	Potomac Electric Power Company	December 15, 1981
	D C People's Counsel	785	Potomac Electric Power Company	September 21, 1982
	Washington Metro Area Transit Authority	759	Potomac Electric Power Company	March 29, 1984
	D C People's Counsel	685 Remand	Potomac Electric Power Company	June 10, 1985
	D C People's Counsel	905	Potomac Electric Power Company	August 20, 1991
	D C People's Counsel	912	Potomac Electric Power Company	May 7, 1992
	D C People's Counsel	834, III	Potomac Electric Power Company	May 22, 1992
	D C People's Counsel	917	Potomac Electric Power Company	September 24, 1992
	D C People's Counsel	922	Washington Gas Light Company	June 15, 1993
	D C People's Counsel	929	Potomac Electric Power Company	December 16, 1993
	D C People's Counsel	934	Washington Gas Light Company	Filed April 22, 1994
	D C People's Counsel	939	Potomac Electric Power Company	March 16, 1995
	D C People's Counsel	917	Potomac Electric Power Company	April 16, 1995
	D C People's Counsel	951	Potomac Electric Power Company	February 20, 1997
	D C People's Counsel	945	Potomac Electric Power Company	September 29, 1999
D C People's Counsel	847	Washington Gas Light Company	June 27, 2001	
D C People's Counsel	989	Washington Gas Light Company	May 22, 2002	
D C People's Counsel	1016	Washington Gas Light Company	September 23, 2003	
DE	Delaware PSC Staff	94-164	Artesian Water Company	Filed March 10, 1995
	Delaware PSC Staff	94-149	Wilmington Suburban Water Company	March 10, 1995
FL	Florida Retail Federation	790593-EU	All Electric Utilities	March 5, 1981
	Florida Retail Federation	810002-EU	Florida Power and Light Company	July 23, 1981
	Florida Retail Federation	820097-EU	Florida Power and Light Company	September 22, 1982
	Florida Retail Federation	820097-EU	Florida Power and Light Company	April 11, 1983
	Florida Retail Federation	830012-EU	Tampa Electric Company	August 19, 1983
	Florida Retail Federation	830465-EI	Florida Power and Light Company	April 19, 1984
Florida Retail Federation	830465-EI	Tampa Electric Company	(none)	

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
GA	Georgia Retail Federation Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission	3270-U 4007-U 4384-U 4755-U 4697-U 9355-U 14000-U 14618-U 14311-U 17066-U	Georgia Power Company Georgia Power Company All Electric Utilities Georgia Power Company All Utilities Georgia Power Company Georgia Power Company Savannah Electric & Power Company Atlanta Gas Light Company Georgia Power Company	September 3, 1981 August 21, 1991 August 1, 1993 January 25, 1994 May 10, 1994 November 4, 1998 October 23, 2001 March 27, 2002 April 8, 2002 July 31, 2003
HI	Public Utilities Department Hawaii Consumer Advocate	2793 4536	All Electric Utilities Hawaiian Electric Company	February 14, 1978 February 1, 1983
IL	Illinois Retail Merchants Association ("IRMA"/ Chicago Bldg Mgrs Association ("CBMA") IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA City of O'Fallon, IL	76-0698 76-0568 80-0546 82-0026 83-0537 87-0427 90-0169 02-0690	Commonwealth Edison All Electric Utilities Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Illinois-American Water Company	June 22, 1977 (none) March 5, 1981 July 22, 1982 March 19, 1984 March/April 22, 1988 October 29, 1990 Filed Feb 5, Apr 11, 2003
IN	Indiana Retail Council Indiana Retail Council Indiana Retail Council	35780-S2 35780-S1 36318	N Ind Public Service co Public Service of Indiana Public Service of Indiana	June 1, 1980 October 15, 1980 May 4, 1982
KS	J C Penny Company	115,379-U	All Kansas Utilities	January 22, 1981
KY	Seven Kentucky Retailers Attorney General of Kentucky Attorney General of Kentucky	7310 2002-145 2003-252	Louisville Gas & Electric Co Columbia Gas of Kentucky Union Heat Light & Power Co	April 25, 1979 Filed August 8, 2002 September 30, 2003

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MA	Coalition of Municipalities	20279	Western Massachusetts Electric	March 19, 1980
	Coalition of Municipalities	557/558	Western Massachusetts Electric	May 14, 1981
	Coalition of Municipalities	957	Western Massachusetts Electric	March 9, 1982
	Coalition of Municipalities	1300	Western Massachusetts Electric	January 1, 1983
	Coalition of Municipalities	85-270	Western Massachusetts Electric	March 26, 1986
MD	Maryland People's Counsel	6977	Washington Gas & Light Company	September 17, 1976
	Maryland People's Counsel	6814	Potomac Electric Power Company	
	Maryland People's Counsel	6807	All Electric Utilities	September 1, 1977
	Maryland People's Counsel	6882	Baltimore Gas & Electric Company	(none)
	Maryland People's Counsel	6985	Baltimore Gas & Electric Company	September 28, 1976
	Maryland People's Counsel	7070	Baltimore Gas & Electric Company	December 20, 1976
	Maryland People's Counsel	7149	Potomac Electric Power Company	April 18, 1978
	Maryland People's Counsel	7163	All Electric Utilities	January 17, 1979
	Maryland People's Counsel	7236	Delmarva Power & Light Company	October 23, 1978
	Retail Merchants of Baltimore	7397	Baltimore Gas & Electric Company	June 20, 1980
	Maryland People's Counsel	7427	Delmarva Power & Light Company	September 8, 1980
	Maryland People's Counsel	7574	Baltimore Gas & Electric Company	December 2, 1981
	Maryland People's Counsel	7597	Potomac Electric Power Company	February 18, 1982
	Organization of Consumer Justice	7604	Potomac Electric Power Company	April 20, 1982
	Maryland People's Counsel	7588	Baltimore Gas & Electric Company	October 19, 1982
	Maryland People's Counsel	7663	Potomac Electric Power Company	November 22, 1982
	Retail Merchants of Baltimore	7685	Baltimore Gas & Electric Company	April 12, 1983
	Genstar Stone Products, et al	7878	Potomac Electric Power Company	December 9, 1985
	Industrial Intervenors	7878	Potomac Electric Power Company	June 28/July 1986
	Maryland People's Counsel	7983	Baltimore Gas & Electric Company	March 4, 1987
Giant Foods, Inc	8855	Baltimore Gas & Electric Company	January 8, 2003	
MI	General Services Administration	U-10102	Detroit Edison Company	March 22, 1993
	Michigan Attorney General	U-11722	Detroit Edison Company	November 6, 1998
	Michigan Attorney General	U-11772	Consumers Energy/Detroit Edison	November 16, 1998
	Michigan Attorney General	U-11495	Detroit Edison Company	December 8, 1999
	Michigan Attorney General	U-11956	Consumer Energy/Detroit Edison	December 15, 1999
	Michigan Attorney General	U-12505	Consumers Energy Company	September 7, 2000
	Michigan Attorney General	U-12478	Detroit Edison Company	October 5, 2000
	Michigan Attorney General	U-12639	Consumers Energy/Detroit Edison	July 18, 2001
	Michigan Attorney General	U-13000	Consumers Energy Company	January 29, 2002
	Michigan Attorney General	U-13380	Consumers Energy Company	September 9, 2002
	Michigan Attorney General	U-13715	Consumers Energy Company	April 24, 2003
	Michigan Attorney General	U-13808	Detroit Edison Company	Dec 12, 2003, Jan 30, Mar 5, March 26, 2004

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MN	Minnesota Retail Federation	EOO2/6R-77-611	Northern States Power	1979
MO	Missouri Retailers Association	EO-78-161	Kansas City Power & Light Company	February 19, 1981
NC	North Carolina Merchants Association	E-100	All Electric Utilities	December 18, 1975
ND	North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission	PU-400-00-521 PU-399-01-786 PU-399-02-183 PU-399-02-183 PU-399-03-296	Xcel Energy, Inc. Montana-Dakota Utilities (Electric) Montana-Dakota Utilities (Gas) Montana-Dakota Utilities (Gas Depr) Montana-Dakota Utilities (Electric)	April 20, 2001 February 25, 2002 October 7, 2002 Filed April 7, 2003 Filed October 15, 2003
NH	Business & Industry Association of N.H Business & Industry Association of N H Business & Industry Association of N H	79-187-II 80-260 82-333	Public Service of N H Public Service of N H Public Service of N H	February 6, 1981 February 5, 1981 November 2, 1983
NJ	N.J Retail Merchants Association Department of Public Advocate Resorts International Hotel, Inc Dept of Public Advocate Dept of Public Advocate Dover Township Fire Chiefs	803-151 815-459 8011-827 822-116 355-87 88-080967	All New Jersey Utilities N J Natural Gas Company Atlantic City Sewerage Co Atlantic City Electric Co Elizabethtown Gas Tom's River Water Company	March 31, 1981 (none) (none) August 11, 1982 June 9, 1987 February 22, 1989

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
NY	N Y Council of Retail Merchants Metropolitan N Y Retail Council Metropolitan N Y Retail Council N Y Metro Transit Authority	26806 27029 27136 27353	All Electric Utilities Consolidated Edison Company Long Island Lighting Company Consolidated Edison Company	February 3, 1976 (none) July 1, 1977 September 5, 1980
OH	Ohio Council of Retail Association Ohio Council of Retail Association	88-170-EL 83-1529-EL	Cleveland Elec Illuminating Cincinnati Gas & Electric	(none) February 15, 1992
PA	Pennsylvania Retail Association Southeastern Pa Transp Authority Eastern Penn Energy Users Group Eastern Penn Energy Association Penn Business Utility User Group Pennsylvania Office of Consumer Advocate	76-PRMD-7 R-811626 R-822169 R-842651 R-850152 R-00016339	All Electric Utilities Philadelphia Electric Company Penn Power & Light Company Penn Power & Light Company Philadelphia Electric Company Pennsylvania-American Water Co	September 7, 1977 December 11, 1981 March/April 1983 December 3, 1984 February 19, 1986 September 19, 2001
TX	Houston Retailers Association Houston Retailers Association Cities for Fair Utility Rates	5779 6765 8425/8431	Houston Lighting Company Houston Lighting Company Houston Lighting Company	October 19, 1984 September 25, 1986 April 25, 1989
UT	Div Of Public Utilities Dept of Commerce	98-2035-33	Pacific Corp	Filed August 16, Sept 22, 1999
VA	Consumer Congress of Virginia Consumer Congress of Virginia Va Business Committee on Energy Virginia Pipe Trades Council	19426 19960 PUE 7900012 PUE 8900051	Virginia Electric Power Company Virginia Electric Power Company Virginia Electric Power Company Old Dominion Electric Corp &	July 1, 1975 September 19, 1978 February 25, 1981 October 31, 1989
WI	Wisconsin Merchants Federation	6630-ER-2	Wisconsin Electric Power Company	May 15, 1978

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AL	U S Department of Defense	24472	All Telephone Companies	June 14, 1995
AK	GCI Communications, Inc	U-97-82,U-97-143	Alaska Communications Systems	Filed Feb 25, April 5, 2004
AZ	Arizona Burglar & Fire Alarm Association Federal Executive Agencies U S Department of Defense	9981-E-1051-80-64 E-1051-88-146 T-01051B-99-0105	Mountain State Telephone Mountain State Telephone US WEST Communications	(none) (none) Filed July 26, Sept 8, 2000
CA	Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association Western Burglar & Fire Alarm Association California Cellular Resellers Federal Executive Agencies California Cellular Resellers Cellular Services, Inc Federal Executive Agencies	59849 5984cont A83-01-22 A83-02-02 A82-11-07 A85-01-034 A87-01-02 A88-07-17019 A 88-11-1040 1 87-11-033 1 88-11-040 1 88-11-040 A92-05-004	Pacific Telephone & Telegraph Pacific Telephone & Telegraph Pacific Telephone & Telegraph General Telephone of California Pacific Telephone & Telegraph Pacific Telephone & Telegraph General Telephone of California Pac Bell Tel & GTE of CA All Cellular Carriers All Telephone Companies All Cellular Carriers All Cellular Carriers Pacific Telephone & Telegraph	March 25, 1981 June 23, 1982 June 29, 1983 January 17, 1984 Jan 18, Oct 31, Nov 28, 1984 June 4, 1985, October 2, 1986 October 22, 1987 January 23, 1989 August 11, 1989 March 6-7, 1991 August 19, 1991 October 3, 1991 June 9, 1993
CO	U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense Colorado Municipal League U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense AT&T	I&S 717 I&S 1700 Appl I&S 1766 Appl 36883 I&S 891-O82T 905-544T 90A-665T 92M-039T 92S-229T 90A-665T 96S-331T	Mountain Bell Telephone Company Mountain Bell Telephone Company Mountain Bell Telephone Company Mountain Bell Telephone Company U S West Communications U S West Communications U S West Communications U S West Communications U S West Communications U S West Communications U S West Communications	1972 (none) September 18, 1986 November 28, 1988 December 13, 1988 February 21, 1990 July 17, 1991 October 23, 1991 February 24-24, 1992 July 30-31, 1992 November 6, 1996 April 17, 1997

CHARLES W KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
CT	Connecticut Consumer Counsel CT Cellular Resellers Assn CT Cellular Resellers Coalition AT&T Connecticut Consumer Counsel Connecticut Consumer Counsel	770526 89-12-05 94-03-27 AT&T/SNET Arbitration 96-04-07 00-07-17	Southern New England Telephone Co Southern New England Telephone Co Springwch Cellular/Bell Atlantic Southern New England Telephone Co Southern New England Telephone Co Southern New England Telephone Co	November 10, 1977 (none) May 16, June, 1994 Filed October 28, 1996 February 10, 1998 December 5, 2000
DC	D C People's Counsel D C People's Counsel General Services Administration General Services Administration General Services Administration General Services Administration	729 798 827 854 850 926	Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co	May 13, 1980 July 18, 1983 May 7, 1985 April 16, 1987 October 7, 1991 October 7, 1993
DE	Public Service Commission Federal Executive Agencies Public Service Commission	Depr Repr 86-20 Depr Repr	Diamond State Telephone Co Diamond State Telephone Co Diamond State Telephone Co	April 1, 1985 July 31, 1987 March 8, 1988
FL	GTE Sprint Communications Company Office of Public Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	720536-TP Depr Repr 880069-TL 880069-TL 880069-TL	All Telephone Companies Southern Bell Southern Bell Southern Bell Southern Bell	September 12, 1983 July 30, 1986 July 21, 1988 November 30, 1990 February 11, 1992
GA	Georgia Attorney General Federal Executive Agencies Federal Executive Agencies Georgia Public Service Commission	3893-U 3905-U 3987-U 4018-U	Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co	January 8, 1990 June 12, 1990 February 13, 1992 Jan 14, Feb 10, 1993
HI	Hawai Public Utility Commission Four Hawai Counties Department of Defense Department of Defense Department of Defense Department of Defense Department of Defense	1871 4588 7579 94-0093 7702 94-0298 7720	Hawaiian Telephone Company Hawaiian Telephone Company Hawaiian Telephone Company Oceanic Communications All Communications Carriers GTE Hawaiian Telephone Company Verzon-Hawai	July 8, 1971 December 15, 1983 April 26, 1994 March 13, 1995 June 2, 1995 May 7, 1996 November 15, 2000

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
ID	U S Department of Energy U S Department of Energy	U-1000-63 U-1000-70	Mountain Bell Telephone Co Mountain Bell Telephone Co	May 16, 1983 March 6, 1984
IL	Illinois Aalarm Companies Attorney General of Illinois GTE Sprint Communications Co Federal Executive Agencies	79-0143 81-0478 83-0142 89-0033	Illinois Bell Telephone Illinois Bell Telephone All Telephone Companies Illinois Bell Telephone	September 26, 1979 December 28, 1981 August 4, 1983 June 12, 1989
KS	State Corporation Commission Federal Executive Agencies Federal Executive Agencies	Depr Repr 166 856-U 190, 492	Southwestern Bell Southwestern Bell All Telephone Companies	May 12-14, 1986 November 7, 1989 November 4, 1994
KY	Kentucky Cable Telecommunications Assn Kentucky Cable Telecommunications Assn	2000-414 2000-39	Blue Grass Energy Cooperative Cumberlant Valley Electric, Inc	January 11, 2001 January 11, 2001
MD	Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	6813 6881 7025 7467 7851 8106 8274	C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company	1975 December 17, 1975 March 15, 1975 October 20, 1981 March 20, 1985 May 9, 1988 August 2, 1990
MI	Michigan Attorney General Michigan Attorney General	U-8911 U-9553	Michigan Bell Telephone Co AT&T Communications/MCI	November 7, 1988 December 4, 1990
MN	GTE Sprint Communications Co U S Department of Defense	83-102-HC 87-021-BC	All Telephone Companies Northwest Bell Telephone Co	August 5, 1983 (none)

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MO	GTE Sprint Communications Co Federal Executive Agencies Federal Executive Agencies	TR83-253 TC-89-14 TO-89-56	Southwestern Bell Tel Co Southwestern Bell Tel Co Southwestern Bell Tel Co	September 5, 1983 (none) November 7, 1990
MS	Federal Executive Agencies	U-5453	South Central Bell Tel Co	May 15, 1990
NJ	Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate	Depr Repr 815-458 Depr Repr Depr Repr T092030358	N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company	Mar-79 October 15, 1981 March 1, 1982 February 1, 1985 September 30, 1992
NM	New Mexico Corporation Commission New Mexico Corporation Commission	1032 86-151-TC	Mountain Bell Telephone Co General Telephone of Southwest	November 14, 1983 February 5, 1987
NV	Prime Cable of Las Vegas Prime Cable of Las Vegas	95-8034/8035 96-9035	Central Telephone - NV Sprint/Centel, Nevada Bell	Filed November 22, 1995 June 2, 1997
NY	Holmes Protection, Inc Holmes Protection, Inc 5 Alarm Companies GTE Sprint Communications Co	27350 27469 27710 28425	New York Telephone Company New York Telephone Company New York Telephone Company All Telephone Companies	October 17, 1978 May 17, 1979 July 24, 1980 July 8, 1983
PA	City of Philadelphia	R-832316	Pennsylvania Bell Telephone	September 20, 1983
SC	Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate	Depr Repr 86-511-C 86-541-C Depr Repr 89-180-C	Southern Bell Southern Bell General Telephone of South Southern Bell ALLTEL of South Carolina	July 1, 1986 December 11, 1986 April 8, 1987 July 10, 1989 September 26, 1989

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
TX	U S Department of Defense	8585/8218	Southwestern Bell Telephone Co	(none)
VA	U S Dept Of Defense, GSA, et Federal Executive Agencies	19696 PUC 890014	C&P Telephone Company All Telephone Companies	October 6, 1976 February 13, 1989
VI	V I Department of Commerce V I Public Service Commission	205 341	Virgin Islands Telephone Co Virgin Islands Telephone Co	April 29, 1980 March 20, 1991
WA	U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense WA Attorney General/TRACER U S Department of Defense U S Department of Defense U S Department of Defense WA Attorney General/TRACER WA Attorney General/TRACER U S Department of Defense	U-72-39 U-87-796-T U-88-20524 U-89-2698-F UT-940641 UT-941464 UT-951425 UT-961632 UT-021120	Pacific Northwest Bell Pacific Northwest Bell Pacific Northwest Bell US West Communications US West Communications US West Communications US West Communications US West Communications US West Communications GTE Northwest, Inc Qwest Communications	1973 December 20, 1983 November 8, 1988 November 28, 1989 Filed October 14, 1994 June 22, 1995 January 22, 1996 Filed June 23, 1997 July 29, 1997 May 22, 2003
WI	GTE Sprint Wisconsin Consumers Utility Board Wisconsin Consumers Utility Board	6720-TR-38 2055-TR-102 5846-TR-102	All Telephone Companies CenturyTel of Central Wisconsin Telephone USA, LCC	October 20, 1983 June 26, 2002 June 26, 2002

CHARLES W. KING
Appearances before Federal Regulatory Agencies

Federal Communications Commission			
Client	Docket	Subject	Date of Cross-Examination
Department of Defense	16020	Consat Rate of Return	1973
Airline Parties	16258	Bell System Rates	July 22, 1968
Airline Parties	18128	TELPAC	3/22, 10/15 1971, Feb 22, 1972
National Data Corporation	19989	WATS	(none)
Press Wire Services	19919	Private Line Rates	(none)
Aeronautical Radio	20814	Private Line Rates	October 5, 1978
Department of Defense	20690	1,544 Mbps Service	January 30, 1979
State of Hawaii	21263	Interstate Separation	February 7, 1979
International Record Carriers	CC78-97	Telex/TWX Rates	March 6, 1980
ITT World Communications	CC84-633	Rate of Return	(none)
Aeronautical Radio	CC78-72	Access Line Charges	(none)
MCI	CC84-800	Rate of Return	(none)
Ind Data Com Mfg Assn	CC85-26	AT&T Accounting Plan	(none)
Tymnet, Inc	ENF84-22	Packet Switching Costs	(none)
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 7/29/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 8/23/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 2/21/95
Nuclear Regulatory Commission			
Fauquier League for Environment Protection	50-328 50-329	Va Electric Power Co	1976
Postal Rate Commission			
Association of Third Class Mail Users	R71-1	Rates	1970
Dow Jones & Company	R72-1	Rates	1972
Dow Jones & Company	R74-1	Rates	September 13, 1974
Dow Jones & Company	MC76-2	Rate Structure	January 6, 1979
Dow Jones & Company	MC79-3	Rate Structure	September 12, 1979
Dow Jones & Company	R80-1	Rates	November 25, 1980
Warshawsky & Company	C82-1	Rate Structure	(none)
Dow Jones & Company	R84-1	Postal Costs	June 14, 1984
Dow Jones & Company	R87-1	Rate Structure Costs	November 2, 1987
Dow Jones & Company	R90-1	Rate Structure Costs	Sept 12, Oct 10, 1990
Dow Jones & Company	MC91-1	Pre-barcoding Discounts	November 19, 1991
Dow Jones & Company	MC91-3	Palletization Discounts	March 2, 1992

CHARLES W KING
Appearances before Federal Regulatory Agencies

Client	Docket	Subject	Date of Cross-Examination
U S Congress			
National Retail Merchants Association	House/Senate Hearings	Electric Rate Reform Legislation	1976, 1977 & 1979
National Wireless Resellers Association	House Commerce Committee	Interconnection & Resale of Wireless Services	October 12, 1995
Federal Maritime Commission			
State of Hawaii Foss Alaska Line Palmetto Shipping and Stevedoring	71-18 79-54 85-20	Ocean Shipping Rates Barge Rate Increase Vessel Charge Liability	October-71 July 1979 October 27, 1986
Interstate Commerce Commission			
Western Coal Traffic League Western Coal Traffic League Western Coal Traffic League Arkansas Power & Light Co Central Illinois Light Co Western Coal Traffic League	Ex Parte 349 Ex Parte 357 Ex Parte 375 (Sub1) 37276 37450 Ex Parte 347	R R Rate Increase R R Rate Increase R R Rate Increase Cost of Capital Cost of Capital Costing Methods	May-76 Oct-78 June 1, 1980 (none) March 10, 1981 (none)
Civil Aeronautics Board			
Thomas Cook, Inc	36595	Air Fare Deregulation	(none)
Copyright Royalty Tribunal			
Public Broadcasting Service	88-2-86CD	Television Valuation	(none)
Federal Energy Regulatory Commission			
Exxon USA	OR89-2-000	Pipeline Quality Bank	October 18, 1990
Canadian Transport Commission			
Rail Costing Inquiry, 1967-1969 Telecommunications Costing Inquiry, 1972-1975			
Surface Transportation Board			
Williams Energy Services, Inc	Ex Parte 582, Sub 1	Rail Merger Guidelines	April 5, 2001

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	52,017		52,017	
3 Total to be amortized	<u>244,557</u>		<u>165,157</u>	
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	"	624,510	26.0%	50% 13.0%
7	MICP	"	165,539	6.9%	50% 3.4%
8	Mid-Management	"	528,317	22.0%	50% 11.0%
9	BETA	"	1,084,622	45.1%	79% 35.4%
10	Total	Sum Lns 6-9	2,402,988	100.0%	62.9%
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
Officers	10	\$ 384,310	19.5%
Region/Power Center Directors	5	147,025	8.8%
Managers	6	110,696	8.1%
Superintendents/Supervisors	51	81,242	5.4%
All Management	54	67,042	5.1%
	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 x 1.049⁴ = \$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 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
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 Composited 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 Composited 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

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

A Distribution Delivery Stabilization Mechanism Factor (“DDSMF”) shall be utilized during the December through April billing months to calculate the non-gas portion of the bills of all Rate 60, 90, 70 and 92 heating customers. During the remainder of the year, May through November, the monthly bills shall be computed solely on actual consumption.

DDSM WILL BE CALCULATED USING THE FOLLOWING FORMULA:

$$\mathbf{DDSM = DDSMF * Actual\ Dekatherms * Distribution\ Delivery\ Charge}$$

An average daily base load will be calculated separately for customers on each rate schedule. The average daily base load will remain the same for the DDSM December-April billing months. DDSM will be billed for 5 billing months.

An Average Monthly Base Load (“AMBL”) for customer on each rate schedule will be calculated by using total dekatherms for two month non-heat usage (August/September) divided by total number customers billed on each rate schedule for the two month period.

$$\mathbf{AMBL = Dekatherms / Number\ of\ Customers}$$

To calculate the Average Daily Base Load (“ADBL”), divide the Average Monthly Base Load by the average number of days in the two-month non-heat billing cycle.

$$\mathbf{ADBL = AMBL / Average\ Number\ of\ Days}$$

Base Load (“BL”) is determined by multiplying the ADBL per customer on each rate schedule by the number of days in the billing cycle times the number of customers on each rate schedule during the billing cycle.

$$\mathbf{BL = ADBL * Number\ of\ Days\ in\ Billing\ Cycle * Number\ of\ Customers\ in\ Billing\ Cycle}$$

The heat load (“HL”) is then determined by subtracting the base load of all customers on each rate schedule from the total dekatherms billed in the billing cycle.

$$\mathbf{HL = Dekatherms\ Billed\ in\ Cycle - BL}$$

A Heating Degree Factor (“HDF”) is then determined by dividing the Normal Degree-Days (“NDD”) for the billing cycle by the Actual Degree-Days (“ADD”) in the billing cycle.

$$\mathbf{HDF = DNN/ADD}$$

The DDSM Consumption (“DDSMC”) is computed by multiplying the Heating Degree Factor times the Heat Load and adding the Base Load to that number.

$$\text{DDSMC} = \text{HDF} * \text{HL} + \text{BL}$$

The DDSM Factor is then calculated by dividing the DDSM Consumption by the total dekatherms billed in the cycle

$$\text{DDSMF} = \text{DDSMC}/\text{Dekatherms Billed in Cycle}$$

The DDSMF will be recomputed monthly based on North Dakota averages. If the DDSMF is less than 1.0, the customers’ billed amount will be less than the actual billed amount would have been. If the DDSMF is greater than 1.0, the customers’ billed amount will be more than the actual amount would have been. Each customer’s bill is calculated by multiplying the actual dekatherm usage by the DDSMF times the Distribution Delivery Charge set forth in the respective rate schedules in this tariff.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sandra L. Scott deposes and says that.

she is over the age of 18 years and not a party to this action and, on the **10th day of September, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **four** envelopes with first class postage, fully prepaid, securely sealed and each containing a photocopy of:

**Un-redacted Direct Testimony of Charles W. King on Behalf of the
Commission Adversary Staff.**

The envelopes were addressed as follows.

Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

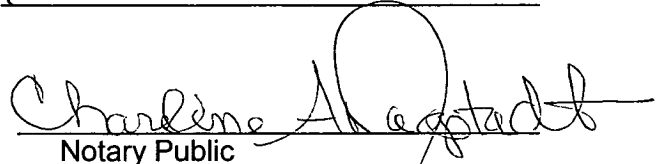
Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mr. Allen C. Hoberg
Administrative Law Judge
Office of Administrative Hearings
1707 North 9th Street, Lower Level
Bismarck, ND 58501

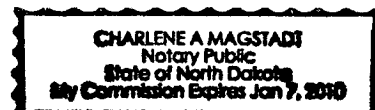
Each address shown is the respective addressee's last reasonably ascertainable post office address

Subscribed and sworn to before me
this **10th day of September, 2004**

SEAL



Notary Public



STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **9th day of September, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **two** envelopes with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Notice of Rescheduled Hearing

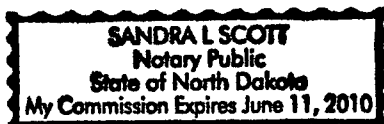
The envelopes were addressed as follows:

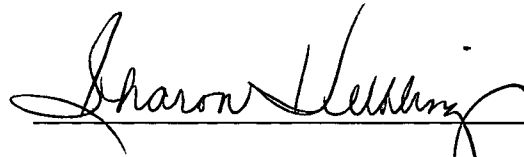
Don Ball Montana-Dakota Utilities Co 400 N 4 th St Bismarck ND 58501 Cert. No. 7001 2260 0001 3517 0449	Dan Kuntz Montana-Dakota Utilities Co 400 N 4 th St Bismarck ND 58501 Cert. No. 7001 2260 0001 3517 0456
---	--


Each addresses shown ares the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **9th day of September, 2004**.

SEAL







Notary Public

APPROVED

DATE: 9-8-04
KMF

MOTION

September 8, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission issue a Notice Rescheduling the hearing in Montana-Dakota Utilities Co.'s Natural Gas Rate Increase application, Case No. PU-04-97.

sdh

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

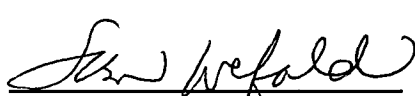
Case No. PU-04-97

**NOTICE OF RESCHEDULED HEARING
September 8, 2004**

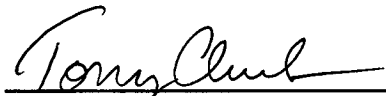
The hearing in this proceeding which was originally scheduled for August 31, 2004, in the Commission Hearing Room, 12th Floor, State Capitol, Bismarck, North Dakota, has been rescheduled to September 20, 2004, **beginning at 8 a.m.(CDST)**.

For more information contact the Public Service Commission, State Capitol, Bismarck, North Dakota 58505, 701-328-2400 or Relay North Dakota 1-800-366-6888 TTY. If you require any auxiliary aids or services, such as readers, signers, or Braille materials, please notify, Illona Jeffcoat-Sacco, Executive Secretary, at least 24 hours prior.

PUBLIC SERVICE COMMISSION



**Susan E. Wefald
Commissioner**



**Tony Clark
President**



**Kevin Cramer
Commissioner**

Post-it® Fax Note	7671	Date	9-9-04	# of pages	1
To	Al Emrich	From	Bandi		
Co /Dept		Co	PSC		
Phone #	255-3513	Phone #	328-4081		
Fax #	255-6079	Fax #	328-2410		



Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

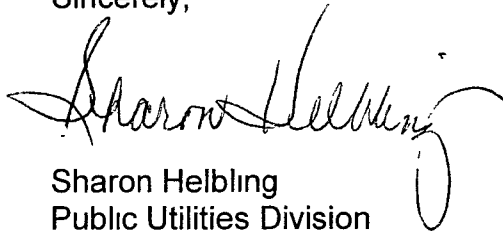
September 8, 2004

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dear Mr. Kuntz.

On September 8, 2004, the Commission acknowledged Montana-Dakota Utilities Co.'s request to withdraw the request for hearing on its Application for Trade Secret protection in Case No. PU-04-97. A copy of the motion is enclosed.

Sincerely,



Sharon Helbling
Public Utilities Division

sdh

Enclosure

c: Don Ball
Doug Schulz

APPROVED

MOTION

DATE: 9-8-04
KME

September 8, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission acknowledge Montana-Dakota Utilities Co.'s request to withdraw its request for hearing on its Application for Trade Secret, Case No. PU-04-97.

sdh

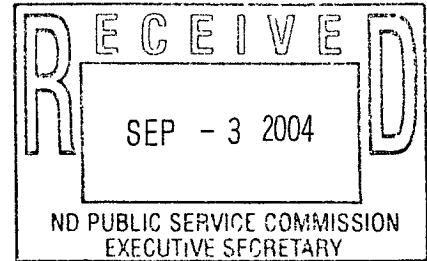


MONTANA-DAKOTA

UTILITIES CO.
A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

September 2, 2004



Ms Ilona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: Natural Gas Rate Increase Application
Case No PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith provides additional information regarding the Distribution Delivery Stabilization Mechanism (DDSM) as requested at the August 31, 2004 Informal Hearing.

Attachment A contains 3 examples of the application of the DDSM. In addition to the original examples transmitted on August 27 reflecting a period where weather was colder than normal, a calculation of the DDSM under normal weather and a calculation assuming warmer than normal weather have been added to the schedules.

Also included on each schedule is a "test" of the formula i.e., is the formula producing the expected results? A weather normalization mechanism for dk usage must acknowledge the following factors:

- There is a direct correlation between degree days and temperature sensitive use.
- Usage varies among customers for a number of reasons and will continue to be different for each customer after normalization.
- The dk adjustment under DDSM is intended to adjust the customer's actual consumption that is known at the time of billing. The DDSM formula needs to solve for temperature sensitive use based on normal degree days.

Under the test provided, the actual temperature sensitive use is divided by actual degree days and the resulting actual temperature sensitive use per degree day is then multiplied by normal degree days. The result is normalized temperature sensitive use. Subtracting the actual temperature sensitive use from the normalized temperature sensitive use equals the dk adjustment to be billed under the DDSM. As shown, this test produces the same results as the DDSM formula.

Sincerely,

Tamie A. Aberle
Pricing & Tariff Manager

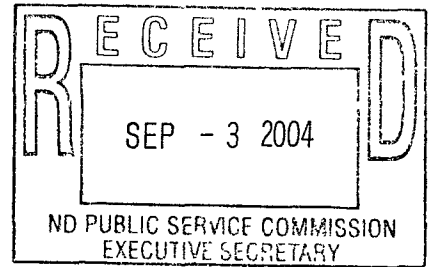
Attachment

cc: D R Ball
D S Kuntz
William Binek

110 PU-04-97

Pages 4

**Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Devils Lake, ND
Rate 60 - Residential Service**



		<u>Colder</u>	<u>Normal</u>	<u>Warmer</u>
Assumptions:				
Days in Billing period 1/21/04-2/19/04		29	29	29
Gas Usage (dk)		12.5	12.5	12.5
Normal Degree Days for Bill Cycle (NDD)		1,592	1,592	1,592
Actual Degree Days for Bill Cycle (ADD) 1/		1,950	1,592	1,345
Base Use (dk) per day		0.06106	0.06106	0.06106
Distribution Delivery Charge		\$0.641	\$0.641	\$0.641
DDSM Adjustment				
Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0.18359)	0.00000	0.18359
Base Use	Base Use * Days in Billing Period	1.8	1.8	1.8
Temperature Sensitive Use 2/	Actual Use - Base Use	10.7	10.7	10.7
Dk Adjustment	Temperature Sensitive Use * DDF	(2.0)	0.0	2.0
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1.28)	\$0.00	\$1.28
Test of Formula				
Temperature Sensitive Use		10.7	10.7	10.7
Actual Degree Days		1,950	1,592	1,345
Temperature Sensitive Use per Actual Degree Days		0.005487	0.006721	0.007955
Multiplied by Normal Degree Days		1,592	1,592	1,592
Equals Normalized Temperature Sensitive Use		8.7	10.7	12.7
Dk Adjustment		(2.0)	0.0	2.0

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota. Example reflects Devils Lake service area.

2/ If Base Use > or = Actual Use, DDSM = \$0.00

NOTE:

* Applied on a bills rendered basis. Service periods billed November 1 - March 30 subject to DDSM.

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Dickinson, ND
Rate 60 - Residential Service

		Colder	Normal	Warmer
Assumptions:				
Days in Billing period	1/21/04-2/19/04	29	29	29
Gas Usage (dk)		12.5	12.5	12.5
Normal Degree Days for Bill Cycle (NDD)		1,364	1,364	1,364
Actual Degree Days for Bill Cycle (ADD) 1/		1,648	1,364	1,163
Base Use (dk) per day		0.06106	0.06106	0.06106
Distribution Delivery Charge		\$0.641	\$0.641	\$0.641
DDSM Adjustment				
Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0.17233)	0.00000	0.17233
Base Use	Base Use * Days in Billing Period	1.8	1.8	1.8
Temperature Sensitive Use 2/	Actual Use - Base Use	10.7	10.7	10.7
Dk Adjustment	Temperature Sensitive Use * DDF	(1.8)	0.0	1.8
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1.15)	\$0.00	\$1.15

Test of Formula

Temperature Sensitive Use	10.7	10.7	10.7
Actual Degree Days	1,648	1,364	1,163
Temperature Sensitive Use per Actual Degree Days	0.006493	0.007845	0.009196
Multiplied by Normal Degree Days	1,364	1,364	1,364
Equals Normalized Temperature Sensitive Use	8.9	10.7	12.5
Dk Adjustment	(1.8)	0.0	1.8

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota. Example reflects Dickinson service area.

2/ If Base Use > or = Actual Use, DDSM = \$0.00.

NOTE

* Applied on a bills rendered basis. Service periods billed November 1 - March 30 subject to DDSM.

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Bismarck, ND
Rate 70 - Firm General Service (meters < 500 cf/h)

		<u>Colder</u>	<u>Normal</u>	<u>Warmer</u>
Assumptions:				
Days in Billing period	1/21/04-2/19/04	29	29	29
Gas Usage (dk)		40.0	40.0	40.0
Normal Degree Days for Bill Cycle (NDD)		1,486	1,486	1,486
Actual Degree Days for Bill Cycle (ADD) 1/		1,721	1,486	1,307
Base Use (dk) per day		0.08313	0.08313	0.08313
Distribution Delivery Charge		\$0.473	\$0.473	\$0.473
DDSM Adjustment				
Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0.13655)	0.00000	0.13655
Base Use	Base Use * Days in Billing Period	2.4	2.4	2.4
Temperature Sensitive Use 2/	Actual Use - Base Use	37.6	37.6	37.6
Dk Adjustment	Temperature Sensitive Use * DDF	(5.1)	0.0	5.1
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$2.41)	\$0.00	\$2.41

Rest of Formula

Temperature Sensitive Use		37.6	37.6	37.6
Actual Degree Days		1,721	1,486	1,307
Temperature Sensitive Use per Actual Degree Days		0.021848	0.025303	0.028758
Multiplied by Normal Degree Days		1,486	1,486	1,486
Equals Normalized Temperature Sensitive Use		32.5	37.6	42.7
Dk Adjustment		(5.1)	0.0	5.1

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota. Example reflects Bismarck service area.

2/ If Base Use > or = Actual Use, DDSM = \$0.00

NOTE

* Applied on a bills rendered basis. Service periods billed November 1 - March 30 subject to DDSM.

MDU RESOURCES

GROUP, INC

Schuchart Building
918 East Divide Avenue

Mailing Address
P O Box 5650
Bismarck, ND 58506-5650
(701) 222-7900

Direct Dial No
(701) 222-7612
(701) 222-7607 (fax)



September 1, 2004

Ms. Illona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capital – Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

Re: Natural Gas Rate Increase Application Case No. PU-04-97

Dear Ms. Jeffcoat-Sacco:

Enclosed for filing are the original and seven copies of a Withdrawal of Request for Hearing submitted on behalf of Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc. (Montana-Dakota). By this filing, Montana-Dakota is withdrawing its request filed August 25, 2004 in this proceeding for a hearing on its Application for Trade Secret protection

Please acknowledge receipt by date stamping the enclosed duplicate copy of this letter and return the same in the enclosed self-addressed, stamped envelope.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel S. Kuntz".

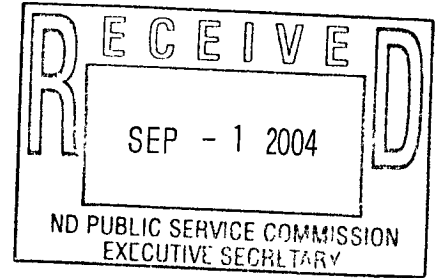
Daniel S Kuntz
Senior Attorney

DSK/djv

Enclosure

cc: B. T. Imsdahl
D. W. Schulz
D. R. Ball
William Binek

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Montana-Dakota Utilities Co.)
Natural Gas Rate Increase)
Application)

Case No. PU-04-97

WITHDRAWAL OF REQUEST FOR HEARING

Montana-Dakota Utilities Co , division of MDU Resources Group, Inc., hereby withdraws its request filed August 25, 2004 in this proceeding for a hearing on its Application for Trade Secret Protection.

Dated this 1st day of September, 2004.

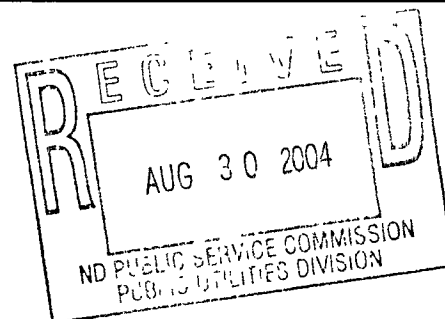
Respectfully submitted,

By: 

Daniel S. Kuntz (ID #03490)
Senior Attorney
MDU Resources Group, Inc.
918 East Divide Avenue
P.O. Box 5650
Bismarck, ND 58506-5650
(701)222-7612

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

August 27, 2004



Ms. Illona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: Natural Gas Rate Increase Application
Case No PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc herewith responds to the portion of the request for information regarding the Distribution Delivery Adjustment Mechanism (DDSM) dated August 26, 2004 that was requested to be filed on August 27. This information has also been electronically transmitted

Attachment A contains 3 examples of the application of the DDSM. Each example reflects a service period of January 21, 2004 through February 19, 2004. The actual weather for this time period was colder than normal based on the weather data applicable to the 3 examples. The adjustments reflect the use of the currently effective distribution delivery charge rates

There are 6 weather reporting stations that will be used for customers served by Montana-Dakota under the DDSM. Those stations are located in Bismarck, Devils Lake, Dickinson, Jamestown, Minot, and Williston. The DDSM adjustment calculated under these assumptions would appear on the customer's bill issued on February 20

- Attachment A, Page 1 is an example for a residential customer in Devils Lake. Weather was 18% colder than normal in Devils Lake for this service period.
- Attachment A, Page 2 is an example for a residential customer in Dickinson. Weather was 17% colder than normal in Dickinson for this service period.
- Attachment A, Page 3 is an example for a firm general service customer, with a meter rated < 500 cubic feet per hour, in Bismarck. Weather was 14% colder than normal in Bismarck for this service period.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope

Sincerely,

Tamie A. Aberle
Pricing & Tariff Manager

Attachment
cc D S. Kuntz
D.R. Ball
B. Binek – ND PSC

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Pages 4

Response to portion of request for info re
DDSM
by Montana-Dakota Utilities Co a Division of MDU Resources Group, Inc
08/30/2004 CC Comm Legal PUD (3) Mike ALJ

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Devils Lake, ND
Rate 60 - Residential Service

Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	12 5
Normal Degree Days for Bill Cycle (NDD)	1,592
Actual Degree Days for Bill Cycle (ADD) 1/	1,950
Base Use (dk) per day	0 06106
Distribution Delivery Charge	\$0 641

DDSM Adjustment

Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0 18359)
Base Use	Base Use * Days in Billing Period	1 8
Temperature Sensitive Use 2/	Actual Use - Base Use	10 7
Dk Adjustment	Temperature Sensitive Use * DDF	(2 0)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1 28)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota Example reflects Devils Lake service area

2/ If Base Use > or = Actual Use, DDSM = \$0 00

NOTE

* Applied on a bills rendered basis Service periods billed November 1 - March 30 subject to DDSM

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Dickinson, ND
Rate 60 - Residential Service

Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	12 5
Normal Degree Days for Bill Cycle (NDD)	1,364
Actual Degree Days for Bill Cycle (ADD) 1/	1,648
Base Use (dk) per day	0 06106
Distribution Delivery Charge	\$0 641

DDSM Adjustment

Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0 17233)
Base Use	Base Use * Days in Billing Period	1 8
Temperature Sensitive Use 2/	Actual Use - Base Use	10 7
Dk Adjustment	Temperature Sensitive Use * DDF	(1 8)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1 15)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota Example reflects Dickinson service area

2/ If Base Use > or = Actual Use, DDSM = \$0 00

NOTE

* Applied on a bills rendered basis Service periods billed November 1 - March 30 subject to DDSM

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Bismarck, ND
Rate 70 - Firm General Service (meters < 500 cf/h)

Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	40 0
Normal Degree Days for Bill Cycle (NDD)	1,486
Actual Degree Days for Bill Cycle (ADD) 1/	1,721
Base Use (dk) per day	0 08313
Distribution Delivery Charge	\$0 473

DDSM Adjustment

Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0.13655)
Base Use	Base Use * Days in Billing Period	2 4
Temperature Sensitive Use 2/	Actual Use - Base Use	37 6
Dk Adjustment	Temperature Sensitive Use * DDF	(5 1)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$2 41)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota Example reflects Bismarck service area

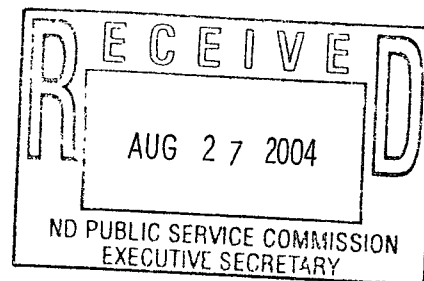
2/ If Base Use > or = Actual Use, DDSM = \$0 00.

NOTE

* Applied on a bills rendered basis Service periods billed November 1 - March 30 subject to DDSM

Scott, Sandi L.

From: Jeffcoat-Sacco, Illona
Sent: Friday, August 27, 2004 12 10 PM
To: Comm
Cc: Legal, PUD
Subject: FW DDSM Working Examples



Illona A. Jeffcoat-Sacco
 ND PSC
 701-328-2407 (fax 2410)
 ijs@psc.state.nd.us

From: Aberle, Tamie [mailto:Tamie.Aberle@MDU.com]
Sent: Friday, August 27, 2004 11:58 AM
To: 'Jeffcoat-Sacco, Illona'; 'Lein, Jerry R.'
Cc: 'wwb@psc.state.nd.us'; Kuntz, Dan; Ball, Don
Subject: DDSM Working Examples

Attached per your request of 8/26 is a file containing 3 examples of the application of the DDSM.

Each example reflects a service period of January 21, 2004 through February 19, 2004. The actual weather for this time period was colder than normal based on the weather data applicable to the 3 examples.

The adjustments reflect the use of the currently effective distribution delivery charge rates.

There are 6 weather reporting stations that will be used for customers served by Montana-Dakota under the DDSM.

Bismarck
 Devils Lake
 Dickinson
 Jamestown
 Minot
 Williston

The DDSM adjustment calculated under these assumptions would appear on the customer's bill issued on February 20.

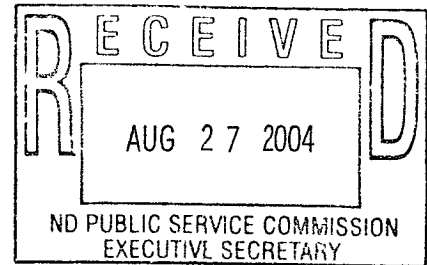
- The 1st sheet titled "Rate 60- Devils Lake" is an example for residential customer in Devils Lake. Weather was 18% colder than normal in Devils Lake for this service period.
- The 2nd sheet titled "Rate 60 - Dickinson" is an example for residential customer in Dickinson. Weather was 17% colder than normal in Dickinson for this service period.

- The 3rd sheet titled "Rate 70 - Bismarck" is an example for a firm general service customer, with a meter rated < 500 cubic feet per hour, in Bismarck. Weather was 14% colder than normal in Bismarck for this service period.

A hard copy of this information will be filed this afternoon. Please contact me if you have any questions.

Tamie Aberle
Pricing & Tariff Manager
701.222.7856
tamie.aberle@mdu.com

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Devils Lake, ND
Rate 60 - Residential Service



Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	12.5
Normal Degree Days for Bill Cycle (NDD)	1,592
Actual Degree Days for Bill Cycle (ADD) 1/	1,950
Base Use (dk) per day	0.06106
Distribution Delivery Charge	\$0.641

DDSM Adjustment

Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0.18359)
Base Use	Base Use * Days in Billing Period	1.8
Temperature Sensitive Use 2/	Actual Use - Base Use	10.7
Dk Adjustment	Temperature Sensitive Use * DDF	(2.0)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1.28)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota. Example reflects Devils Lake service area.

2/ If Base Use > or = Actual Use, DDSM = \$0.00

NOTE:

* Applied on a bills rendered basis. Service periods billed November 1 - March 30 subject to DDSM

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Dickinson, ND
Rate 60 - Residential Service

Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	12.5
Normal Degree Days for Bill Cycle (NDD)	1,364
Actual Degree Days for Bill Cycle (ADD) 1/	1,648
Base Use (dk) per day	0.06106
Distribution Delivery Charge	\$0.641

DDSM Adjustment

Degree Day Factor (DDF)	$(NDD - ADD) / ADD$	(0.17233)
Base Use	Base Use * Days in Billing Period	1.8
Temperature Sensitive Use 2/	Actual Use - Base Use	10.7
Dk Adjustment	Temperature Sensitive Use * DDF	(1.8)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$1.15)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota. Example reflects Dickinson service area.

2/ If Base Use > or = Actual Use, DDSM = \$0.00

NOTE:

* Applied on a bills rendered basis. Service periods billed November 1 - March 30 subject to DDSM

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Real-Time DDSM
Example: February 2004 Bill in Bismarck, ND
Rate 70 - Firm General Service (meters < 500 cf/h)

Assumptions:

Days in Billing period 1/21/04-2/19/04	29
Gas Usage (dk)	40 0
Normal Degree Days for Bill Cycle (NDD)	1,486
Actual Degree Days for Bill Cycle (ADD) 1/	1,721
Base Use (dk) per day	0 08313
Distribution Delivery Charge	\$0 473

DDSM Adjustment

Degree Day Factor (DDF)	(NDD - ADD) / ADD	(0 13655)
Base Use	Base Use * Days in Billing Period	2 4
Temperature Sensitive Use 2/	Actual Use - Base Use	37 6
Dk Adjustment	Temperature Sensitive Use * DDF	(5 1)
DDSM	Dk Adjustment * Distribution Delivery Charge	(\$2 41)

1/ Actual Degree Days reported by National Weather Service Stations for applicable service areas in North Dakota Example reflects Bismarck service area.

2/ If Base Use > or = Actual Use, DDSM = \$0 00

NOTE.

* Applied on a bills rendered basis Service periods billed November 1 - March 30 subject to DDSM

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Lori Anderson deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **27th day of August, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **four** envelopes with first class postage, fully prepaid, securely sealed and each containing a photocopy of

Advocacy Staff Response to Request for Hearing or Alternative Motion to Withdraw Trade Secret Application

The envelopes were addressed as follows

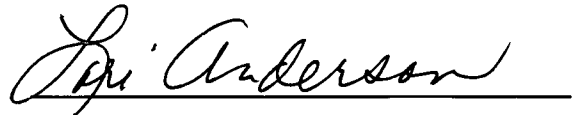
Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mr Allen C. Hoberg
Administrative Law Judge
Office of Administrative Hearings
1707 North 9th Street, Lower Level
Bismarck, ND 58501

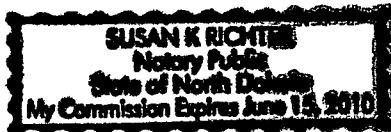
Each address shown is the respective addressee's last reasonably ascertainable post office address



Subscribed and sworn to before me
this **27th day of August, 2004**


Notary Public

SEAL





Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

August 27, 2004

Ms. Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E Boulevard Ave. Dept. 408
Bismarck, ND 58505-0480

RE: **Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application
Case No. PU-04-97**

Dear Ms. Jeffcoat-Sacco:

Enclosed for filing in the above referenced case are the original and seven copies of the **Advocacy Staff Response to Request for Hearing or Alternative Motion to Withdraw Trade Secret Application.**

Thank you.

Sincerely,

William W. Binek
Chief Counsel

WWBs/s
Enclosure

C Douglas W Schulz
Daniel S Kuntz
Don Ball
Allen Hoberg

104 PU-04-97

Pages 1

Cover Letter Re Filing

by Public Service Commission

08/27/2004

CC Comm Legal PUD (3) Mike ALJ

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

**ADVOCACY STAFF RESPONSE TO REQUEST FOR HEARING OR
ALTERNATIVE MOTION TO WITHDRAW TRADE SECRET APPLICATION**

On August 25, 2004, Montana-Dakota Utilities Co., a division of MDU Resources Group (MDU) filed a Request for Hearing or Alternative motion to Withdraw Trade Secret Application. MDU initially filed an application for a protective order limiting the disclosure of certain trade secret information provided by MDU in response to Discovery Requests by the Public Service Commission's Advocacy Staff (Advocacy Staff) and is included within the direct testimony and exhibits of Charles W. King be filed on behalf of the Advocacy Staff. On July 15, 2004, Advocacy Staff filed a response to the request in opposition to the granting of trade secret protection. On August 18, 2004, the Commission issued its order denying trade secret protection for the information. On August 24, 2004, MDU filed a Settlement Agreement entered into by MDU and Advocacy Staff.

Upon denial of an application for trade secret protection, an applicant may request a hearing before the Commission under North Dakota Administrative Code Section 69-02-09-05(1). MDU filed a timely request for hearing, together with an alternative motion to withdraw its Application for Trade Secret protection including those portions of the direct testimony and exhibits of Charles W. King that were submitted with the Application for Trade Secret protection

MDU's alternative motion to withdraw the application for trade secret protection is based upon the Settlement Agreement filed with the Commission on August 24, 2004. MDU states that the Settlement Agreement, if approved by the Commission, will resolve all outstanding issues in this proceeding, including those issues addressed by the direct testimony and exhibits of Charles W. King which contain the information for which MDU seeks trade secret protection. MDU states that the public testimony and exhibits filed by Charles W. King offer sufficient detail regarding the issues resolved by the Settlement Agreement for the Commission to adequately consider the Settlement Agreement to determine if it is in the public interest and will result in just and reasonable rates for MDU's retail natural gas operations in North Dakota.

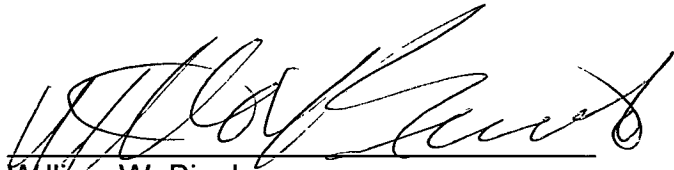
MDU states that the Settlement Agreement, consistent with the Commission's settlement policy, does not establish any principle or precedent, nor adopt or recommend any specific type or amount of any expense or rate base, for this or any future proceeding. MDU states that, if the Commission adopts the Settlement Agreement, the issues relating to the details of these specific expense items will be moot. MDU states that withdrawal of the confidential information and trade secret application would be without prejudice for the parties to refile this information with an Application for Trade Secret Protection and a request for hearing in the event the Commission does not approve the Settlement Agreement.

While Advocacy Staff's position concerning the trade secret status of the information remains unchanged, Advocacy Staff agrees with MDU that the *public* testimony and exhibits filed by Charles W. King offer sufficient detail regarding the issues resolved by the Settlement Agreement for the Commission to adequately consider the Settlement Agreement.

Advocacy Staff recommends that, the Commission consider the Settlement Agreement without the consideration of the trade secret information, and that the Commission grant MDU's Motion to Withdraw Trade Secret Application under the

conditions set forth in MDU's request and motion. In the event the Commission determines that it must consider the trade secret information in order to make its decision concerning the Settlement Agreement, Advocacy Staff proposes that the Commission grant MDU's request for hearing on its Application for Trade Secret protection.

Dated August 27, 2004.

A handwritten signature in black ink, appearing to read "William W. Binek", written over a horizontal line.

William W. Binek
Counsel for Advocacy Staff

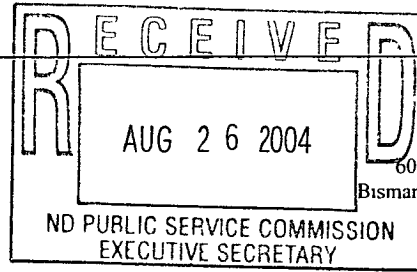


Public Service Commission
State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco



600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

August 26, 2004

Dan Kuntz, Attorney
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Bill Binek
Public Service Commission
600 E Boulevard Ave Dept 408
Bismarck ND 58505-0480

Gentlemen:

Commissioner Wefald asked me to forward the following request to MDU:

Please provide a hypothetical, specific "working example" of the calculation of the DDSM, which is included in Rate 87, by Friday noon, August 27. For example, you could choose a residential customer in Devils Lake, North Dakota for a February 2004 billing cycle. You would need to provide information about the NDD (Normal Degree Days), the ADD (actual degree days for the applicable bill cycle). You could assume the current distribution delivery charge per DK. It would be helpful to provide another example of a residential customer in Dickinson, North Dakota with the same information. Are there zones or something to recognize locational weather differences? In your example, please explain when the DDSM adjustment to the customer's bill would occur.

Also provide a "working example" for a firm business customer on general services rate 70 who uses <500cf.mtr.

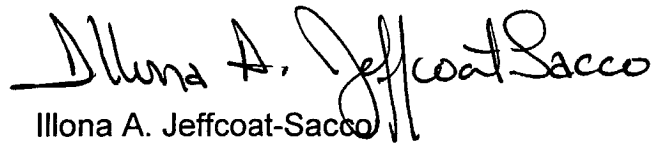
In addition, Commissioner Wefald asked that MDU respond to the following questions at the hearing on Tuesday, August 31:

- Please provide information on how the base use in the definition, "Temperature Sensitive Use per Customer" was determined.
- Please explain why in the definition "Actual Degree Days" is "weighted by customers."
- Please explain why a 30-year average was chosen for historical average?
- If this is a "real time tariff", how is this indicated in the tariff?
- In the DDSM calculation, why is ADD in the denominator rather than NDD?
- Why does MDU use 60° F in its definition of heating degree-days rather than 65°, which is used by the National Weather Service?

Mr. Kuntz and Mr Binek
Page 2
August 26, 2004

Thank you for your attention to this request.

Sincerely,

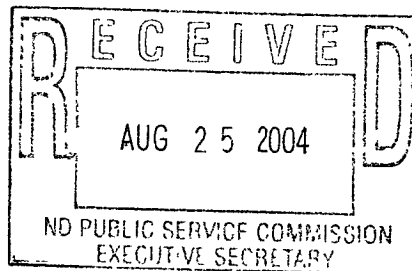

Illona A. Jeffcoat-Sacco
Executive Secretary

c: Commissioners Clark, Wefald, and Cramer
Public Utility Division Staff

 **MDU RESOURCES**
GROUP, INC.

Schuchart Building
918 East Divide Avenue
Mailing Address
P O Box 5650
Bismarck, ND 58506-5650
(701) 222-7900

Direct Dial No
(701) 222-7612
(701) 222-7607 (fax)



August 25, 2004

Ms Ilona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capital – Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

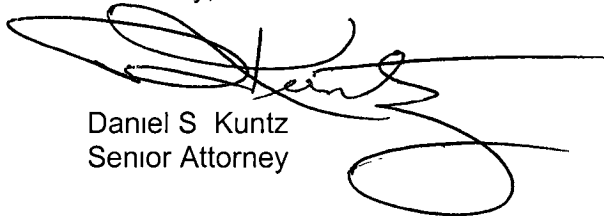
Re Natural Gas Rate Increase Application Case No PU-04-97

Dear Ms Jeffcoat-Sacco

Enclosed for filing are the original and seven copies of a Request for Hearing or Alternative Motion to Withdraw Trade Secret Application submitted on behalf of Montana-Dakota Utilities Co , a Division of MDU Resources Group, Inc (Montana-Dakota) By this filing, Montana-Dakota requests a hearing on its Application for Trade Secret Protection of certain confidential information provided to the Commission's Advocacy Staff that is included within the confidential direct testimony and exhibits of Charles W King that were filed with the application, or in the alternative, Montana-Dakota request that it be allowed to withdraw its Application for Trade Secret Protection including the confidential information included within the direct testimony and exhibits of Mr King

Please acknowledge receipt by date stamping the enclosed duplicate copy of this letter and return the same in the enclosed self-addressed, stamped envelope

Sincerely,

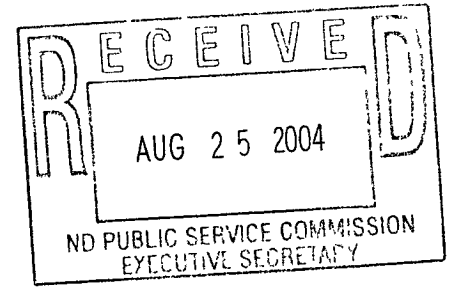


Daniel S Kuntz
Senior Attorney

DSK/eeh
Encs

cc B T Imsdahl
D W Schulz
D R Ball
Charles King
William Binek

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Montana-Dakota Utilities Co.) Case No. PU-04-97
Natural Gas Rate Increase)
Application)

**REQUEST FOR HEARING OR ALTERNATIVE MOTION TO WITHDRAW
TRADE SECRET APPLICATION**

On July 14, 2004, Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc., ("Montana-Dakota") filed an application for a protective order limiting the disclosure of certain trade secret information provided by Montana-Dakota in response to discovery requests by the Public Service Commission's Advocacy Staff ("Advocacy Staff") that is included within confidential direct testimony and exhibits of Charles W. King that were filed with the Application. On August 18, 2004, the Public Service Commission issued its order denying Trade Secret protection for the confidential information determining that Montana-Dakota had not shown that the information it seeks to protect derives independent economic value from not being generally known. Therefore, the Commission concluded the information is not Trade Secret under N.D.C.C. Section 47-25.1-01 Pursuant to N D Admin C §§69-02-09-05 and 69-02-09-06, Montana-Dakota requests a hearing before the Commission on its application for Trade Secret protection Montana-Dakota is entitled to such a hearing as a matter of due process to protect its property interest in the confidential information

Alternatively, Montana-Dakota moves the Commission for approval to withdraw Montana-Dakota's Application for Trade Secret protection including those portions of the direct testimony and exhibits of Charles W. King that were submitted with the

Application for Trade Secret protection. This motion is based upon a settlement agreement in this proceeding reached by Montana-Dakota and the Advocacy Staff which, if approved by the Commission, would resolve all outstanding issues in this proceeding including those issues addressed by the direct testimony and exhibits of Charles W King. The public testimony and exhibits filed by Charles W. King offer sufficient detail regarding the issues resolved by the settlement agreement for the Commission to adequately consider the settlement agreement to determine if it is in the public interest and will result in just and reasonable rates for the Company's retail natural gas operations in North Dakota Details contained in the confidential information submitted with the Trade Secret Application regarding Montana-Dakota's incentive compensation plans to its various employee groups and the factors and characteristics of those plans and the percentage increases in annual compensations to officers and employees since 1999 are not necessary for the Commission to review the Settlement Agreement because composite information regarding those issues is contained in the public version of Mr King's testimony and in the testimony, exhibits and supporting statements filed by Montana-Dakota The settlement agreement, consistent with the Commission's settlement policy, does not establish any principle or precedent, nor adopt or recommend any specific type or amount of any expense or rate base, for this or any future proceeding Accordingly, if the Commission adopts the settlement agreement, the issues relating to the details of these specific expenses items will be moot. Withdrawal of the confidential information and the Trade Secret Application would be without prejudice for the parties to refile this information with an Application for Trade Secret protection and a request for hearing in the event the Commission does not

approve the Settlement Agreement and the confidential information is relevant to a subsequent hearing in this proceeding

Dated this 25th day of August, 2004.

Respectfully submitted,

By: 

Daniel S. Kuntz (ID #03490)
Senior Attorney
MDU Resources Group, Inc.
918 East Divide Avenue
P.O. Box 5650
Bismarck, ND 58506-5650
(701)222-7612



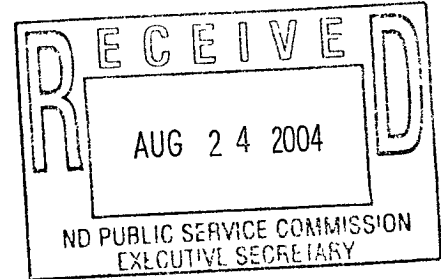
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

August 24, 2004



Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re Natural Gas Rate Increase Application
Case No. PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith submits the original and seven (7) copies of a Settlement Agreement entered into by Montana-Dakota and the Staff of the North Dakota Public Service Commission. Acceptance of this Settlement Agreement by the Public Service Commission will resolve all outstanding issues in this proceeding

One (1) copy of the Settlement Agreement has been mailed to Charles King of Snavelly King Majoros O'Conner & Lee, Inc., 1220 L St NW, Suite 410, Washington, DC 20005

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope

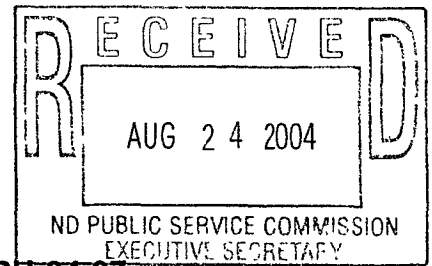
Sincerely,

Donald R Ball
Assistant Vice President –
Regulatory Affairs

Attachment

cc B T. Imsdahl
D.W Schulz
D.S. Kuntz

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**



**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

)
)

Case No. PU-04-97

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between Montana-Dakota Utilities Co. ("Montana-Dakota" or "Company") and the Staff of the North Dakota Public Service Commission ("Staff"), (collectively the "Parties"). The Parties agree this Settlement Agreement resolves all outstanding issues in this case in a manner consistent with the public interest and will result in just and reasonable rates for the Company's retail natural gas operations in North Dakota.

PROCEDURAL HISTORY

1. On March 3, 2004, Montana-Dakota filed a notice of a proposed increase to its North Dakota retail natural gas rates to become effective April 2, 2004, based on a 2005 test year. The Notice proposed an increase in natural gas rates to provide additional annual revenue of \$3,334,226, or 2.8 percent overall, over current rates. Montana-Dakota proposed to increase Distribution Delivery Charges for residential service customers by 5.5 percent and general service customers by 2.3 percent. The Company proposed no increase in rates for service to interruptible customers or to the Minot Air Force Base. Filed with the Notice were revised tariffs, direct testimony, exhibits and supporting statements.

2. Montana-Dakota concurrently submitted an Application and Notice for an

interim increase in natural gas rates in the annual amount of \$1,871,000 to be effective 60 days from filing if the Commission suspended the proposed general rate increase. The Company subsequently revised its interim request to include short-term debt as part of the Company's cost of capital and to allocate the proposed interim rate increase equally to all customer classes with no change to existing rate design. The revised interim request sought an increase in annual revenue of \$1,714,000. On April 27, 2004, the Commission issued an Order approving the revised interim rates to become effective May 3, 2004.

3. The North Dakota Public Service Commission ("Commission") suspended Montana-Dakota's general rate increase application and set the matter for investigation and hearing.

4. On March 31, 2004, the Commission issued a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline which set forth the following issues to be considered in this case:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are MDU's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

6. Other relevant information or proposals concerning the proceeding.

5. On May 10, 2004, the Commission conducted a Public Input Session via interactive video conference with hearing sites in Bismarck, Minot, Dickinson, Jamestown, Devils Lake and Williston.

6. No person has filed a petition to intervene in this proceeding.

7. Discovery requests were served on Montana-Dakota by the Staff and responded to by the Company.

8. On July 15, 2004, the Staff filed direct testimony of Charles W. King, President of the economic consulting firm of Snavely King Majoros O'Connor & Lee. In his direct testimony, Mr. King recommended various adjustments to the 2005 test year that, if adopted, would reduce the test year revenue requirement to \$604,000. Mr. King further commented on Montana-Dakota's proposed rate design changes.

9. On August 2, 2004 and August 4, 2004, Montana-Dakota filed rebuttal testimony to the testimony of Mr. King. In its rebuttal testimony, Montana-Dakota responded to the adjustments recommended by Mr. King. The Company's rebuttal testimony included additional information and explanation on the test year items questioned by Mr. King.

10. Settlement discussions were held between the Parties on August 17, 2004 and August 20, 2004. As a result of those and subsequent discussions, the Parties reached this Settlement Agreement.

11. The Settlement Agreement is supported by the administrative record. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement in its entirety, without conditions or modifications.

TERMS OF SETTLEMENT AGREEMENT

1. Revenue Increase. The Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$2,500,000 effective October 3, 2004. This revenue increase is based upon a return on rate base of 8.791 percent.

2. Basic Service Charge. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in Montana-Dakota's residential and general service Basic Service Charges as proposed by the Company.

3. Rate Design. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in residential and general service retail Distribution Delivery Charges which, when combined with the revenue yielded from the Basic Service Charge changes in paragraph 2, result in an overall increase of total residential test year revenues of approximately 2.5 percent and general service revenues of approximately 1.9 percent. The Parties agree to, and recommend the Commission approve, no increase in the rates for service to interruptible customers or to the Minot Air Force Base.

4. The Parties agree to, and recommend the Commission approve, the Company's proposed Distribution Delivery Stabilization Mechanism Rate 87 as filed with the Rebuttal Testimony of Tamie A. Aberle.

OTHER TERMS AND CONDITIONS

1. **Basis of Settlement.**

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. The Settlement Agreement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

2. **Effect of the Settlement Negotiations.**

It is understood and agreed that all offers of settlement and discussions related to this Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Public Service Commission does not approve this Settlement Agreement, it shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or otherwise.

3. **Applicability and Scope.**

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

4. **Effective Date.**

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by

this Settlement Agreement shall be effective on the dates specified herein.

5. Modification.

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any party files a letter with the Commission within three (3) business days of notice of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

Dated this 24th day of August, 2004.

MONTANA-DAKOTA UTILITIES CO.

By: Donald R. Ball
Its: Assistant Vice President –
Regulatory Affairs

Dated this 24th day of August, 2004.

NORTH DAKOTA PUBLIC SERVICE
COMMISSION STAFF

By: [Signature]
Its: Chief Counsel

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY CERTIFIED AND INSIDE MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sandra L. Scott deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **18th day of August, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **three** envelopes with certified postage, fully prepaid, securely sealed and each containing a photocopy of:

Order Denying Trade Secret Protection

The envelopes were addressed as follows:

Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501
Cert. No. 7003 2260 0001 3517 0258

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501
Cert. No. 7003 2260 0001 3517 0265

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501
Cert. No. 7003 2260 0001 3517 0272

Sandra L. Scott further deposes and says that on the **18th day of August**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope Inside Mail, containing a photocopy of the same.

Mr Allen C Hoberg
Administrative Law Judge
Office of Administrative Hearings
1707 N 9th St Lower Level
Bismarck ND 58501

Each address shown is the respective addressee's last reasonably ascertainable post office address.

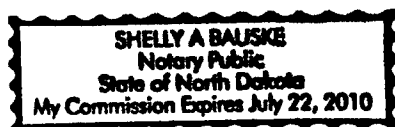
Audra G Scott

Subscribed and sworn to before me
this **18th day of August, 2004.**

Shelly A Bauske

Notary Public

SEAL



APPROVED

MOTION

DATE: 8-18-04
KMF

August 18, 2004

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

I move the Commission adopt the Order Denying Trade Secret Protection in
Montana-Dakota Utilities Co.'s Natural Gas Rate Increase Application, Case No. PU-04-
97.

sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

ORDER DENYING TRADE SECRET PROTECTION

August 18, 2004

On July 14, 2004, Montana-Dakota Utilities Co., a division of MDU Resources Group ("MDU) filed an application for a protective order limiting the disclosure of certain trade secret information provided by MDU in response to Discovery Requests by the Public Service Commission's Advocacy Staff (Advocacy Staff) that is included within the direct testimony and exhibits of Charles W. King to be filed on behalf of the Advocacy Staff. MDU provides the following general description of the nature of the information sought to be protected:

- A. Confidential information on pages 15-17 of the Direct Testimony of Charles W. King stating the amounts paid by MDU under its incentive compensation plans to its various employee groups and describing factors and characteristics of those plans.
- B. Confidential information on pages 25-28 of the Direct Testimony of Charles W. King stating the percentage increases in annual compensation to officers and other employees since 1999.
- C. Confidential information on page 4 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the amounts paid by MDU under its incentive compensation plans to its various employee groups and describing the factors and characteristics of those plans.
- D. Confidential information on page 8 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the number of employees within MDU's various employee groups and the average compensation and average annual percentage compensation increase for each group since 1999.

MDU states that the confidential information contained in the testimony and exhibits describes the average annual amounts, annual percentage increases, and the factors and characteristics of MDU's incentive plans for its various employee groups,

and that it also describes the number of employees within MDU's employee groups and the average compensation and average annual percentage compensation increases for each group since 1999.

MDU states that the information is confidential and proprietary to MDU and is not publicly disclosed, that the information is sensitive, and that its public disclosure would place MDU at a competitive disadvantage in attracting and retaining employees. MDU states that if the information is disclosed publicly, it would disadvantage MDU because the information reflects specifics regarding MDU's compensation programs, particularly compensation programs for MDU's executives and officers.

MDU states that the information is proprietary to MDU, and is available only to those employees and representatives of MDU who have a need to know the information to perform their duties and responsibilities. MDU states that it does not disclose the information outside the company except pursuant to the terms of agreements and orders to maintain the confidentiality of the information.

MDU states that competitors or potential competitors of MDU for qualified and experienced employees in the fields of electric and natural gas distribution would obtain economic value from the disclosure or use of the information.

MDU states that competitors and potential competitors of MDU for electric and natural gas employees include all investor owned utilities and rural electric cooperatives in North Dakota and any other state in the United States.

N.D.C.C. § 47-25.1-01 defines the term "trade secret" as:

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- a. Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

N.D. Admin. Code § 69-02-09-04 requires that the "commission staff examine the information and application and make a prima facie recommendation of whether the information is relevant and a trade secret under the definition of trade secret in North Dakota Century Code section 47-25.1-01."

On July 15, 2004, Advocacy Staff filed its response to MDU's request for trade secret protection. Advocacy Staff indicated that the information is relevant to the application, but asserted that it is not trade secret. Advocacy Staff contends that the manner in which MDU compensates its employees is an important part of a rate case and it is information that MDU's ratepayers are entitled to see.

Advocacy Staff asserts that the information is not trade secret because competition, as used in the context of the Commission's rule, is generally understood to mean competition between parties in the sale of goods or services and not in the trading or acquisition of employees. Advocacy Staff further asserts that release of the information cannot place MDU at a competitive disadvantage in attracting and retaining employees because the information is not specific to any individual employee.

Advocacy Staff contends that employees and potential employees of MDU are not likely required to sign confidentiality agreements concerning compensation. Therefore, MDU has no way to maintain confidentiality.

Advocacy Staff does not recall a single instance in at least the past fifteen years where a public utility has claimed trade secret protection for information relating to compensation for officers and employees of the company. Advocacy Staff asserts that the information may be sensitive from MDU's perspective because of public reaction to the amounts being paid, but that is not justification for trade secret protection.

On July 23, 2004, MDU filed its Reply in Support of Trade Secret Application. MDU contends in its reply that the information sought to be protected meets the definition of "trade secret" because it derives economic value from not being generally known or readily ascertainable by proper means and is subject to reasonable efforts to maintain its secrecy. MDU retains consultants to assure market competitiveness of employee compensation packages and the information sought to be protected results from information purchased from these consultants. This information provides economic value to MDU and its competitors because of the cost, time and effort required to duplicate it. MDU should not be required to disclose this information, or the results of this information as reflected in its compensation packages, for the benefit of its competitors who have not expended the resources to develop this information.

MDU disagrees with the Advocacy Staff's assertion that the information sought to be protected is not trade secret because it involves employees rather than products and services.

MDU agrees that the information sought to be protected is not employee specific, but contends that the information is sufficiently disaggregated to the point that it provides detail of employee compensation information that has economic value to MDU and its competitors.

MDU states that it does not prohibit employees from disclosing their compensation details, but does not disclose that information except to persons within the organization that have a need to know the information to perform their duties.



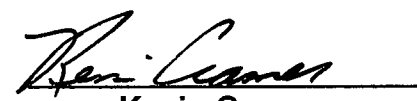
The Commission finds the information MDU seeks to protect is relevant to this proceeding.

MDU has not shown that the information it seeks to protect derives independent economic value from not being generally known. Therefore, the Commission concludes the information is not trade secret under N.D.C.C. § 47-25.1-01.

Order

The Commission Orders that MDU's application for trade secret protection filed July 14, 2004, is DENIED.

PUBLIC SERVICE COMMISSION

 _____ Susan E. Wefald Commissioner	 _____ Tony Clark President	 _____ Kevin Cramer Commissioner
---	---	--



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS

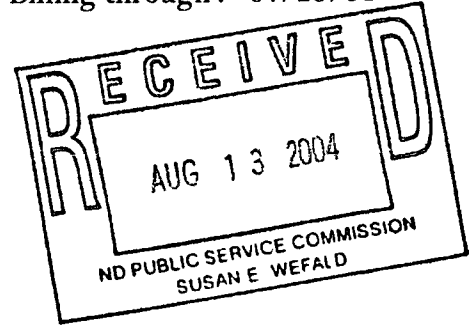
REFERENCE DOCUMENT:
 NUMBER PS 12513

July 25, 2004

PAID

Our file # : 2124
 Invoice # : 7377
 Billing through : 07/25/04

Michael Diller
 North Dakota Public Utilities Commission
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480



For services rendered during the month ending July 25, 2004 in connection with the non-compensation issues in North Dakota P.S.C. Docket No. PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates.

FEES

King, C.	7.50 hrs	135.00 /hr	1,012.50
Gildea, H.	31.50 hrs	75.00 /hr	2,362.50
Sam, M.	5.00 hrs	45.00 /hr	225.00
TOTAL FEES		44.00 hrs	<u>\$3,600.00</u>

EXPENSES

Reproduction, In-house	25.68
	<u>\$25.68</u>

TOTAL FEES	\$3,600.00
TOTAL EXPENSES	\$25.68
TOTAL AMOUNT DUE	<u>\$3,625.68</u>

7700

24097

001

OK to pay
BJ



ECONOMIC CONSULTANTS
Snavely, King & Associates, Inc.
Reproduction Machine Usage Report

Month of Jul 04

SKA Accounting Code	Client/ Employee Code	Number of Copies	Client/ Employee Code	Number of Copies
F131	4526	3097		
F131	4488	2779		
F131	4539	716		
F131	2122	89		
F131	2124	214		
F131	2125	56		
F131	2992	470		
F131	2998	1819		
F131	2991	44		
F131	8160	197		
F131	3267	104		
F131	3262	270		
F131	3266	193		
F131	7099	4496		
F131	2126	511		
F131	2128	417		
F131	3255	73		
F131	3256	30		
F131				

Posted to Invoice Computation File

By: Paul J. Ince

Date: July 29, 2004

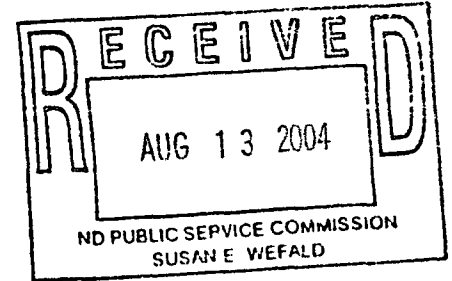


July 25, 2004

PAID

Our file # : 2126
 Invoice # : 7385
 Billing through : 07/25/04

Michael Diller
 North Dakota Public Utilities Commission
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480



For services rendered during the month ending July 25, 2004 in connection with the compensation issues in North Dakota P.S.C. Docket No. PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates.

FEES

King, C.	20.75 hrs	135.00 /hr	2,801.25
Gildea, H.	0.50 hrs	75.00 /hr	37.50
	TOTAL FEES	21.25 hrs	<u>\$2,838.75</u>

EXPENSES

Reproduction, In-house	61.32
Delivery	15.50
	<u>\$76.82</u>

TOTAL FEES	\$2,838.75
TOTAL EXPENSES	\$76.82
TOTAL AMOUNT DUE	<u>\$2,915.57</u>

PAID

ok to pay

13328
 7700 2640
 24097
 001

SKA &

ECONOMIC CONSULTANTS

Snavely, King & Associates, Inc.

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By: Paul S. Inck

Date: July 29, 2004



Invoice Number: 1-894-27357
 Invoice Date: Jul 06, 2004
 Account Number: 0200-2958-7
 Page: 6 of 9

FedEx Express Shipment Detail By Reference (Original)

Dropped off: Jun 28, 2004 **Payor: Shipper** **Reference: 2-126**

- Fuel Surcharge - FedEx has applied a fuel surcharge of 6.00% to this shipment
- Distance Based Pricing, Zone 6
- Package sent from 20002 zip code

Tracking ID 830044963882
 Service Type FedEx Priority Overnight
 Package Type FedEx Envelope
 Zone 6
 Packages 1
 Weight N/A
 Delivered Jun 29, 2004 09:57
 Svc Area AA
 Signed by D PANKO
 FedEx Use 180093390/00230/

Sender
 ANGEL SINCH
 SNAVELY KING MAJORS
 1220 L ST NW STE 410
 WASHINGTON DC 20005-4050 US

Recipient
 DONALD R BALL
 MONTANA DAKOTA UTILITIES CO
 400 N 4TH STE
 BISMARCK ND 58501 US

Transportation Charge	17.40
Discount	-2.78
Fuel Surcharge	0.88

Total Charge **USDS 15.50**

Shipment Detail Subtotal **USD \$ 15.50**



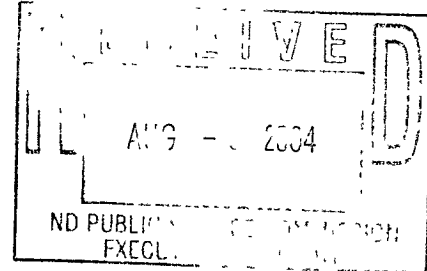
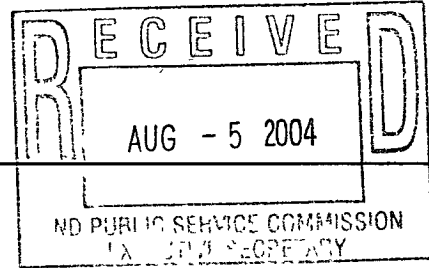
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

August 4, 2004



Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: General Natural Gas Rate Application
Case No. PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith submits the original and seven (7) copies of the rebuttal testimony of Mr. Richard D Spratt.

One (1) copy of the rebuttal testimony has been mailed to Snavely King Majoros O'Conner & Lee, Inc., 1220 L St NW, Suite 410, Washington, DC 20005.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Donald R. Ball
Assistant Vice President –
Regulatory Affairs

Attachment

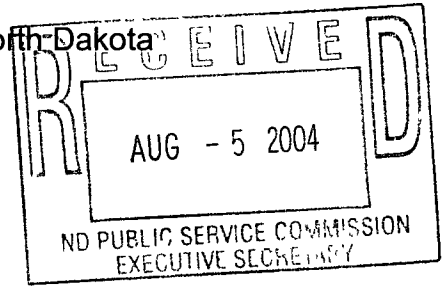
cc: B.T. Imsdahl
D.W Schulz
D.S. Kuntz

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-04-97

Rebuttal Testimony
of
Richard D. Spratt



1 Q. Would you please state your name and business address?

2 A. Yes, my name is Richard D. Spratt. My business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501

4 Q. What is your position with Montana-Dakota Utilities Co.?

5 A. I am the Vice President – Human Resources of Montana-Dakota
6 Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. What are your duties and responsibilities with Montana-Dakota?

8 A. I am responsible for all the disciplines in the Human Resources
9 (HR) arena including staffing, compensation and benefits, organization
10 development and training, organizational structure, labor and employee
11 relations and governmental compliance with employment and employee
12 relation's laws and practices.

13 Q. Would you please outline your educational and professional background?

14 A. Yes. I have a Bachelor of Science and Master's degree in Labor
15 and Industrial Relations from Michigan State University. I began my HR
16 career 26 years ago with Eaton Corporation (a \$9 billion fortune 100
17 corporation) where I was promoted through a series of HR generalist jobs,
18 including HR Professional, Asst. HR Manager, HR Manager, Division HR

1 Manager and Group HR Manager. The last position I held with Eaton was
2 HR Group Director for Cutler Hammer's Power Distribution Production and
3 International Group I was with Eaton for approximately 21 years. I then
4 accepted the position of VP Human Resources Controls Group with
5 Invensys, a \$20 billion company based in London, UK I was in that job
6 approximately two years and joined Montana-Dakota in 2001 as Vice
7 President - Human Resources, which is my current position.

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to address the recommendation by
10 Mr. Charles King to disallow a portion of the employee bonuses and a
11 portion of the officers' salary expense from the Company's test year.

12 Q. On page 14 of his testimony, Mr. King recommends adjusting a portion of
13 test year employee bonuses that he attributes to profitability. Do you
14 agree with his adjustment?

15 A. No. Mr. King eliminates a portion of the increase in bonuses above
16 the 2002 bonus level which he surmises is due to profitability. His
17 adjustment is not appropriate.

18 Q. Would you please explain why the Commission should allow the full
19 amount of the employee bonuses included in the test year?

20 A. Yes. Employee bonuses represent a critical competitive
21 component of the cost of the total compensation package provided to
22 employees. Montana-Dakota's employee bonus programs are used by
23 the Company to execute its business strategy; they are consistent with

1 industry norms, and they are consistent with the Company's compensation
2 philosophy. Employee bonuses have been consistently included in the
3 Company's test years and allowed as legitimate business expenses.
4 Employee bonuses were most recently recognized as appropriate in the
5 Commission's Order in Case No. PU-399-02-183.

6 The Commission, in Findings of Fact 87 in Case No. PU-399-02-
7 183, determined that: "*the overall wage increases projected by MDU are*
8 *fair and reasonable. The Commission believes that how raises were*
9 *distributed remains the responsibility of MDU's management and therefore*
10 *will not delineate between the portion attributable to a general wage*
11 *increase or bonuses.*" The Commission also found that "*we do not find*
12 *the practice of paying bonuses based on profitability objectionable. In*
13 *fact, the payment or lack of payment of bonuses depending on profitability*
14 *smoothes out earnings and at the same time puts pressure on employees*
15 *to perform.*" Clearly the payment of compensation bonuses and the
16 inclusion of those bonuses as part of the Company's test year labor
17 expenses are in accordance with the Commission's past decisions.

18 Q. Have the Company's bonus plans changed since the Commission issued
19 its Order in 2002?

20 A No, the bonus plan documents have the same provisions as those
21 in effect in 2002, the time of the Commission Order in Case No. PU-399-
22 02-183.

1 Q. On page 15, Mr. King states that it appears that the rate increase from the
2 North Dakota gas rate case in Case No. PU-399-02-183 was the reason
3 the bonuses increased from 2002 to 2003. He also speculates that the
4 increase requested in this case accounts for the increase in bonuses from
5 2003 to projected 2004. Is he correct?

6 A. No. Mr. King states that he has no objection to allowing bonuses to
7 employees when prices are stable but objects to bonuses that are the
8 result of rate increases. His speculation that the Company's 2003 bonus
9 is the result of the rate increase from Case No. PU-399-02-183 and the
10 2004 bonus increase is the result of the rate increase request from this
11 proceeding is incorrect. Bonuses are paid to employees the year after
12 they are earned. For example, the bonuses paid out in 2003 were the
13 result of 2002 operations. Since the North Dakota gas rate increase
14 became effective with service rendered on and after December 12, 2002,
15 the rate increase from Case No. PU-399-02-183 had virtually no effect on
16 2002 earnings, the basis of the 2003 bonus. Similarly, the 2004 bonuses
17 were based on 2003 operations and the rate increase requested in this
18 case had absolutely no effect on the increase in the bonuses from 2003 to
19 2004

20 As I stated earlier, the bonuses can fluctuate year to year, which is
21 why the Company used a three year average of bonuses in this case. All
22 other things being equal, bonuses will increase as salaries and wages
23 increase since the bonuses are tied to a percentage of salaries and

1 wages. In addition, Mr. King picked 2002 as his base level for bonuses,
2 which was the lowest bonus level in five years. Indeed, the “increase” in
3 bonuses between 2002 and 2003 was largely attributable to the low level
4 of bonuses in 2002 as the result of earnings levels in 2001 that were
5 adversely affected by weather conditions. When compared to 2001,
6 employee bonuses increased less than 6 percent in the two years
7 between 2001 and 2003. The use of a three year average of bonuses as
8 used in the Company’s test year, and which is actually below the level of
9 the 2003 bonuses, certainly reflects a more normal level of bonuses than
10 Mr. King’s proposal.

11 Q. Would you please describe how Montana-Dakota’s bonus plans fit
12 into the overall compensation package?

13 A. Montana-Dakota’s bonus plans are an important part of the total
14 compensation package. They are offered to all employees in an effort to
15 remain competitive within the industry and to focus employee efforts on
16 achieving important business objectives. Achievement of these objectives
17 requires controlling or reducing costs, identifying opportunities for greater
18 efficiencies and implementing innovative ideas that ultimately serve to
19 benefit customers. Through the design of bonus plans, part of the
20 employees’ total compensation package is “at risk”. The higher an
21 individual’s position is in the organization, the greater the percentage of
22 overall compensation that is at risk based on the recognition that
23 personnel higher in the organization have a greater opportunity and

1 responsibility to achieve those objectives. Mr. King's proposed adjustment
2 would deny bonuses tied to profitability even though cost controls,
3 efficiencies, and innovations frequently contribute more to profitability than
4 rate relief. In contrast to the real effect of Mr. King's recommendation,
5 incentive bonuses decrease the need for rate increases because they
6 encourage efficiencies.

7 Q. How are the payouts for the bonus plans determined?

8 A. All Company bonus plans have financial thresholds such as
9 earnings and return on invested capital targets that must be met prior to
10 generating a payout from the bonus plans. Establishing these financial
11 performance measures insures that incentive rewards reflect the success
12 of the business unit. Only when the minimum business performance
13 threshold is met do employees have the opportunity to share in the profits
14 if the other bonus measures are met.

15 Q. How do customers benefit through the use of bonus and incentive pay?

16 A. Customers benefit because placing a portion of the employee's pay
17 at risk for good performance focuses employees on working more
18 efficiently to achieve better results. For example, to achieve payout of the
19 bonus under the BETA plan, which applies to approximately 88 percent of
20 Montana-Dakota employees, certain goals must be met. Those goals
21 include a contribution to earnings, customer service and safety measures.
22 All of these items directly affect the cost of utility service and to the extent

1 the goals are met, the customers, the employees and the stockholders all
2 benefit.

3 Q. Is Montana-Dakota's compensation philosophy different from other
4 companies in the utility industry?

5 A. Montana-Dakota's compensation philosophy is similar to most utility
6 organizations. Each year Human Resource professionals gather data to
7 assure company programs are appropriate and competitive. Data from
8 the 2003-2004 Watson Wyatt Data Service Compensation Series
9 indicated a strong trend continues to provide employees in the utility
10 industry the opportunity for bonuses and other incentives. Approximately
11 70 percent of hourly employees, 86 percent of management employees,
12 and 94 percent of executive employees are eligible for bonuses in our
13 industry. The relevant survey pages are attached as Exhibit No.
14 ____ (RDS-1).

15 I would also note that Montana-Dakota's base pay philosophy is
16 more conservative than many organizations in the Watson Wyatt surveys.
17 Approximately half of the participating organizations in the survey strive to
18 provide a total compensation package that is above the market average
19 Montana-Dakota strives to pay at market average.

20 Q. On page 25 of his testimony, Mr. King recommends an adjustment to labor
21 expense to exclude a portion of officers' salaries. Do you agree with his
22 adjustment?

1 A. No, I do not. Mr. King recommends that the base year 2003
2 revenue requirement be reduced by the amount of the increases in officer
3 compensation since 1999 to the extent such increase exceeded increases
4 in compensation to all other employees. Not only is this retroactive
5 expense adjustment clearly inappropriate, Mr. King's recommendation on
6 this issue as well as his recommendation on SISP and bonus expenses
7 effectively attempts to indirectly control the discretion of MDU Resources
8 Group's Board of Directors regarding the type and amount of the overall
9 compensation package provided to the Company's officers and
10 employees.

11 Montana-Dakota strives to compensate all employees competitively
12 for the services they provide to the organization. MDU Resources
13 subscribes to a "Total Compensation" philosophy that reflects competitive
14 forces in the market place and is designed to recruit, motivate, reward and
15 retain high performing employees, including executives.

16 Q. How does Montana-Dakota establish the pay structure for officers?

17 A. In establishing the pay structure for officers at Montana-Dakota, the
18 competitive level for each position's market value and targeted incentive
19 compensation are determined through surveys conducted by an external
20 consulting firm that is engaged by and reports to the MDU Resources
21 Board of Directors Compensation Committee. The external consultant
22 compares Montana-Dakota's executive positions within the industry to

1 establish competitive market values and ultimately uses these values to
2 establish a compensation structure.

3 Market values and incentive compensation targets are reviewed
4 annually and necessary adjustments are made to maintain a fair and
5 competitive compensation program. The base compensation structure
6 and the incentive compensation guidelines are based on target levels that
7 reflect the fiftieth percentile, or market average, of the market data.

8 As Mr. King points out, these managers and directors are the
9 individuals most responsible for the future health of Montana-Dakota's
10 business. Controlling costs, improving efficiencies, and providing safe and
11 reliable service benefits customers, which in turn helps insure a profitable
12 business, which also benefits customers by assuring the viability of the
13 dependable service they need and expect.

14 Q. How does Montana-Dakota target salary levels that are at the market
15 average?

16 A. Historically, officers were targeted at 95 percent of the market
17 average. At this level, executive salaries were not competitive with the
18 market. In 2001 the executive compensation consultant recommended
19 that executive pay be targeted at 100 percent of the market average of the
20 competitive labor market, consistent with other groups of employees. The
21 Board of Directors implemented this recommendation in 2002, bringing
22 salaries in line with the competitive labor market. This resulted in
23 relatively larger increases in officer compensation in 2002 and 2003. Mr.

1 King's recommendation is particularly inappropriate because he not only
2 makes retroactive adjustments to these compensation levels, but also to
3 the prior years when Montana-Dakota's management was being
4 compensated below market levels.

5 Q. How does Montana-Dakota determine the percentage wage increases
6 allowed for employees?

7 A. Montana-Dakota uses a method that is common to most companies
8 in that salaries are surveyed and can vary across four distinct groups of
9 employees. The four groups are bargaining unit employees, hourly
10 employees, exempt employees, and executives. The reason for the
11 variation between groups is based upon how the group as a whole is paid
12 in relation to the market, how much the labor market rates are changing,
13 and MDU Resources' compensation philosophy.

14 MDU Resources and Montana-Dakota conduct total compensation
15 studies for each of these groups and make individual wage adjustments to
16 reflect a total compensation package, including benefits, that is
17 competitive in the marketplace.

18 Q. Why is officer compensation important to Montana-Dakota?

19 A. The utility and MDU Resources Board of Directors are concerned
20 about paying a competitive wage that supports efforts to attract and retain
21 quality people required to run the business. This is especially critical now,
22 when we have many key positions held by individuals nearing retirement
23 and with the ever increasing scope of government mandated regulations,

1 such as in the financial and environmental areas, and increased regulatory
2 requirements primarily related to federal initiatives.

3 Q. On pages 27-28 of his testimony, Mr. King states that the officers should
4 not receive an increase because the Company has filed for a rate
5 increase. Is this appropriate?

6 A. No. It is largely because of the actions of the officers and all other
7 employees that Montana-Dakota has only had to file its second rate case
8 in the last ten years. Not increasing distribution prices to the customers of
9 the utility for a period of eight years while other goods and services
10 increased by 21 percent should hardly be characterized as a management
11 failure. Management continues to look for efficiencies that can be feasibly
12 implemented as an alternative to raising prices. For example, through the
13 Company's efforts, technician productivity increased 10 percent in the first
14 six months of 2004 compared to the same period in 2003. The Company
15 also implemented changes to help mitigate rising health care costs.
16 However, as a utility with very low customer growth it is not possible to
17 avoid price increases forever while inflation continues to increase with
18 respect to the utility's cost of providing natural gas service.

19 The Company has received national recognition for the
20 management practices of its management team over the past several
21 years. MDU Resources was recognized as the Best Managed Company
22 in the utilities industry by Forbes magazine in 2004. Martin A. White,
23 Chairman, President and Chief Executive Officer of MDU Resources won

1 a Stevie Award for Best Executive, the business world's "Oscars", in the
2 2004 American Business Awards MDU Resources has also been able to
3 maintain its "A" credit rating during a period of time when many utilities
4 lost their investment grade credit ratings and in some cases went
5 bankrupt.

6 Q. Mr. King noted in his testimony that there have been changes in the
7 number of officers within the Company with a net increase from seven
8 officers in 1999 to ten in 2003. Can you explain?

9 A. Montana-Dakota has expanded officer roles to include the CEO of
10 Montana-Dakota and the President and Chief Operating Officer (COO) of
11 Utility Services, Inc. (USI), a non-regulated business unit. The USI
12 President and COO's compensation is assigned to the non-regulated
13 business. In addition, the Director of Human Resources position was
14 upgraded from a non-officer director position to the level of Vice President
15 – Human Resources, an officer position, in 2001 to reflect the expanding
16 role of its responsibilities. While there has been an increase in the total
17 number of Montana-Dakota officers, the increase is largely due to the
18 expanded business activities of the non-regulated segment. The net
19 number of officers allocated to the utility has increased by less than one
20 person, which reflects the reclassification of a position from a director to
21 an officer level.

22 Q. Does this complete your rebuttal testimony?

23 A. Yes, it does.

Exhibit No. ____ (RDS-1)

EXHIBIT NO. ____ (RDS-1)

2003 / 2004

**Industry Report on
Middle Management
Compensation**

Volume 2

**Watson Wyatt
Data Services**

 **Watson Wyatt**
Worldwide

Bonus, Variable Pay and Long-Term Incentive Programs

SHORT-TERM PLAN PREVALENCE

BONUS AND/OR OTHER VARIABLE PAY PROGRAM(S) IN WHICH OFFICE PERSONNEL ARE ELIGIBLE

	% of Organizations with at Least One Plan	# of Responses	Prevalence of Various Plan Types (as a % of Organizations with Plans)								Lump Sum Merit Pay (Not Added to Base)	Lump Sum Merit Pay (Added to Base)	Short-Term Incentive
			Bonus	Current Cash Profit Sharing	Team/Small Group Incentives	Individual Incentives	Spot or Technical Achievement Awards	Gainsharing					
Entire Sample Combined	65.1%	1,126	66.7%	14.7%	13.8%	20.6%	31.5%	6.3%	25.1%	16.4%	11.7%		
Profit Status													
For-Profit Organizations	72.3%	853	68.8%	17.0%	13.5%	20.4%	30.2%	5.7%	21.7%	14.9%	10.7%		
Not-For-Profit Organizations	42.5%	273	55.8%	2.7%	15.0%	22.1%	38.1%	9.7%	43.4%	24.8%	13.0%		
Industry Sector													
Durable Goods Manufacturing	67.4%	242	59.5%	25.9%	7.6%	10.1%	22.2%	10.1%	19.0%	12.0%	10.7%		
Non-Durable Goods Manufacturing	71.0%	124	75.9%	20.5%	8.4%	16.9%	16.9%	6.0%	14.5%	16.9%	10.7%		
Utilities and Energy	84.1%	63	69.8%	5.7%	15.1%	26.4%	52.8%	9.4%	41.5%	26.4%	10.7%		
Retail and Wholesale Trade	67.0%	91	71.7%	6.7%	5.0%	20.0%	18.3%	5.0%	16.7%	8.3%	10.7%		
Services	55.1%	352	70.1%	10.2%	14.4%	23.0%	39.6%	3.2%	25.1%	15.5%	10.7%		
Health Care	46.4%	110	46.9%	6.1%	14.3%	24.5%	24.5%	8.2%	49.0%	24.5%	10.7%		
Banking and Finance	83.1%	77	65.1%	12.7%	41.3%	42.9%	41.3%	3.2%	27.0%	14.3%	10.7%		
Insurance	88.1%	67	72.9%	16.9%	13.6%	15.3%	40.7%	6.8%	28.8%	25.4%	10.7%		
Organization Size													
Under 250 FTEs	63.0%	165	70.6%	17.6%	8.8%	17.6%	25.5%	3.9%	13.7%	13.7%	10.7%		
250 to 999 FTEs	70.5%	268	70.3%	17.0%	14.3%	17.6%	29.1%	5.5%	18.1%	20.3%	10.7%		
1,000 to 1,999 FTEs	64.6%	164	64.1%	16.5%	14.6%	21.4%	29.1%	9.7%	30.1%	16.5%	10.7%		
2,000 to 4,999 FTEs	62.8%	234	63.6%	13.3%	13.3%	21.7%	30.1%	7.7%	30.8%	16.8%	10.7%		
5,000 or More FTEs	63.4%	295	64.8%	11.0%	15.9%	24.2%	39.6%	5.5%	31.3%	13.7%	10.7%		

NUMBER OF BONUS AND/OR OTHER VARIABLE PAY PLANS IN WHICH OFFICE PERSONNEL ARE ELIGIBLE

	# of Plans in Place (as a % of Organizations with Plan(s))					Six or More
	One	Two	Three	Four	Five	
Entire Sample Combined	43.8%	28.2%	13.9%	8.3%	3.7%	2.1%
Profit Status						
For-Profit Organizations	44.6%	29.2%	12.5%	8.5%	3.3%	1.8%
Not-For-Profit Organizations	39.8%	23.0%	21.2%	7.1%	5.3%	3.5%
Industry Sector						
Durable Goods Manufacturing	53.2%	29.7%	8.9%	7.6%	0.6%	0.0%
Non-Durable Goods Manufacturing	47.0%	32.5%	13.3%	3.6%	1.2%	2.4%
Utilities and Energy	30.2%	24.5%	20.8%	15.1%	3.8%	5.7%
Retail and Wholesale Trade	60.0%	28.3%	5.0%	3.3%	1.7%	1.7%
Services	43.3%	26.2%	13.9%	8.6%	5.3%	2.7%
Health Care	44.9%	22.4%	16.3%	12.2%	2.0%	2.0%
Banking and Finance	20.6%	34.9%	22.2%	9.5%	11.1%	1.6%
Insurance	35.6%	25.4%	20.3%	10.2%	5.1%	3.4%
Organization Size						
Under 250 FTEs	49.0%	29.4%	12.7%	4.9%	2.9%	1.0%
250 to 999 FTEs	44.5%	29.1%	13.7%	7.7%	2.7%	2.2%
1,000 to 1,999 FTEs	41.7%	26.2%	13.6%	11.7%	3.9%	2.9%
2,000 to 4,999 FTEs	43.4%	28.7%	14.7%	7.7%	3.5%	2.1%
5,000 or More FTEs	41.8%	27.5%	14.3%	9.3%	4.9%	2.2%

Bonus, Variable Pay and Long-Term Incentive Programs

SHORT-TERM PLAN PREVALENCE

BONUS AND/OR OTHER VARIABLE PAY PROGRAM(S) IN WHICH EXECUTIVES ARE ELIGIBLE

	% of Organizations with at Least One Plan	# of Responses	Prevalence of Various Plan Types (as a % of Organizations with Plans)						
			Bonus	Current Cash Profit Sharing	Team/Small Group Incentives	Individual Incentives	Lump Sum Merit Pay (Not Added to Base)	Lump Sum Merit Pay (Added to Base)	Other Short-Term Incentives
Entire Sample Combined	82.0%	845	92.1%	6.3%	5.2%	20.1%	17.6%	12.4%	1.9%
Profit Status									
For-Profit Organizations	88.6%	660	95.2%	7.5%	4.8%	19.0%	14.7%	10.4%	1.7%
Not-For-Profit Organizations	58.4%	185	75.0%	0.0%	7.4%	25.9%	33.3%	23.1%	2.8%
Industry Sector									
Durable Goods Manufacturing	85.5%	186	98.1%	6.3%	1.9%	13.2%	10.7%	6.3%	0.0%
Non-Durable Goods Manufacturing	89.2%	93	97.6%	7.2%	3.6%	16.9%	14.5%	9.6%	1.2%
Utilities and Energy	81.0%	63	94.1%	3.9%	5.9%	23.5%	19.6%	15.7%	3.9%
Retail and Wholesale Trade	93.2%	73	91.2%	4.4%	2.9%	13.2%	13.2%	7.4%	2.9%
Services	73.3%	243	88.2%	7.3%	5.1%	24.7%	20.8%	14.6%	1.7%
Health Care	65.5%	58	73.7%	0.0%	10.5%	21.1%	34.2%	18.4%	0.0%
Banking and Finance	90.6%	64	86.2%	10.3%	15.5%	43.1%	17.2%	20.7%	3.4%
Insurance	89.2%	65	96.6%	6.9%	5.2%	10.3%	24.1%	17.2%	5.2%
Organization Size									
Under 500 FTEs	73.9%	218	92.5%	6.8%	2.5%	19.3%	8.7%	13.7%	1.9%
500 to 999 FTEs	82.4%	102	89.3%	6.0%	6.0%	23.8%	20.2%	20.2%	2.4%
1,000 to 1,999 FTEs	89.3%	121	90.7%	5.6%	7.4%	24.1%	17.6%	10.2%	0.9%
2,000 to 4,999 FTEs	84.8%	184	91.7%	8.3%	3.2%	22.4%	19.9%	11.5%	3.2%
5,000 or More FTEs	83.6%	220	94.0%	4.9%	7.6%	14.7%	22.3%	9.8%	1.1%

NUMBER OF BONUS AND/OR OTHER VARIABLE PAY PLANS IN WHICH EXECUTIVES ARE ELIGIBLE

	# of Plans in Place (as a % of Organizations with Plan(s))					
	One	Two	Three	Four	Five	Six or More
Entire Sample Combined	61.5%	26.1%	8.7%	2.9%	0.9%	0.0%
Profit Status						
For-Profit Organizations	63.9%	24.1%	7.7%	3.2%	1.0%	0.0%
Not-For-Profit Organizations	48.1%	37.0%	13.9%	0.9%	0.0%	0.0%
Industry Sector						
Durable Goods Manufacturing	73.0%	20.1%	4.4%	2.5%	0.0%	0.0%
Non-Durable Goods Manufacturing	65.1%	24.1%	7.2%	2.4%	1.2%	0.0%
Utilities and Energy	58.8%	19.6%	17.6%	3.9%	0.0%	0.0%
Retail and Wholesale Trade	70.6%	25.0%	2.9%	1.5%	0.0%	0.0%
Services	57.3%	28.7%	10.1%	2.2%	1.7%	0.0%
Health Care	57.9%	26.3%	15.8%	0.0%	0.0%	0.0%
Banking and Finance	39.7%	37.9%	12.1%	6.9%	3.4%	0.0%
Insurance	53.4%	32.8%	8.6%	5.2%	0.0%	0.0%
Organization Size						
Under 500 FTEs	65.8%	28.0%	2.5%	2.5%	1.2%	0.0%
500 to 999 FTEs	53.6%	31.0%	10.7%	3.6%	1.2%	0.0%
1,000 to 1,999 FTEs	62.0%	25.0%	8.3%	3.7%	0.9%	0.0%
2,000 to 4,999 FTEs	59.6%	25.0%	11.5%	3.2%	0.6%	0.0%
5,000 or More FTEs	62.5%	23.9%	10.9%	2.2%	0.5%	0.0%

Bonus, Variable Pay and Long-Term Incentive Programs

SHORT-TERM PLAN PREVALENCE

BONUS AND/OR OTHER VARIABLE PAY PROGRAM(S) IN WHICH MIDDLE MANAGERS ARE ELIGIBLE

	% of Organizations with at Least One Plan	# of Responses	Bonus	Prevalence of Various Plan Types (as a % of Organizations with Plans)							
				Current Cash Profit Sharing	Team/Small Group Incentives	Individual Incentives	Spot or Technical Achievement Awards	Gainsharing	Lump Sum Merit Pay (Not Added to Base)	Lump Sum Merit Pay (Added to Base)	Other Short-Term Incentives
Entire Sample Combined	84.0%	1,037	86.9%	12.1%	10.4%	21.5%	26.8%	4.3%	25.1%	12.2%	7.4%
Profit Status											
For-Profit Organizations	92.2%	816	89.2%	13.7%	9.6%	20.6%	25.4%	3.9%	22.3%	10.8%	6.9%
Not-For-Profit Organizations	53.8%	221	71.9%	1.8%	15.8%	27.2%	36.0%	7.0%	43.0%	21.1%	10.5%
Industry Sector											
Durable Goods Manufacturing	89.9%	247	85.4%	19.2%	7.3%	14.2%	20.1%	6.4%	18.3%	6.8%	6.4%
Non-Durable Goods Manufacturing	94.5%	128	92.4%	13.4%	7.6%	18.5%	14.3%	4.2%	21.0%	10.9%	9.2%
Utilities and Energy	92.2%	64	86.2%	5.2%	12.1%	25.9%	48.3%	3.4%	44.8%	15.5%	10.3%
Retail and Wholesale Trade	93.6%	78	89.7%	13.2%	5.9%	17.6%	19.1%	1.5%	23.5%	13.2%	1.5%
Services	71.6%	292	84.5%	8.2%	11.1%	27.5%	31.9%	3.4%	24.6%	13.5%	7.7%
Health Care	58.5%	82	72.7%	4.5%	15.9%	25.0%	27.3%	6.8%	40.9%	13.6%	2.3%
Banking and Finance	95.6%	68	87.5%	7.8%	23.4%	34.4%	34.4%	1.6%	25.0%	14.1%	7.8%
Insurance	94.9%	78	94.6%	12.2%	10.8%	17.6%	36.5%	5.4%	29.7%	20.3%	12.2%
Organization Size											
Under 500 FTEs	80.3%	254	86.6%	15.8%	7.9%	18.3%	21.3%	2.5%	12.4%	7.9%	9.4%
500 to 1,999 FTEs	87.0%	285	86.4%	12.8%	10.3%	21.5%	23.1%	2.9%	24.0%	12.8%	10.7%
2,000 to 7,499 FTEs	83.1%	295	86.3%	10.8%	12.1%	24.2%	29.6%	6.7%	30.0%	16.3%	3.8%
7,500 or More FTEs	85.7%	203	88.8%	8.3%	11.2%	21.3%	34.9%	5.3%	34.9%	10.7%	5.3%

NUMBER OF BONUS AND/OR OTHER VARIABLE PAY PLANS IN WHICH MIDDLE MANAGERS ARE ELIGIBLE

	# of Plans in Place (as a % of Organizations with Plan[s])					
	One	Two	Three	Four	Five	Six or More
Entire Sample Combined	44.2%	25.8%	16.5%	8.3%	3.3%	1.9%
Profit Status						
For-Profit Organizations	45.7%	25.3%	16.6%	7.8%	2.4%	2.0%
Not-For-Profit Organizations	34.2%	28.9%	15.8%	11.4%	8.8%	0.9%
Industry Sector						
Durable Goods Manufacturing	48.4%	29.2%	15.5%	4.6%	1.4%	0.9%
Non-Durable Goods Manufacturing	50.4%	25.2%	13.4%	6.7%	1.7%	2.5%
Utilities and Energy	31.0%	20.7%	25.9%	12.1%	8.6%	1.7%
Retail and Wholesale Trade	54.4%	23.5%	14.7%	1.5%	2.9%	2.9%
Services	42.0%	24.2%	17.4%	12.6%	3.4%	0.5%
Health Care	47.7%	20.5%	15.9%	11.4%	0.0%	4.5%
Banking and Finance	35.9%	26.6%	15.6%	12.5%	6.3%	3.1%
Insurance	33.8%	29.7%	17.6%	8.1%	6.8%	4.1%
Organization Size						
Under 500 FTEs	50.0%	28.7%	13.4%	5.4%	2.0%	0.5%
500 to 1,999 FTEs	43.0%	27.3%	18.2%	7.9%	2.1%	1.7%
2,000 to 7,499 FTEs	42.9%	23.3%	16.3%	9.6%	5.0%	2.9%
7,500 or More FTEs	40.8%	23.7%	18.3%	10.7%	4.1%	2.4%



Public Service Commission
Receipt of Payment

Receipt# 5916

Received 8/3/2004 Check# 1020633 for \$20,185 75
Subject Utility Valuation

Docket # PU-04-97

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck ND 58501

90 **PU-04-97** Pages 1

Receipt# 5,916 \$20,185 75

by Montana-Dakota Utilities Co , a Division of MDU Re
08/03/2004



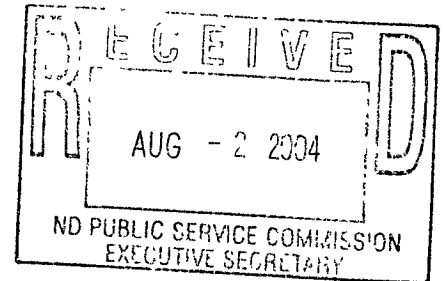
MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

August 2, 2004



Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: General Natural Gas Rate Application
Case No. PU-04-97

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith submits the original and seven (7) copies of the rebuttal testimony of Dr. J. Stephen Gaske, Mr. Craig A. Keller, Mr. Paul W. Conley, Ms. Rita A. Mulkern and Ms. Tamie A. Aberle. Due to the availability of rebuttal witness Mr. Richard D. Spratt, his testimony will be filed on Wednesday, August 4, 2004.

One (1) copy of the rebuttal testimony has been mailed to Snavelly King Majoros O'Conner & Lee, Inc., 1220 L St NW, Suite 410, Washington, DC 20005.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Donald R. Ball
Assistant Vice President –
Regulatory Affairs

Attachment

cc: B.T. Imsdahl
D.W. Schulz
D.S. Kuntz

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-04-97

PREPARED REBUTTAL TESTIMONY OF

J. STEPHEN GASKE

1 **Q1. Please state your name, position and business address.**

2 A My name is J. Stephen Gaske and I am President of Zinder Companies,
3 Inc , 7508 Wisconsin Avenue, Suite 300 Bethesda, MD 20814.

4 **Q2. Are you the same J. Stephen Gaske who filed Prepared Direct Testimony**
5 **earlier in this proceeding?**

6 A Yes.

7 **Q3. What is the purpose of this rebuttal testimony?**

8 A Montana-Dakota Utilities Co. ("Montana-Dakota") has asked me to
9 analyze and respond to the testimony submitted by Charles W. King on behalf of the
10 Commission Adversary Staff concerning the rate of return on common equity that is
11 required for Montana-Dakota's North Dakota natural gas distribution operations.

12 **Q4. Please describe Mr. King's testimony concerning the cost of common equity**
13 **capital.**

14 A. Mr. King's testimony is quite short and is limited only to replicating the
15 Discounted Cash Flow ("DCF") analyses of a group of 10 proxy companies
16 contained in my testimony. For example, his Exhibit CWK-3 is identical to pages
17 6 and 7 of Schedule 2 of Exhibit No. ____ (JSG-2) in my testimony. However, Mr.
18 King has omitted the last two columns of my schedules. Those columns apply a

1 flotation cost adjustment that is required to convert the rate of return required by
2 investors for secondary market investments into the cost of capital for the proxy
3 companies in primary financial markets for investment funds. In his Exhibit
4 CWK-4, Mr King simply updates the numbers that appear on his Exhibit CWK-3
5 and pages 6 and 7 of Schedule 2 of Exhibit No ___(JSG-2) in my testimony.

6 Based on his updated calculations for the proxy companies, Mr. King
7 recommends an allowed rate of return on common equity of 9.0 percent.

8 **Q5. Do you agree with Mr. King’s calculations and recommendation?**

9 A. No. There are two main flaws in his testimony and recommendations
10 First, he excludes the flotation cost adjustment that is required to convert the
11 results of a study of secondary financial markets into the rate of return required to
12 raise capital in primary financial markets. Second, it is obvious that he has made
13 no attempt to analyze the risks of Montana-Dakota’s North Dakota gas
14 distribution operations and compare these risks to those of the proxy group.
15 These flaws contribute to his recommendation of an inadequate rate of return on
16 common equity for Montana-Dakota.

17 **Q6. Would you elaborate on the reasons that a flotation cost adjustment to the DCF**
18 **results is necessary in order to estimate the rate of return required to allow a**
19 **regulated company to attract common equity capital on reasonable terms?**

20 A There are significant costs associated with issuing new common equity capital
21 and these costs must be considered in determining the cost of capital. Anyone
22 who has ever taken out a mortgage to buy a house is aware that the “effective”
23 interest rate is higher than the “stated” interest rate because the homebuyer pays
24 loan origination fees, points and closing costs in connection with raising the

1 capital to buy a house. This same concept applies to public utility companies: the
2 “effective” cost of capital is higher than the “stated” cost of capital because there
3 are flotation costs associated with raising new common equity capital

4 The need for a flotation cost adjustment is especially acute when the cost
5 of common equity is estimated by conducting a DCF analysis that is based on the
6 prices of common stocks traded in the “secondary” markets on stock exchanges.
7 Because the purpose of the allowed rate of return in a regulatory proceeding is to
8 estimate the cost of capital that the regulated company would incur to raise money
9 in the “primary” markets, a DCF estimate of the returns required by investors in
10 the “secondary” markets must be adjusted for flotation costs in order to provide
11 an estimate of the cost-of-capital that the regulated company requires in order to
12 raise capital on reasonable terms in the “primary” markets.

13 **Q7. Please describe the difference between “primary” and “secondary” markets for**
14 **common equity.**

15 A When a company issues new common equity in order to raise cash for investment
16 in plant, or to otherwise run its operations, it does so in the “primary” market.
17 The “primary” market is defined very simply as the market in which the stock is
18 first sold in order to raise cash funds to be used by the issuer. In this “primary”
19 market, the company generally hires an investment banker, or a syndicate of
20 bankers and brokers, to float its stock issue to the public. Associated with a
21 company raising cash funds through a “primary” market sale of common stock
22 there are significant costs of preparing and filing documents with the Securities
23 and Exchange Commission (“SEC”), as well as other regulatory agencies, and
24 issuing prospectuses. In addition, in the “primary” market the issuing company

1 generally must pay a significant percentage of the proceeds from the stock
 2 issuance to the investment banker, or the syndicate of bankers and brokers, who
 3 undertakes to find investors that will provide cash to the issuing company.

4 Once stock has been issued to investors in the “primary market,” those
 5 investors who initially provided cash to the issuing company may re-sell or
 6 “trade” the stock with other investors in the “secondary” market. Much of the
 7 trading in the “secondary” market occurs on stock exchanges and buyers and
 8 sellers are not required to file prospectuses with the SEC. The crucial difference
 9 between stock issued in the “primary” market and stock traded in the “secondary”
 10 market is that the issuing company does not receive any additional funds when its
 11 stock trades in the “secondary” market. Instead, the ownership of the stock
 12 merely changes hands between various investors. In addition, the brokerage fees
 13 associated with buying and selling stock in the “secondary” market generally are
 14 incurred by both the buyer and the seller, and are a small fraction of the level of
 15 the flotation costs incurred by a company that attempts to raise cash by issuing
 16 stock in the “primary” market.

17 **Q8. Is the need for a flotation cost adjustment to the rate of return widely**
 18 **recognized among economists as a required part of an allowed rate of return**
 19 **that will attract capital without diluting the value of existing investors’ equity?**

20 A. Yes. In commenting on the fair rate of return in his classic treatise on
 21 public utility ratemaking, Bonbright stated that:

22 “ *book values (with allowances for the probable need to*
 23 *underprice new common-stock offering) should set a floor to the*
 24 *market values. ”*
 25

1 James C Bonbright, *Principles of Public Utility Rates*, Columbia University
2 Press, 1961, p. 249 Similarly, Myron Gordon, the man who is credited with
3 having developed the DCF model for estimating rate of return, has stated that a
4 regulatory agency should set the allowed rate of return greater than the investor
5 return requirement so as to allow the firm to issue stock at a price that will yield
6 net proceeds equal to book value. Professor Gordon advocates the following
7 adjustment:

8 *“The agency need only estimate the proportion that the proceeds*
9 *per share on an issue bear to the price of the stock and adjust the*
10 *allowed rate of return so that the price per share is the indicated*
11 *ratio of the book value per share If the proceeds on an issue are*
12 *91 percent of market price, the agency should maintain market*
13 *price at about 110 percent of book value ”*
14

15 Myron J. Gordon, *The Cost of Capital to a Public Utility*, Michigan State
16 University, 1974, pages 165-166. In order to meet this requirement, the flotation
17 cost adjustment must be applied to the entire rate of return. The flotation cost
18 adjustment that I have proposed attempts to meet the same standards advocated by
19 these other economists.

20 **Q9. How is a flotation cost adjustment relevant in meeting legal standards for a**
21 **reasonable rate of return?**

22 A The Supreme Court established the “Capital Attraction” standard as one
23 test of a reasonable allowed rate of return. For example, in *Bluefield Water Works &*
24 *Improvement Company v Public Service Commission of West Virginia* (262 U.S
25 679, 693 (1923)), the Court indicated that:

26 *"The return should be reasonably sufficient to assure confidence*
27 *in the financial soundness of the utility and should be adequate,*
28 *under efficient and economical management, to maintain and*

1 *support its credit and **enable** it to raise the money necessary for*
2 *the proper discharge of its public duties ”¹*

3 Similarly, in *Federal Power Commission v. Hope Natural Gas Company* (320 U S
4 591, 603 (1944)) the Court described the relevant criteria as follows:

5 *"From the investor or company point of view it is important that*
6 *there be enough revenue not only for operating expenses but also*
7 *for the capital costs of the business. These include service on the*
8 *debt and dividends on the stock. . That return, **moreover**, should*
9 *be sufficient to assure confidence in the financial integrity of the*
10 *enterprise, so as to maintain its credit and to attract capital."²*

11 The Court’s requirement that the allowed return must “enable” a company to raise
12 capital does not mean that the company must raise capital within some specified
13 time period. Instead, it means that the company must have in place the ability to
14 attract capital so that it can exercise that ability if and when required. By its use of
15 the word “moreover” the Court made it clear that an allowed return is not sufficient
16 if it merely allows the company to meet its current financial obligations. Instead, an
17 additional and overriding requirement is that the return also must be sufficient to
18 assure that the company can attract, or raise, new investment capital in the primary
19 capital markets, and maintain its financial integrity.

20 Because flotation costs are the additional component of capital costs that
21 apply above and beyond the return required to service current capital needs, an
22 allowance for flotation costs is required in order to meet the “Capital Attraction”
23 standard. This standard applies to companies that are not planning to issue new
24 common stock, as well as to those that are planning to issue such stock. In other
25 words, the capital attraction standard is a “yardstick” established by the Court that

¹ Emphasis added

² Emphasis added.

1 poses a hypothetical stock issue as a means for measuring the reasonableness of the
2 allowed rate of return: *if* the allowed rate of return is sufficient to allow the
3 company to raise new capital on reasonable terms, *then* the rate of return is legally
4 adequate.

5 As discussed earlier in this testimony, when a DCF analysis based on stock
6 prices and dividend yields in the “secondary” market is used to estimate the required
7 rate of return, a flotation cost adjustment is essential in order to account for the
8 difference between (i) stocks traded between investors in the secondary markets
9 and (ii) stock issued in the primary market to raise capital for plant construction
10 and utility operations. Thus, a flotation cost adjustment is necessary in order to
11 correctly estimate the return that is required to attract, or raise, new common
12 equity capital.

13 **Q10. In his testimony, did Mr. King address your analysis and conclusion that the**
14 **overall risks of Montana-Dakota’s North Dakota natural gas distribution**
15 **operations are well above average relative to the risks of the proxy companies?**

16 A No He makes no mention of the risks of Montana-Dakota’s North Dakota
17 natural gas distribution operations relative to those of the proxy companies. His
18 failure to present any analysis of relative risks whatsoever, and his failure to address
19 or recognize my analysis and conclusion concerning relative risks, are important
20 reasons that his recommended rate of return is inadequate.

21 **Q11. Does this conclude your Prepared Rebuttal Testimony?**

22 A. Yes.

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-04-97

Rebuttal Testimony
of
Craig A. Keller

1 Q. Would you please state your name and business address?

2 A Yes. My name is Craig A. Keller and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. What is your position with Montana-Dakota Utilities Co.?

5 A. I am the Vice President, Controller and Chief Accounting Officer
6 (CAO) for Montana-Dakota Utilities Co. (Montana-Dakota), a Division of
7 MDU Resources Group, Inc.

8 Q. Are you the same Craig A. Keller who filed direct testimony earlier in this
9 proceeding?

10 A. Yes, I am.

11 Q. What is the purpose of your rebuttal testimony?

12 A The purpose of my rebuttal testimony is to address certain
13 adjustments proposed by Mr. Charles W. King in his calculation of the
14 capital structure, specifically the short term debt levels and rates. I am
15 also sponsoring Exhibit No.____(CAK-1).

16 Q. Do you agree with the capital structure components proposed by Mr. King
17 on Exhibit CWK-2 of his testimony?

1 A. I do not agree with the short term debt amounts and rates used by
2 Mr. King in his testimony when calculating the capital structure and cost.

3 Q. What short term debt and rates did Mr. King use in his testimony?

4 A. Mr. King used the 2003 average of short term debt and rates in his
5 testimony on Exhibit CWK-2 of his rate of return calculation.

6 Q. What balances and short-term rates should be reflected in the calculation?

7 A. The average debt levels and rates for projected 2005 should be
8 included in the calculation as that matches the time period of the other
9 components included in the capital structure and the test period for this
10 filing.

11 Q. What are the projected 2005 average debt levels and rates?

12 A. As shown on Exhibit No.____(CAK-1), the projected average short
13 term debt for 2005 is \$26.8 million and the projected average rate is
14 2.90%.

15 Q. What is the required return as a result of using the 2005 projected data?

16 A. The revised rate of return reflecting the addition of projected 2005
17 short-term debt and Montana-Dakota's requested return on equity of 11.50
18 percent is 9.934 percent, as calculated on Exhibit No.____(CAK-1).

19 Q. Does this complete your rebuttal testimony?

20 A. Yes, it does.

**MONTANA-DAKOTA UTILITIES CO.
 AVERAGE UTILITY CAPITAL STRUCTURE
 PROJECTED 2005**

	<u>Balance</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$153,350,000	40.460%	8.518%	3.446%
Short-Term Debt 1/	\$26,775,000	7.064%	2.900%	0.205%
Preferred Stock	16,050,000	4.235%	4.614%	0.195%
Common Equity	182,843,012	48.241%	11.500%	5.548%
Total	<u>\$379,018,012</u>	<u>100.000%</u>		<u>9.394%</u>

1/ 2005 projected average short term debt balances and short term rates

1 **Q. Please state your name and business address.**

2 A My name is Paul W. Conley. I am employed by Towers Perrin at 8000
3 Norman Center Drive, Suite 1200, Minneapolis, Minnesota 55437-1097.

4 **Q. Are you the same Paul W. Conley who filed direct testimony earlier in
5 this proceeding?**

6 A. Yes, I am

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to address Mr. King's adjustments to
9 the Supplemental Income Security Plan (SISP), pension expense and
10 postretirement expense

11 **Q. Have you reviewed the direct testimony of Charles W. King submitted in
12 this proceeding on behalf of the North Dakota Public Service
13 Commission Advocacy Staff?**

14 A. Yes, I have

15 **Q. Do you agree with the analysis and recommendations of Mr. King
16 regarding the treatment of SISP expense for ratemaking purposes?**

17 A No, I do not

18 **Q. Explain why you disagree with Mr. King's analysis of whether SISP
19 expenses should be included in the determination of retail natural gas
20 rates.**

21 A Mr King recommends that SISP expenses be disallowed in determining the
22 reasonableness of Montana-Dakota's proposed natural gas rates for North
23 Dakota, beginning on page 11 of his testimony. Mr. King supports his

1 recommendation based on three considerations. First, he recommends SISP
2 expenses be disallowed because Montana-Dakota did not seek recovery of
3 SISP expenses until the company filed an application to increase its electric
4 rates in 2001 even though the SISP had been in effect since 1982. Mr. King
5 notes that the Commission agreed with a staff recommendation in the 2001
6 case and a subsequent 2002 gas rate case to deny recovery of SISP
7 expenses. Whether or not SISP expense was included in a prior rate filing
8 does not establish either the appropriateness or the reasonableness of that
9 expense as a part of Montana-Dakota's executive compensation package for
10 ratemaking purposes.

11 **Q. Mr. King discusses the treatment of retirement plans, such as the SISP,**
12 **by the Internal Revenue Service (IRS). Is his conclusion correct?**

13 A No. Mr. King also recommends SISP costs should not be recovered in retail
14 rates because he asserts the IRS treats such payments as taxable income
15 and if the costs were allowed as deductible expenses for tax purposes
16 managers and directors would have an incentive to hide corporate income by
17 paying themselves benefits through these plans. The premise of Mr. King's
18 argument is incorrect. Mr. King acknowledges in a footnote to his testimony
19 that the IRS allows deduction of pension payments to retired employees.
20 Similarly, the IRS allows the company to deduct supplemental pension
21 payments such as payments from the SISP as these benefits are paid to
22 retired employees. The IRS recognizes that these types of supplemental
23 pension payments are a legitimate and reasonable business expense for

1 income tax purposes. The IRS treats these payments in the same manner as
2 it treats other pension expenses, which are accrued for book purposes but
3 may not be deductible in the current year for income tax purposes.
4 Accounting standards require that public companies recognize and disclose
5 the cost of supplemental pension benefits within the pension footnote of the
6 annual report and incorporate this cost within the Company's income
7 statement each year. There is neither an ability nor an incentive to hide
8 corporate income through supplemental pension programs. Mr. King's
9 contention that an incentive would exist to make supplemental pension
10 benefits more generous if they were included in the cost of service is also
11 flawed. The argument is contrary to Mr. King's earlier observation that
12 Montana-Dakota implemented its present SISP program before it sought
13 recovery of the program expense in retail rates. I understand that the major
14 portion of the costs of MDU Resources Group's SISP program is allocated to
15 its nonregulated business units and that SISP benefits are largely formulaic
16 such that ratemaking treatment for the regulated business units would not
17 provide an incentive to make the program benefits more generous.

18 **Q Mr. King states that the personnel that make the recommendation**
19 **regarding benefits such as SISP are the same people that receive the**
20 **benefit. Do you agree?**

21 **A.** No. As stated above, SISP program benefits are largely formulaic
22 under the existing plan. In addition, as explained in our direct testimony and
23 acknowledged in the footnote to Mr. King's testimony, executive

1 compensation is reviewed by an independent Compensation Committee
2 consisting of four outside directors of MDU Resources who are not
3 participants in SISP. The Compensation Committee relies upon information
4 received from consultants such as Towers Perrin. Towers Perrin was
5 specifically hired as an independent outside third party to gather and report
6 information on compensation and benefit packages at companies that
7 compete for MDU Resources' and Montana-Dakota's managerial and
8 executive talent. Towers Perrin adheres to the highest quality and ethical
9 standards and does not manipulate its findings to suit any stakeholder.

10 **Q. Has Mr. King offered any other argument for excluding SISP expense**
11 **from the test year?**

12 Mr. King argues that executive employees are the direct representatives of
13 the company's stockholders and are the employees most responsible for
14 providing profits to those stockholders. Mr. King therefore concludes that
15 stockholders, not customers, should bear the relatively minor cost of
16 supplemental pension expenses. MDU Resources/Montana-Dakota intend to
17 provide reasonable and appropriate compensation and benefits in order to
18 recruit, motivate and retain all employees, including managerial and executive
19 staff. The maintenance of a qualified managerial and executive staff is critical
20 to all aspects of the Company's business including supplying dependable and
21 efficient services to its customers at a reasonable cost. This motivation is to
22 the mutual benefit of shareholders and customers. Mr. King's testimony
23 includes no challenge to the reasonableness and appropriateness of

1 Montana-Dakota's SISP benefits but simply recommends against recovery of
2 such costs. Supplemental pension expenses are just one part of a total
3 compensation program for these executives. Mr. King does not provide any
4 support for his recommendation that it is appropriate to exclude from rate
5 recovery one portion (SISP) of an overall reasonable and appropriate rewards
6 program for executives whereas he obviously recognizes the necessity of
7 other pieces of such a compensation program as a legitimate business
8 expense for rate recovery.

9 In summary, the Internal Revenue Service and accounting standards
10 recognize supplemental pension benefits as a legitimate business expense
11 and a cost of doing business. Competitors recover these costs through the
12 prices for their services and accordingly, the costs are appropriately
13 recovered in the prices for utility services. The recommendation of Mr. King
14 would deny recovery of a reasonable and legitimate business expense by
15 Montana-Dakota .

16 **Q. Have you reviewed Mr. King's testimony and recommendations**
17 **regarding pension and postretirement costs?**

18 A Yes, I have.

19 **Q. What are Mr. King's recommendations regarding these costs?**

20 A. Mr. King recommends that the latest "known and measurable" cost of
21 pensions, which he asserts is the 2004 cost calculated at the beginning of
22 that year, be used as the amount of such expense for the 2005 test year. Mr.
23 King supports that recommendation because the Company's forecast of the

1 pension fund value, the earnings of the pension fund, and interest rates are
2 not “known and measurable” factors for determining 2005 test year expenses
3 He makes the same adjustment to postretirement expense.

4 **Q. Do you agree with Mr. King’s analysis?**

5 A No, I do not.

6 **Q. Why is Mr. King’s analysis not correct?**

7 A

8 The costs of a pension or postretirement plan can never be known in actuality
9 until the plan is terminated or the last participant dies. However, in order to
10 sufficiently fund these plans in advance and to account for the benefits during
11 the working life of the participants, the company is required to employ
12 actuaries to produce a reasonable and reliable annual cost for the plan. The
13 need for annual valuations and accounting accruals during the working life of
14 participants is set forth by the SEC’s GAAP requirements, and these
15 standards are promulgated by the Financial Accounting Standards Board
16 (FASB). MDU Resources retains Towers Perrin to perform these valuations
17 and cost measurements, as well as to forecast future costs. The 2004 costs
18 recommended by Mr. King, and the 2005 costs included in the Montana
19 Dakota projected test year, are both based on such forecasts. When
20 performing these forecasts, Towers Perrin’s actuaries are subject to the
21 rigorous Actuarial Standards of Practice (ASOP) promulgated by the
22 American Academy of Actuaries (AAA) as applicable to future cost
23 projections. These forecasts use reasonable assumptions and take into
24 account known events. In providing Montana-Dakota with forecasted pension

1 expense, Towers Perrin uses the most recent information available to ensure
2 that the assumptions used in the forecast are reasonable and appropriate.

3 This includes:

- 4 • Reflecting the current interest rate environment for high-quality
5 corporate bonds used in setting the discount rate.
- 6 • The latest estimate of the expected fair market value for the plan's
7 assets at year-end, taking into account the actuarial estimate of
8 remaining benefits to be paid by year end, the year-to-date actual
9 earnings of the trust's assets, and the expected asset performance for
10 the remainder of the year based on recent economic reports and
11 market expectations. Because the variances between the actual and
12 the expected performance of the plan's assets are spread over the
13 remaining service life of the participants, differences between the
14 actual and expected fair market value of the trust's assets at the end of
15 the year are typically not a significant source of differences between
16 forecasted and actual pension expense.
- 17 • Significant known benefit design changes that have been implemented
18 since the beginning of the year (no additional changes in the MDU
19 Resources plan were assumed to occur).
- 20 • Removal of amortization bases known to disappear before the
21 forecasted year (primarily liabilities for previous plan design changes
22 which were amortized at implementation and will be fully amortized
23 before the forecasted year).

- Losses that have already occurred but have not yet been fully amortized. The most significant sources of these known losses are liability losses due to the historically low level of discount rates (discount rates are dictated by the state of the corporate bond market) and asset losses that occurred during the last five years.

Because the most recent information is taken into account and a significant portion of cost is based on recognition of past events that have occurred, Towers Perrin's estimates of future cost are reasonable and reliable. Indeed, the 2005 forecasts take into consideration several past events and current market conditions that are known and measurable. In comparison, use of 2004 costs as a proxy for 2005 cost is unreasonable and would not be suitable as a reliable basis for any projection of actuarial cost. The entire increase in projected costs from 2004 to 2005 is attributable to the recognition of a portion of the liability and asset losses from prior years. That is to say, even if we were to ignore changing discount rate assumptions and asset levels, we would still experience the significant increase in 2005 cost due to known past losses that have yet to be amortized. These amortizations are a direct application of the FASB's guidance on accounting for benefit costs, and take into account the application of GAAP standards. These standards balance the need to recognize costs during the working lives of the employees (that is, applying the principles of accrual accounting and intergeneration equity) with the need for companies and their constituents to understand the direction and magnitude of future costs.

1 Q. Does that complete your rebuttal testimony?

2 A. Yes.

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-04-97

Rebuttal Testimony
of
Rita A. Mulkern

1 Q. Would you please state your name and business address?

2 A. Yes. My name is Rita A. Mulkern and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. What is your position with Montana-Dakota Utilities Co.?

5 A. I am the Regulatory Analysis Manager of Montana-Dakota Utilities
6 Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. Are you the same Rita A. Mulkern who filed direct testimony earlier in this
8 proceeding?

9 A. Yes, I am.

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my testimony is to address certain adjustments
12 proposed by Mr. Charles King, testifying on behalf of the North Dakota
13 Public Service Commission Staff (Staff), specifically his adjustments to
14 firm volumes, rate case expense, institutional advertising, transportation
15 and work equipment, the 2005 operation and maintenance (O&M)
16 increases, customer advances for construction and income taxes I am
17 sponsoring Exhibit No.____(RAM-3) through Exhibit No.____(RAM-4)

18 Q. On page 10 of Mr. King's testimony, he proposes to eliminate the one

1 percent conservation factor for the firm general service class. Do you
2 agree with his adjustment?

3 A. No, I do not. Mr. King recommends disallowing the conservation
4 adjustment because he believes the Company did not provide support for
5 the conservation factor for the firm general service class. The reasons
6 that conservation is occurring are the same for firm customers as for
7 residential customers, namely increased appliance and building
8 efficiencies. Exhibit No.____(RAM-3) is a report prepared by the American
9 Gas Association (AGA) entitled *Trends in the Commercial Natural Gas*
10 *Market* dated October 23, 2002, that discusses the effects of conservation
11 occurring in the commercial sector. The report states on page 2 that per
12 unit consumption in the commercial market decreased 27 percent
13 between 1979 and 1999 in the Midwest, which includes North Dakota, or
14 an average of 1.35 percent per year, thus supporting Montana-Dakota's
15 use of a one percent conservation factor for the firm general service class.
16 The trend is anticipated to continue due to the continued replacement of
17 older, less efficient appliances with new appliances and improved building
18 efficiencies.

19 Q. Were there any errors in Mr. King's calculation to eliminate the one
20 percent conservation in the use per customer for the firm general service
21 class?

22 A. Yes. Mr. King has made an error in calculating his adjustment on
23 Exhibit CWK-1, page 2. On this exhibit, Mr. King calculates the use per

1 customer with and without the conservation factor, multiplies the annual
2 consumption by the number of billing units, or bills, and calculates the
3 difference in volumes. He errs in that multiplying annual consumption by
4 the annual number of bills vastly overstates annual volumes by a factor of
5 twelve. The correct calculation would be to multiply annual consumption
6 by average billing units, or bills.

7 Q. What would Mr. King's adjustment be, if corrected to reflect the elimination
8 of the one percent conservation?

9 A. Mr. King has a volume adjustment of 687,950 dk for the firm
10 general service class and a margin adjustment of \$358,361. If corrected
11 his adjustment would be 57,329 dk and a margin adjustment of \$35,357

12 Q. On page 11 of his testimony, Mr. King states that Montana-Dakota did not
13 seek recovery of SISP until Case No. PU-399-01-186 in 2001, even
14 though the SISP plan had been effect since 1982. Is there a reason
15 Montana-Dakota did not request recovery of SISP prior to 2001?

16 A. Yes. Montana-Dakota implemented the SISP program in 1982.
17 From 1982 through 1992 Montana-Dakota accounted for the SISP costs
18 on a pay-as-you-go, or a cash basis method, which was similar to the
19 accounting treatment used by the Company for post retirement benefits.
20 In 1993 the Company adopted FAS 106, Accounting for Post Retirement
21 Benefits, which required the Company to change from the pay-as-you-go
22 method to the accrual method for post retirement benefits. At that time the
23 Company also changed its accounting for the SISP costs from the pay-as-

1 you-go method to the accrual method (FAS 87 Employers Accounting for
2 Pensions). The first opportunity Montana-Dakota had to request inclusion
3 of these costs was in Case No. PU-399-94-297, where it was overlooked
4 and not included in the filing. Montana-Dakota did request inclusion at the
5 next opportunity, in Case No. PU-399-01-186, the case cited by Mr. King.
6 Montana-Dakota did not wait almost 20 years to request recovery, but did
7 so at the appropriate time.

8 Q. On page 13 of Mr. King's testimony, he proposes a four-year amortization
9 of rate case expense instead of the three years the Company is
10 requesting. Do you agree with his proposal?

11 A. No, I do not. Mr. King uses a four-year amortization as that was the
12 amortization period authorized in the last case. Montana-Dakota
13 proposed a three year amortization period to more closely match the filing
14 frequency of general rate cases. The last general rate case was filed two
15 years ago, in 2002. Mr. Imsdahl, in his direct testimony indicated that
16 Montana-Dakota will continue to strive for operating efficiencies and cost
17 reductions, but it is not anticipated that it can refrain from filing for another
18 four years. Montana-Dakota believes that a three-year amortization
19 provides the best time frame for rate case expense amortization to match
20 the frequency of filings.

21 Optionally, if the Commission does decide that a four-year
22 amortization is appropriate, the unamortized rate case expense balance
23 should be included as a rate base addition.

1 Q. On page 17 of his testimony, Mr. King proposes to exclude the institutional
2 advertising from O&M expense on the basis that the primary benefit is to
3 the stockholder and it is designed to influence investors favorably. Do you
4 agree with his adjustment?

5 A. No, I do not. First, this Commission has previously authorized the
6 inclusion of institutional advertising. In Case No. PU-399-02-183,
7 Montana-Dakota proposed to include institutional advertising. The
8 Advocacy Staff witness, Mr. Michael Majoros, Jr. of Snavely King Majoros
9 O'Conner & Lee, Inc., did not disagree with the inclusion of institutional
10 advertising and it was authorized in the final order.

11 Also, Mr. King's characterization of this advertising as "designed to
12 influence investors favorably, with the immediate effect of increasing the
13 share prices of the Company's stock" is not accurate. As a corporate
14 citizen, Montana-Dakota needs to be active in the communities that it
15 serves. Our communities expect nothing less and advertising in the local
16 newspapers, school yearbooks, sport and activity programs, etc., is a
17 necessary part of being active in the community and contributing to the
18 health of the community. This advertising benefits the community and the
19 customers in that community, thus serving the public interest. Another
20 example of this type of advertising is the Community Matters publication,
21 which is included as a supplement in various local newspapers in the
22 state. This supplement contains articles on topics such as gas prices,
23 Montana-Dakota's community involvement and safety related articles.

1 The Community Matters supplement serves to inform customers about
2 what is important to them and to confirm that Montana-Dakota is a part of
3 the community, which benefits both the customers and their communities.
4 The advertising benefits the communities and, as the Commission allowed
5 in Case No. PU-399-02-183, it is appropriate to include these types of
6 advertising in expense.

7 Q. On page 19 of his testimony, Mr. King proposes to disallow the
8 Company's projected O&M expense on vehicles and work equipment
9 because he states that O&M expenses would not change due to the
10 change in depreciation expense. Is he correct?

11 A. No, he is not. Mr. King errs in stating that O&M expenses would
12 not change as a result of new depreciation rates. He is incorrect because
13 there is a direct correlation between the depreciation expense on vehicles
14 and work equipment and O&M expense. The projected O&M for vehicles
15 and work equipment restates the expense to reflect the depreciation rates
16 authorized in Case No. PU-399-02-183 that became effective September
17 1, 2003 and the projected plant in service for these accounts.

18 Q. Would you please explain how the depreciation expense on vehicles and
19 work equipment flows through to O&M expense?

20 A. Yes. Depreciation expense on vehicles and work equipment is
21 calculated, but is not recorded in depreciation expense; rather it is
22 recorded in a clearing account for vehicles or work equipment. All
23 expenses incurred in the use of vehicles or work equipment, including

1 gasoline, maintenance expense, depreciation, etc., are recorded in the
2 appropriate clearing account. As the vehicle or work equipment is used,
3 the expense for that vehicle or work equipment is charged to the
4 appropriate expense or capital account on a cost per mile or per hour
5 basis and the clearing account is correspondingly reduced. For example,
6 if a back-hoe is used as part of a construction project, the job order for that
7 project is charged with the use of that back-hoe and that expense
8 becomes part of the cost of that project. If a vehicle is used as part of
9 maintaining the distribution system, the expense associated with that
10 vehicle is recorded as a distribution expense. Statement O, pages 5 and
11 6 show the calculation of depreciation expense and the amount carried
12 forward to the income statement excludes the depreciation expense on
13 transportation, tools and work equipment. Mr. King's adjustment is in error
14 and should not be accepted.

15 Q. In his adjustment to pension and postretirement expense on page 22, Mr.
16 King states that the Company's forecast for these items for 2005 is not
17 based on information that is "known and measurable." Would you address
18 his statement?

19 A. Yes. Three types of test years are commonly used for utility rate
20 analysis: historic, current, and future. Some jurisdictions may only allow
21 use of the first two types of test years (historic and current), but actual
22 expenses for these types of test years are generally allowed to be
23 adjusted for "known and measurable" changes from the actual operating

1 results. As recognized by Mr. King, North Dakota law allows such
2 adjustments to historical and current test years for “all known and
3 measurable changes in operating results as measured in the test year ”
4 Mr. King’s testimony, however, also includes a quotation of North Dakota
5 law that allows use of a future test year which by definition is a forecast of
6 future operating results. “Known and measurable” adjustments to historic
7 and current test years have no application to a future test year. Rather,
8 future, or projected test year forecasts are evaluated on whether they are
9 reasonable, reliable, and made in good faith. The Company’s projected
10 pension and postretirement expenses meet that standard, as do its other
11 projected expenses.

12 Q. On page 23 of his testimony, Mr. King proposes to eliminate the escalation
13 factor used in some of the O&M projections for 2005. Is this adjustment
14 appropriate?

15 A. No. Mr. King provides alternatives on the use of an escalation
16 factor but bases his disallowance on his belief that the Company has no
17 basis for its 2.5 percent escalation factor for 2005. Mr. King states that the
18 forecasts for 2005 do not support the 2.5 percent used by the Company.
19 Montana-Dakota based its escalation factor for 2005 on projections in the
20 CPI from institutions such as the Congressional Budget Office, Standard
21 and Poors and the Conference Board. The projected increases in the CPI
22 ranged from 1.3 percent to 3 percent for 2005. Montana-Dakota used 2.5
23 percent for 2005 which is supported by the source data.

1 Mr. King also states that Montana-Dakota has put forth no data to
2 demonstrate that the specified items will increase with inflation, because
3 some expenses decreased from 2003 to 2004. In developing the
4 projected 2004 data, Montana-Dakota adjusted expenses when necessary
5 to determine a “normalized” revenue or expense. In that process,
6 expenses both increased and decreased. The 2005 test year is based on
7 the 2004 test year and as such represents normalized revenue and
8 expense levels. If non-recurring expenses were to occur in 2005, they
9 would be excluded from the development of the revenue requirement.

10 Mr. King also states that Montana-Dakota’s rates did not increase
11 between November 1993 and December 2003. His dates are incorrect
12 Montana-Dakota was able to refrain from increasing its rates between
13 November 1994 and December 2002 by finding ways of operating more
14 efficiently and taking advantage of new technologies where it made
15 economic sense to do so. But, although such efforts will continue, as
16 stated by Mr. Imsdahl in his direct testimony, at this point the Company
17 does not anticipate cost efficiencies that will offset inflation and
18 conservation. It is reasonable to conclude that inflation will have an effect
19 on Montana-Dakota’s expenses.

20 And, as stated earlier, Mr. King’s testimony confuses the
21 requirements for “current” versus “future” test years. Montana-Dakota’s
22 forecast must be reasonable, reliable and made in good faith. Montana-
23 Dakota’s escalation factor meets those criteria.

1 Montana-Dakota's 2005 escalation factor is necessary in
2 determining expenses for 2005 and should be approved.

3 Q. On page 28 of his testimony, Mr. King proposes to increase customer
4 advances for construction to match increases in plant additions. Do you
5 agree with his adjustment?

6 A. No, I do not. Mr. King erroneously assumes that there is a direct
7 correlation between additions to plant and customer advances for
8 construction (customer advances).

9 Q. Would you please explain how customer advances work?

10 A. Yes. Montana-Dakota adds new customers to its distribution
11 system each year. Montana-Dakota's Firm Gas Service Extension Policy
12 Rate 120 specifies that if an estimated capital expenditure is not cost
13 justified, the Company may require the customer to provide a refundable
14 contribution. If certain conditions are met, the customer is eligible for a
15 whole/partial refund of the contribution. The Company records the gross
16 amount of investment in plant in service and the contribution is recorded in
17 FERC Account 2520, which is a rate base deduction. The balance in the
18 customer advances account changes dependent on new contributions,
19 refunds and, if the conditions for refunds are not met within five years,
20 reductions to transfer any non-refundable portion of an advance as a
21 credit to plant. Not all plant additions require a customer advance and
22 there is not a direct correlation between plant additions and customer
23 advances. Exhibit No.____(RAM-4) is a schedule showing the customer

1 advance balances for the period January 2000 through May 2004. The
2 exhibit shows that there is not a steady increase in the customer advance
3 balances over time but fluctuating balances. An adjustment to customer
4 advances is not appropriate.

5 Q. Mr. King has adjusted income taxes to eliminate a tax deduction related to
6 pension expense. Is his adjustment correct?

7 A. No, it is not. Exhibit CWK-1, page 10 shows the calculation of
8 income tax expense. On line 9 of that exhibit, Mr. King eliminates a tax
9 deduction, labeled "SISP". While Mr. King has labeled the item SISP, the
10 tax deduction is for pension expense, as shown on Statement N, page 37,
11 and represents the timing difference between the pension accrual and
12 payments to the trust. It is not related to SISP and is a proper tax
13 deduction. Furthermore, for each tax deduction that represents a timing
14 difference, such as the deduction for pension expense, there is a
15 corresponding deferred income tax. Mr. King eliminated the pension tax
16 deduction but neglected to eliminate the associated deferred tax, which is
17 also incorrect. His adjustment is in error and should not be accepted.

18 Q. Would you please summarize your testimony?

19 A. Yes. Montana-Dakota's projected expenses should be accepted as
20 filed because Mr. King's adjustments were not appropriate and contained
21 numerous errors.

22 Q. Does that complete your rebuttal testimony?

23 A Yes, it does.

EXHIBIT NO. ____ (RAM-3)



American Gas Association

Energy Analysis

POLICY ANALYSIS GROUP
400 N. Capitol St., NW
Washington, DC 20001
www.aga.org

EA 2002-04

October 23, 2002

TRENDS IN THE COMMERCIAL NATURAL GAS MARKET

I. Introduction

Nationally, the commercial natural gas sector comprises 16 percent of total gas consumption. While total volumes to commercial customers increased 20 percent (weather normalized) from 1979 to 1999, use per customer dropped 18 percent. The purposes of this analysis are to 1) provide an overview of natural gas consumption by commercial customers during the last 20 years, 2) identify the primary factors affecting use per customer, 3) examine natural gas use trends for the various types of commercial customers, and 4) highlight emerging technologies and markets that could offset this declining use trend.

II. Executive Summary

The commercial sector is important to natural gas utilities, accounting for 16 percent of total consumption. On a weather-normalized basis, total consumption by this sector grew 20 percent during the 1980's & 1990's, reaching 3.2 trillion cubic feet by 1999. The number of customers increased at a greater rate, 46 percent, over that time period. However, commercial energy trends have been mixed over the past two decades.

- ❖ Similar to the trend that has been exhibited in the residential sector, weather-normalized use per customer in the commercial sector declined by 18 percent between 1979 and 1999. This occurred because the growth in number of customers outpaced consumption growth.
 - ◆ Increased efficiency in space-heating appliances accounted for roughly half of the national average commercial load loss.
 - ◆ Water heating efficiency gains contributed about five percent of the average commercial load loss.

- ◆ Better insulation, more efficient windows, and other building envelope conservation measures increased substantially over the period, although the impact has not been quantified in this analysis.
- ❖ Regionally, the changes in use per commercial customer varied considerably
 - ◆ The Northeast region's use per commercial customer **increased** 47 percent, primarily due to an increase in average floorspace per building and the increase in gas space heat penetration
 - ◆ The Midwest region's use per customer declined almost 27 percent, while the South declined 30 percent, partially due to improved appliance and building efficiencies
 - ◆ The West region's use per customer decline mirrored the national trend at 18 percent

Another measure of customer conservation is consumption intensity (use per square foot of space) An examination of natural gas use per square foot confirms that the average commercial building uses less gas compared to 1979 levels. This measure fell roughly 40 percent over the two decades. This decline is greater than the use per customer measure because average floorspace per commercial building increased since 1979 and the intensity measure could not be adjusted for normal weather

- ❖ For all commercial facilities (including those not using natural gas), changes in market share for natural gas have shown mixed results.
 - ◆ Nationally, the share of buildings with gas service fell from 62 percent to 61 percent.
 - ◆ Similar to the decline in overall market share, the natural gas share of the market for water heating fell slightly (48 percent to 47 percent).
 - ◆ Conversely, increasing market shares were realized in the commercial space heating (57 percent to 60 percent) and cooking (45 percent to 59 percent)
- ❖ For commercial facilities that use natural gas, the percentage of those customers that use gas for space heat and hot water have both increased, indicating that customers will choose gas for these applications where gas is available. The challenge remains for utilities to extend gas lines to unserved areas.
 - ◆ Over 89 percent of all commercial customers with gas service used gas for heat in 1999, up from 86 percent in 1979.
 - ◆ A similar trend was evident with water heaters – increasing from 55 percent to 57 percent.
 - ◆ In the Northeast and Midwest, market penetration of space heaters increased while that of water heaters decreased.
 - ◆ The opposite was true in the South, where the penetration of gas space heating declined slightly but that of water heating increased dramatically.
 - ◆ Significant gains were realized for both applications in the West.

A number of commercial natural gas applications show promise in helping offset falling use per customer Distributed energy, an application in which customers generate electricity on-site with natural gas, has moved beyond the demonstration phase Natural gas space cooling is becoming more popular due to technological

advances. Natural gas desiccant dehumidification applications are also increasing. One forecast estimated that these three items accounted for nine percent of 1999 commercial gas consumption but will account for 28 percent by 2020.

II. Overview of the Commercial Natural Gas Market

The number of commercial natural gas customers increased 46 percent over the two decades, from 3.4 million to 5 million (Table 1). Consumption (normalized to reflect normal weather) increased 20 percent. The number of buildings with natural gas service increased 43 percent, while the amount of floorspace for those buildings increased by half. Revenues from retail sales doubled, reflecting both the higher cost and use of natural gas.

Table 1
Overview of the U.S. Commercial Natural Gas Market

	1979	1999
Number of Customers (millions)	3.43	5.00
Normalized Consumption (Trillion cubic feet)	2.68	3.20
Number of Buildings with Gas (thousands)	1,864	2,670
Floorspace of Buildings with Gas (mil. sq. ft.)	30,477	45,525
Revenues from Sales (millions)	\$6,624	\$13,648

Sources: Energy Information Administration and AGA

Importance of Market to Gas Utilities

Commercial natural gas customers:

- Accounts for 16 percent of total gas consumption.
- Exhibit use patterns that are less seasonal relative to residential customers, allowing LDCs to better utilize gas distribution assets.
- Consume 7.5 times more gas, on a per customer basis, than the residential sector, allowing for more efficient use of utility resources.
- Normally operate under a firm rate, paying a premium compared to industrial customers that typically elect interruptible service.

End-Uses of Gas By Commercial Sector

Most of the natural gas consumed in the commercial sector is used for space heating and, to a lesser extent, water heating (Table 2). Cooking is third, followed by cooling/desiccant and power applications. Since 1979, space heating and, to a lesser extent, water heating end-uses have accounted for a declining portion of total commercial gas consumption. Cooking, cooling/desiccant, and power generation end-uses accounted for a greater proportion of commercial gas use in 1999 compared to 1979.

Table 2
Estimated Commercial Natural Gas Proportional Consumption by End-Use

	1979	1999
Space Heating	65%	54%
Water Heating	16%	14%
Cooking	7%	10%
Cooling/Desiccant	3%	4%
Power Generation	1%	5%
Other	8%	13%
Total	100%	100%

Sources American Gas Association *Commercial Gas Market Survey* and
Gas Research Institute *Baseline Projection Data Book 2001*

Commercial Energy Market Shares

Natural gas has been losing market share to electricity in most end-uses except cooking (Table 3). The loss was largest in the cooling sector, but gas use was probably most impacted by the loss in the space heating market.

Table 3
Market Shares in Commercial Buildings

	1979		1999	
	Natural Gas	Electricity	Natural Gas	Electricity
In Building	61.8%	99.6%	60.6%	99.8%
Space Heating	57.0%	27.3%	59.8%	28.4%
Water Heating	47.7%	46.5%	46.9%	47.7%
Cooking	44.5%	58.5%	58.9%	51.0%
Cooling	6.5%	94.3%	4.0%	96.9%

Note: Totals may exceed 100% as some buildings use both energy sources for that end use.
Source: Energy Information Administration, *Commercial Buildings Energy Consumption Survey (CBECS)*

III. Use Per Customer

Background and Limitations

This section attempts to provide a broad-based identification and quantification of factors that impacted the average annual natural gas use per commercial customer from 1979 to 1999. Most natural gas distribution utilities experienced a much slower growth rate in commercial demand compared to the growth rate in the number of commercial customers during that time period. This trend makes it more difficult for gas companies to achieve expected revenues and to connect new customers economically. This section is intended to help companies understand the driving forces behind the declining use trend and to estimate future trends.

The results herein estimate the overall impacts of several contributing factors based on national and regional data. Analysis of utility-specific factors could result in conclusions different from those in this report. Individual companies should use this report as a guide in calculating their specific impacts, and they should include factors and influences pertinent to their systems that may not be considered and/or quantified here.

These contributing factors were examined separately. Some of them may have synergistic properties that compound or offset impacts when considered together. Also, the quantification of these factors is not an attempt to determine absolute values for each influence, but rather to indicate the proportional impact that they have on residential use per customer.

It must be recognized that the commercial natural gas market is quite diverse, particularly when compared to the residential market. An earlier American Gas Association (AGA) study on gas consumption patterns in the residential sector¹ more precisely quantified impacts of efficiency and demographic factors on customer use, in part due to the more homogeneous nature of the market relative to the commercial sector. Therefore, this section is designed to identify and give a relative measure of influencing factors.

Much of the data used in this analysis come from government and AGA surveys. While this information is the best available for national and regional analysis, survey sampling, structure, and/or extrapolation techniques can be flawed, particularly when ascribing results to smaller populations such as regions and states.

National/Regional Averages

From 1958 to 1978, natural gas demand in the commercial sector averaged an annual growth rate of 6.1 percent, and use per customer increased from 350 thousand cubic feet (Mcf) to 743 Mcf.² Utilities were expanding their pipeline systems to reach more customers, prices were kept artificially low by government regulation, and gas appliances offered superior performance, cost, and efficiency compared to competing fuel technologies.

During the mid to late 1970's, three factors led consumers to start conserving energy. First, foreign oil embargoes led to fears regarding long-term energy supplies. Second, heightened environmental awareness and energy's impact on the environment led to a reexamination of energy-use practices. Finally, the federal government deregulated energy prices, which led to a significant short-term price increase, particularly for natural gas.

Efforts to reduce energy consumption are clearly reflected in gas use per customer. On a national average basis, natural gas use per commercial customer dropped 18 percent from 1979 to 1999 from 780 Mcf/year to 640 Mcf/year (Table 4). On a regional basis, these impacts varied. For the Northeast, the average gas use per customer increased substantially, roughly 47 percent. Commercial gas use per

¹ Patterns in Residential Natural Gas Consumption Since 1980, February 11, 2000, American Gas Association, Washington, DC

² Gas Facts, 1980 Data, American Gas Association, Arlington, VA, 1981

customer dropped 27 percent for the Midwest, 30 percent in the South, and 18 percent in the West.

Table 4
Trends in Commercial Natural Gas Use
 (Weather Normalized Mcf/Customer/Year)

	1979	1999	Change
United States	780	640	-140
Northeast	568	838	270
Midwest	901	660	-241
South	738	516	-222
West	744	611	-133

Contributing Factors

Appliance Efficiency

In response to the energy disruptions of the 1970s, Congress passed the Energy Policy and Conservation Act (EPCA) of 1975. EPCA established an energy conservation program for major household appliances including furnaces, water heaters, refrigerators and freezers, central air conditioners and central air conditioning heat pumps, room air conditioners, dishwashers, clothes washers, clothes dryers, direct heating equipment, pool heaters, kitchen ranges and ovens, fluorescent lamp ballasts, and television sets. The Energy Policy and Conservation Act (EPACT) of 1978 expanded the coverage of EPCA to include commercial building heating and air conditioning equipment, water heaters, certain incandescent and fluorescent lamps, distribution transformers, and electric motors. In 1987, the National Appliance Energy Conservation Act (NAECA), which also incorporates EPCA and EPACT, authorized the U. S. Department of Energy (DOE) to set energy efficiency standards for major home appliances according to a statutory time schedule stretching into the next century.

DOE's Office of Codes and Standards sets the minimum efficiency ratings of many residential appliances. DOE has set standards for such natural gas appliances as space heaters, water heaters, ovens, and ranges.

Furnaces

During the 1970's natural gas furnaces averaged about 65 percent annual fuel utilization efficiency (AFUE). As interest in more energy-efficient appliances increased, the average AFUE for new furnaces increased. DOE, through authority granted by NAECA, set 78 percent AFUE as a minimum for gas furnaces manufactured after January 1, 1992. Furnaces with AFUE ratings up to the mid-90's are available to consumers, and the average AFUE of new furnace shipments is currently in the mid-eighties. As the higher efficiency furnaces have worked their way into the market for new and replacement units, the average AFUE for all natural gas furnaces has increased from 65 percent in 1979 to 75 percent in 1999 (Table 5)

Table 5
Natural Gas Furnace Average AFUE
 (Percent)

	1979	1990	1999
New Furnace Shipments	65%	76%	85%
All Furnaces In Place	65%	68%	75%

Source for shipment information Gas Appliance Manufacturers Association

The impact on a national average was to lower use per commercial natural gas customer about 70 Mcf per year, half of the total decrease (Table 6). The impact in terms of sales volume varied by region due to the weather differences and market penetration. Use per customer dropped around 53-56 Mcf in all regions except the Midwest, where the decline was 93 Mcf per year.

Table 6
Impact of Gas Space-Heating Efficiency Gains on Use per Customer
 (Weather-normalized Mcf/year, 1999 vs. 1979)

United States	-70
Northeast	-53
Midwest	-93
South	-56
West	-56

Note Assumes national average furnace efficiency for all regions

Water Heaters

DOE set the minimum efficiency of natural gas water heater at 0.54 energy factor (EF) for units manufactured after 1989. Previously, water heaters averaged about 0.5 EF. Industry analysts estimated that the availability of even higher efficiency units raised the average EF of new units sold to 0.56 by the mid-90s (Table 7). Based on shipment data and typical retirement rates, the average EF of water heaters went from 0.5 in both 1979 and 1990 to 0.54 in 1999.

Table 7
Natural Gas Water Heater Average Energy Factor

	1979	1990	1999
New Water Heater Shipments	.50	.54	.56
In-Place Water Heaters	.50	.50	.54

Since the average water heater EF improved about six percent from 1990, the typical consumption by customers that have water heaters declined in the same

proportion The average decline was seven Mcf per customer, with regions not varying much from that average (Table 8)

Table 8
Impact of Gas Space Water Heating Efficiency Gains on Use per Customer
 (Mcf/year)

United States	-7
Northeast	-9
Midwest	-7
South	-5
West	-6

Other

Natural gas cooking equipment has not yet been affected significantly by efficiency changes. Improvements in efficiency have occurred due to marketplace demand, most of which stemmed from the development of electronic ignition devices for these appliances. While electronic ignitions can reduce annual demand for gas from these appliances by almost half, penetration of these devices into the market could not be determined. Therefore, no estimate of the improved efficiency impacts for these appliances is provided.

Appliance Saturation

The most common natural gas appliances found in businesses are space heaters, water heaters, and cooking equipment. All of these applications face competition from other energy forms, particularly electricity. Since 1979, the percentage of gas buildings with both gas space and water heaters increased. The opposite trend was exhibited for gas cooking and cooling equipment.

Space Heaters

The percentage of gas customers that use natural gas for space heating increased by three percentage points over the period (Table 9). Regionally, the Northeast sector saw a significant increase in this market penetration among its customers, apparently at the expense of fuel oil heating. The Midwest slightly increased its high market penetration for gas heating over the period. The West also enjoyed a slight increase in the proportion of their customers that use gas for their main space heating fuel. Only the South showed a slight decrease due to the increasing popularity of the electric heat pump during this time.

Table 9
Natural Gas Space Heating Appliance Market Penetration
 (Percent of all gas customers)

	1979	1999
United States	86.1%	89.1%
Northeast	74.9%	87.8%
Midwest	93.0%	95.4%
South	83.2%	82.6%
West	87.1%	89.5%

Source: Energy Information Administration, CBECS, various years

Increasing the percentage of gas customers that use gas for space heating helped to offset the reduction-in-use trend. On a national level, throughput per commercial customer increased 10 Mcf/year because of increased penetration (Table 10). The greatest increase occurred in the Northeast, 66 Mcf/year. The gains in the Midwest (nine Mcf) and the West (six Mcf) were more modest, and the South showed a decline (two Mcf)

Table 10
Impact of Gas Space Heating Market Penetration on Use per Customer
 (Mcf/year)

United States	10.0
Northeast	66.2
Midwest	9.2
South	-1.6
West	5.9

Water Heaters

Overall, more commercial buildings employ natural gas water heaters compared to 20 years ago. In 1979 natural gas water heaters were in about 55 percent of U.S. businesses with natural gas service (Table 11). By 1999 this market penetration had increased to 57 percent. Regionally, the Northeast's and Midwest's market penetration decreased, with the other regions showing significant increases.

Table 11
Natural Gas Water Heater Market Penetration
 (Percent of all gas customers)

	1979	1999
United States	54.9%	56.9%
Northeast	59.9%	54.0%
Midwest	60.2%	51.7%
South	42.0%	57.3%
West	58.4%	64.8%

Source: Energy Information Administration, CBECs, various years

When the proportion of gas customers with gas water heaters increases, the weighted average gas use per customer rises. For example, the national average penetration of water heaters climbed about two percentage points from 1979 to 1999, resulting in an increase in overall gas use per customer of two Mcf/year (Table 12). The South (11.3 Mcf/year gain) and the West (5.6 Mcf/year gain) experienced higher growth. On the other hand, the Northeast and Midwest experienced declines in market penetration, causing load losses of about seven to eight Mcf/year.

Table 12
Impact of Gas Water Heater Market Penetration on Use per Customer
(Mcf/year)

United States	1.8
Northeast	-7.0
Midwest	-8.0
South	11.3
West	5.6

Cooking

While overall natural gas market share for commercial gas cooking increased, the percent of commercial establishments that cook on-site decreased. Thus, the percentage of commercial customers with natural gas service that also cook with gas declined in all regions of the country -- the number of gas buildings without cooking increased at a faster rate compared to those commercial gas sites with cooking. Nationally, cooking market penetration for gas customers fell 4.6 percentage points, with the Northeast region falling 16 percentage points, the Midwest four percentage points, the South less than one percentage point, and the West two percentage points (Table 13)

Table 13
Natural Gas Cooking Appliance Market Penetration
(Percent of all gas customers)

	1979	1999
United States	23.5%	18.9%
Northeast	36.0%	20.9%
Midwest	21.4%	17.5%
South	19.7%	19.5%
West	21.0%	19.1%

Source: Energy Information Administration, CBECS, various years

Despite this decline for gas cooking penetration, the resulting impact is relatively small. This is due to the smaller proportion of gas customers with this appliance combined with the modest annual energy consumption from these units compared to other applications. Nationally, the loss amounted to 3.1 Mcf/year (Table 14). The Northeast experienced the largest decline with 13 Mcf/year. The other regions ranged from less than one Mcf/year (South) to almost three (Midwest)

Table 14
Impact of Gas Cooking Market Penetration on Use per Customer
(Mcf/year)

United States	-3.1
Northeast	-13.1
Midwest	-2.7
South	-0.1
West	-1.2

Cooling

Gas cooling in the commercial sector held a very small market share in 1979, and that share fell through 1999, both in terms of total market and penetration for all gas customers. However, the decline did not impact use per customer significantly because of the small percentage of the customers using gas for cooling. On average, the decline was less than one Mcf/year.

Building Characteristics

Average Floorspace per Heated Building

The average amount of floorspace per gas-heated building increased almost eight percent between 1979 and 1999 (Table 15). The Northeast's average floorspace per gas-heated building increased the most, nearly 40 percent. The Midwest region was the only area to have a decrease (two percent), while the South (13 percent) and the West (four percent) average floorspace per gas-heated building increased.

Table 15
Changing Floorspace per Building
(1999 vs. 1979)

United States	7.8%
Northeast	39.2%
Midwest	-1.6
South	12.8%
West	4.3%

Source: Energy Information Administration, *CBECS*, various years

This increase resulted in a higher gas use per customer, approximately 26 Mcf/year per customer, on a national level (Table 16). The Northeast use increased the most, slightly more than 200 Mcf/year. The Midwest region was the only area to have a decrease, causing use to fall about six Mcf/year. The South exhibited an increase of more than 30 Mcf/year, while the West showed an increase of ten Mcf/year.

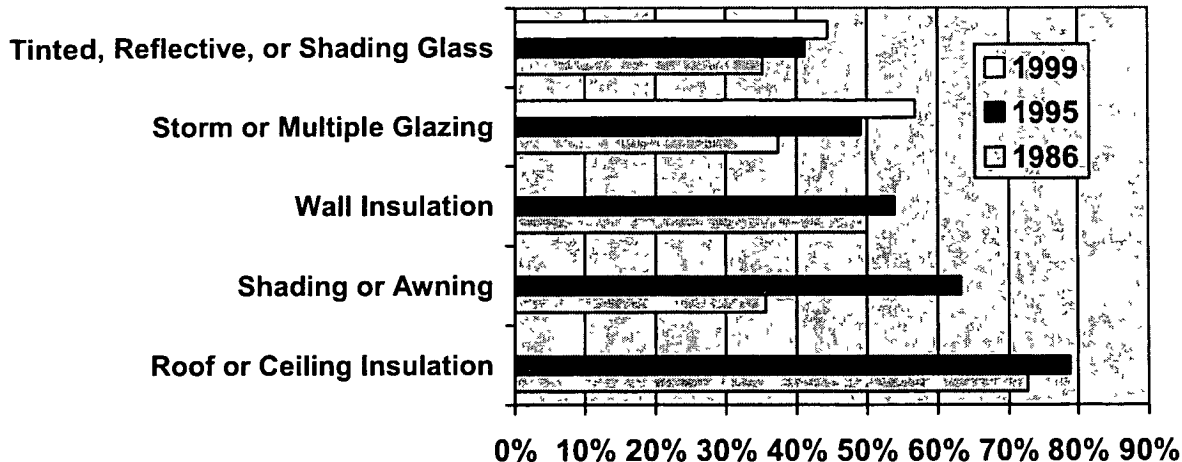
Table 16
Impact of Changing Average Floorspace per Building on Gas Demand
(Mcf per year)

United States	25.9
Northeast	201.8
Midwest	-6.1
South	31.2
West	10.4

Shell Improvements

Since 1979, the average commercial building has become more energy-efficient through improvements in building shell construction. These improvements dealt mainly with insulation and windows. Chart 1 illustrates these improvements since 1986.

Chart 1
Changes In Building Shell Conservation Features
 (Percent of Buildings with Feature)



Source Energy Information Administration, CBECS, various years
 NOTE Data for Wall Insulation, Shading or Awning, and Roof or Ceiling Insulation not available for 1999

These improvements resulted from two factors. First, new buildings were constructed with these features, and the population of structures completed since 1970 increased over the study period. According to the Energy Information Administration's Commercial Building Energy Consumption Survey (CBECS), in 1979, 78% of the commercial buildings were built before 1970. In 1999, only half of the inventory was built before 1970.

Second, more than half of the buildings covered by CBECS reported that they had added conservation features

- Insulation 34%
- Weather stripping or caulk 27%
- Storm or multiple glazing windows. 13%
- Exterior or interior shading or awnings. 17%
- Tinted, reflective, or shading glass: 9%

Other

Based on responses to the 1986 CBECS, 13 percent of buildings had energy audits. Almost half of those audited made improvements to the HVAC system, building shell, or lighting system.

Off-hours reduction in heating and/or cooling gained in popularity over the study period, according to CBECS. In 1986, 63 percent of buildings employed this conservation feature compared to 71 percent in 1999.

Unfortunately, the buildings within the commercial definition vary greatly, making estimates of these changes' impact on gas demand infeasible. Considering all of the

improvements made in building stock and energy management practices since 1979, the impacts should be considerable.

IV. Trends by Type of Commercial Activity

The types of businesses within the commercial sector vary considerably. The Energy Information Administration classifies the activities into nine components – Assembly, Education, Food Sales and Service, Health Care, Lodging, Mercantile and Service, Office, Warehouse, and Other. Size and scope of activities varied substantially even within these categories – Mercantile and Service ranges from a stand-alone mini-mart to a large mall, Health Care ranges from a doctor's office to a hospital, etc. This must be taken into consideration when analyzing the trends presented below.

Natural gas market shares in buildings varied by type of commercial activity. The percentage of buildings with gas service increased significantly in Lodging and Education (Table 17) since 1979. However, the percentage of Health Care facilities with gas service decreased almost 18 percent, and these customers traditionally use large amounts of natural gas.

Table 17
Gas In Building Market Share by Activity

	1979	1999	Change
Assembly	63.8%	66.2%	3.8%
Education	62.0%	68.8%	10.9%
Food Sales & Service	61.5%	64.0%	4.0%
Health Care	70.0%	57.5%	-17.9%
Lodging	57.7%	68.0%	17.7%
Mercantile & Service	66.2%	62.9%	-5.1%
Office	61.1%	61.2%	0.2%
Warehouse	49.6%	45.6%	-8.1%
Other	52.2%	43.8%	-16.0%

Source: Energy Information Administration, CBECS, various years

The gas space heating market shares improved for most activities (Table 18). Greatest gains appeared in the Lodging and Education sectors. Health Care exhibited the only significant decline, indicating that gas space heating lost ground not only in these buildings without gas service but in buildings with gas service as well.

Table 18
Gas Space Heating Market Share by Activity

	1979	1999	Change
Assembly	57.9%	61.9%	7.0%
Education	46.8%	60.1%	28.4%
Food Sales & Service	54.4%	57.7%	5.9%
Health Care	62.0%	49.6%	-20.0%
Lodging	36.8%	49.3%	33.9%
Mercantile & Service	63.5%	62.3%	-1.9%
Office	54.1%	57.6%	6.4%
Warehouse	58.7%	59.1%	0.7%
Other	45.2%	47.6%	5.3%

Source: Energy Information Administration, *CBECS*, various years

The market shares for gas water heating varied by sector (Table 19). Assembly, Food Sales and Service, and Lodging all exhibited double digit growth over the two decades. Health Care, Mercantile and Service, Office, and Warehouse applications all exhibited double-digit declines in gas water heating market shares.

Table 19
Gas Water Heating Market Share by Activity

	1979	1999	Change
Assembly	44.5%	54.7%	22.8%
Education	55.0%	55.0%	0.1%
Food Sales & Service	50.7%	59.6%	17.5%
Health Care	49.0%	43.7%	-10.9%
Lodging	48.9%	57.7%	18.1%
Mercantile & Service	50.0%	40.5%	-19.1%
Office	43.6%	35.1%	-19.5%
Warehouse	41.8%	37.0%	-11.4%
Other	48.8%	48.6%	-0.4%

Source: Energy Information Administration, *CBECS*, various years

Market shares for gas cooking increased in all reported activities. Double-digit growth occurred in all sectors except one (Table 20). Ironically, Food Sales and Service grew only eight percent.

**Table 20
Gas Cooking Market Share by Activity**

	1979	1999	Change
Assembly	42.4%	52.6%	24.2%
Education	51.2%	66.0%	29.1%
Food Sales & Service	57.2%	61.6%	7.7%
Health Care	53.8%	72.7%	35.1%
Lodging	43.1%	56.1%	30.1%
Mercantile & Service	41.8%	60.4%	44.6%
Office	29.5%	52.6%	78.6%
Warehouse	11.1%	N/A	N/A
Other	43.8%	N/A	N/A

Source: Energy Information Administration, *CBECS*, various years

Energy intensity is similar to use-per-customer in that it illustrates the relative amount of energy consumed, but on a per square foot of commercial space basis. As shown in Table 21, Food Sales and Service and Health Care are the largest consumers of natural gas on a per square foot basis. All sectors experienced double-digit declines in energy intensity since 1979. All sectors appeared to use natural gas much more efficiently in their end-uses.

**Table 21
Gas Energy Intensity by Activity
(000 Btu/Sq. Ft./Year)**

	1979	1999	Change
Assembly	53.5	28.2	-47%
Education	51.2	33.5	-35%
Food Sales & Service	127.2	111.1	-13%
Health Care	127.0	92.2	-27%
Lodging	75.5	49.6	-34%
Mercantile & Service	55.9	43.4	-22%
Office	59.1	29.0	-51%
Warehouse	83.9	36.0	-57%

Source: Energy Information Administration, *CBECS*, various years

V. Future Trends

Appliance Efficiency

Most existing space heating and water heating appliances were purchased before government-mandated minimum efficiency ratings were imposed on this equipment. Therefore, the average efficiency for these appliances is lower than the regulatory minimum. Replacement of older, less efficient appliances through normal attrition will make it difficult for gas utilities to reverse the declining demand per customer trend.

Building Characteristics

In 1999, half of existing commercial buildings were built before 1970. These structures, on average, are less thermally efficient than new ones. While some have been renovated to improve their thermal efficiency (wall and ceiling insulation, storm windows and doors), the addition of new buildings and the removal of older stock will increase the average efficiency of a gas utility's commercial base. This, in turn, will contribute to a decline in commercial demand on a per-customer basis.

Emerging Technologies

Distributed energy offers substantial growth opportunities for natural gas utilities in the commercial sector. Distributed generation can be defined as onsite or near-site power generation of less than 25 MW. High efficiencies are possible for installations that supply both power and use the waste heat to meet the heating or cooling needs of a customer. A wide range of power generation technologies is either commercially available or currently emerging to meet the needs of institutional and large commercial customers.

Natural gas is expected to supply a growing portion of commercial space cooling load. Systems such as gas engine-driven, gas absorption, and desiccant dehumidification are growing in popularity due to cost and environmental considerations.

According to the Gas Technology Institute³, cooling and desiccant systems accounted for 3.5 percent of 1999 natural gas consumption by the commercial sector, and power generation 5.4 percent. GTI forecasts that by 2020, gas sales for cooling and desiccant systems are expected to grow 500 percent (12.9 percent of total gas commercial load), and gas sales for power generation are expected to grow almost 400 percent (15 percent of commercial load). These two factors are expected to help offset continued gains in gas appliances and envelope efficiency in the commercial market.

VI. Data Sources and Methodology

Most of the data used and presented in this report comes from the U. S. Energy Information Administration's Commercial Building Energy Consumption Survey⁴ (CBECS). The report for 1999 and selected other years can be found on the EIA Website: <http://www.eia.doe.gov/emeu/cbecs/contents.html>. Other data sources included previous AGA surveys on the commercial market⁵, AGA's Gas Facts⁶, EIA's Natural Gas Annual⁷ and the previously cited Gas Research Institute's Baseline Projection Data Book.

³ Baseline Projection Data Book, 2001 Edition, March 2001, Gas Research Institute, Arlington, VA

⁴ Commercial Building Energy Consumption Survey, various years, Energy Information Administration, U. S. Department of Energy, Washington, DC

⁵ Commercial Natural Gas Market Survey, various years, American Gas Association, Washington, DC

⁶ Gas Facts, various years, American Gas Association, Washington, DC

⁷ Natural Gas Annual, various years, Energy Information Administration, U. S. Department of Energy, Washington, DC

The methodology for determining use per customer trends is summarized below.

Normalized Use Per Customer

- Calculate actual use per commercial customer from EIA data
- Determine heating portion of use based on AGA survey data and the GRI Baseline Report
- Determine weather normalization factor by dividing the 30-year (1961-1990) normal heating degree days into the actual degree days, based on NOAA data⁸
- Divide heating portion by weather normalization factor, and add back in non-heating load

Average Space Heating AFUE

- Assume 65% AFUE as standard in 1979 and all retirements are those units
- Estimate new construction units by subtracting previous year's gas space heating customers from current year's, based on trend analysis of EIA CBECS data
- Calculate replacement units by subtracting new construction units from total shipments based on GAMA data⁹
- Eliminate the retired units from the inventory, and add in the new units, calculating the revised weighted average furnace AFUE for all existing units based on average AFUE of shipments as provided by GAMA

Space Heating Efficiency Impact

- Calculate average use per customer by multiplying the normalized heating load by the percent of gas customers with gas space heating (based on EIA CBECS data)
- Calculate change in average furnace AFUE by dividing 1979 AFUE value into the selected year's AFUE value
- Calculate the efficiency-adjusted demand by dividing the 1979 average use per customer by the change in average furnace AFUE for the selected year
- Subtract the efficiency-adjusted demand from the 1979 average use per customer to determine impact

Average Water Heating EF

- Assume 0.50 EF as standard in 1979 and all retirements are those units
- Estimate new construction units by subtracting previous year's gas water heating customers from current year's, based on trend analysis of EIA CBECS data
- Calculate replacement units by subtracting new construction units from total shipments based on GAMA data
- Eliminate the retired units from the inventory, and add in the new units, calculating the revised weighted average furnace EF for all existing units based on average EF of shipments estimated at 0.54 EF to 0.56 EF

⁸ State, Regional, and National Monthly and Seasonal Heating Degree Days, various years, National Oceanic and Atmospheric Administration, U S Department of Commerce, Washington, DC

⁹ GAMA News, various years, Gas Appliance Manufacturers Association, Arlington, VA

Water Heating Efficiency Impact

- Calculate average use per customer by multiplying the water heating load (based on AGA survey data) by the percent of gas customers with gas water heating (based on EIA CBECS data)
- Calculate change in average EF by dividing 1979 EF value into the selected year's EF value
- Calculate the efficiency-adjusted demand by dividing the 1979 average use per customer by the change in average water heater EF for the selected year
- Subtract the efficiency-adjusted demand from the 1979 average use per customer to determine impact

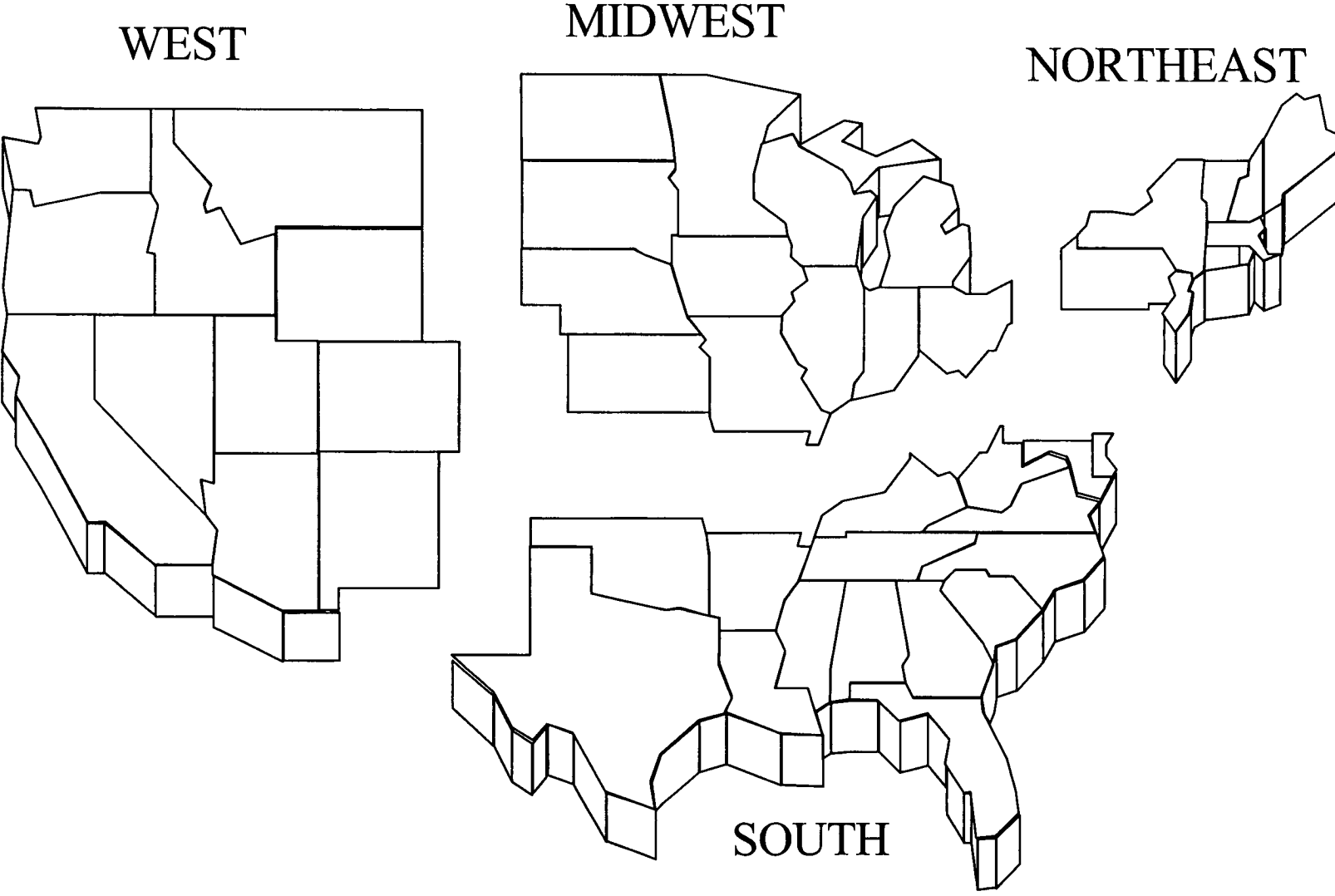
Appliance Market Penetration Impact

- Calculate appliance penetration by dividing the number of residences with gas service by the number of customers with that appliance, based on EIA CBECS data
- Subtract the impact year penetration from the 1979 penetration to determine the change in market penetration
- Calculate the weighted average gas use per customer for that appliance by multiplying the penetration value times the typical gas use for that appliance
- Multiply the change in market penetration by the 1979 weighted average use of that appliance to determine the reduction in weighted average use per customer for that appliance

Change in Average Heated Floorspace Impact

- Calculate the percent change in average heated floorspace in buildings from EIA CBECS data
- Multiply the change in average heated floorspace by the percent difference in heating load and by the percent of gas buildings with gas space heating to determine impacts

Appendix
US Census Regions



MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
CUSTOMER ADVANCES FOR CONSTRUCTION
2000-2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
January	\$448,227	\$482,137	\$267,671	\$239,365	\$333,091
February	482,286	477,034	267,066	191,455	337,896
March	483,044	483,969	272,846	191,701	339,547
April	484,312	434,935	270,874	224,387	345,369
May	488,052	432,293	268,838	223,824	348,564
June	489,228	433,008	273,596	239,570	
July	469,445	280,102	274,276	240,610	
August	475,408	281,008	273,608	241,173	
September	476,322	281,422	276,928	288,906	
October	477,300	278,929	261,431	311,456	
November	473,511	267,366	260,253	311,960	
December	485,978	267,859	286,881	307,320	

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-04-97

Rebuttal Testimony
of
Tamie A. Aberle

1 Q. Would you please state your name and business address?

2 A. Yes. My name is Tamie A. Aberle, and my business address is
3 400 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. What is your position with Montana-Dakota Utilities Co.?

5 A. I am the Pricing & Tariff Manager in the Regulatory Affairs
6 Department of Montana-Dakota Utilities Co. (Montana-Dakota), a Division
7 of MDU Resources Group, Inc.

8 Q. Are you the same Tamie A. Aberle who filed direct testimony in this
9 proceeding?

10 A. Yes, I am.

11 Q. What is the purpose of your rebuttal testimony in this proceeding?

12 A. The purpose of this rebuttal testimony is to address
13 recommendations made by Mr. Charles King, testifying on behalf of the
14 North Dakota Public Service Commission Staff, regarding the embedded
15 cost of service study and the Distribution Delivery Stabilization
16 Mechanism I am also sponsoring Exhibit No.____(TAA-3).

17 Q Do you agree with Mr. King's position with regard to the Company's

1 allocation of distribution mains as he describes beginning at page 37 of
2 his testimony?

3 A. No I do not. Mr. King's assessment that approximately 70%
4 of the distribution mains account is fixed in nature is consistent with
5 the Company's allocation of approximately 66% of the distribution
6 mains account to the customer component because that portion of
7 the mains is fixed in nature. However, I do not agree that it is
8 appropriate to allocate the portion of the mains determined to be
9 fixed in nature, on the basis of a variable, volumetric allocation
10 factor. The fixed portion of the mains should be allocated on the
11 customer allocation factor that represents the causation and fixed
12 nature of those costs.

13 Q. Mr. King asserts that the value of the distribution main is the gas that is
14 being delivered, and should be the allocator of the main's cost. Do you
15 agree?

16 A. No. Main investment is not a variable cost that increases or
17 decreases as more or less gas is used. The capability to have natural gas
18 service available on demand is the cost of having the main in place to
19 serve customers. The volume of gas being delivered does not correlate to
20 or represent the Company's embedded cost or the causation of the cost
21 associated with the distribution main investment required to provide
22 natural gas service to the customer.

1 Q. Please comment on Mr. King's proposal of a real-time Distribution
2 Delivery Stabilization Mechanism (DDSM).

3 A. As noted by Mr. King at page 43, the Company is able to
4 administer the DDSM on a real-time basis and would support adopting a
5 real-time application of the DDSM. However, my understanding of Mr.
6 King's proposal would require a calculation of a class average deviation
7 from normal weather prior to billing each night for the 20 bill cycles
8 processed each month. This is not feasible for Montana-Dakota given the
9 time required for bill processing.

10 A better alternative, resulting in a more accurate adjustment, would
11 be to calculate the deviation from normal weather based on each
12 individual customer's actual usage and days being billed. The mechanics
13 of the calculation would be similar to that set forth on Exhibit CWK-8
14 except the calculation would be based on each customer's actual use.
15 This methodology was approved by the South Dakota Public Utilities
16 Commission for Montana-Dakota's South Dakota jurisdiction in Docket
17 No. NG02-011. Please refer to Exhibit No.____(TAA-3) for an alternate
18 tariff reflecting a real-time DDSM.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes, it does.



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

**State of North Dakota
 Gas Rate Schedule**

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

APPLICABILITY:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the billing period from November 1 through May 1. Service provided under the Company's Residential Rates 60 and 90 and Firm General Service Rates 70 and 92 shall be subject to decreases or increases under the DDSM.

DISTRIBUTION DELIVERY STABILIZATION MECHANISM:

A DDSM will be determined for each customer taking service under Residential Service Rates 60 and 90 and Firm General Service Rates 70 and 92 beginning with the first billing cycle starting November 1 through the billing cycle ending May 1. The DDSM adjustment will be applied as a surcharge or credit on all rate schedules to which the DDSM is applicable.

DDSM ADJUSTMENT CALCULATION:

The DDSM Adjustment shall be determined for each customer taking service under Residential Rates 60 or 90 or Firm General Services Rate 70 or 92. In order to calculate the respective DDSM adjustment, the ratio of the normal HDDs as compared to the actual HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD, as determined in the most recent general rate case. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate per dk.

$$DDSM_i = R_i (DDF_i ((NDD-ADD)/ADD))$$

Where

DDSM _i	=	Distribution Delivery Stabilization Adjustment
i	=	Customer served under Rate Schedules 60, 70, 90 or 92
R _i	=	Applicable Distribution Delivery Charge per dk
DDF _i	=	Temperature sensitive use per customer
NDD	=	Normal degree days for the applicable bill cycle
ADD	=	Actual heating degree days for the applicable bill cycle

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

DEFINITIONS:

Heating Degree Days	-	The difference between the average of the daily high and low temperatures subtracted from 60 degrees Fahrenheit.
Normal Degree Days	-	The heating degree days based on the 30-year average for the period 1970-2000.
Temperature Sensitive Use per Customer	-	Customer's actual use less the base use per customer per day, denoted below, multiplied by days in the billing period. Residential Rate Code 60 = .06106 Residential Rate Code 90 = .03177 Firm General Service Rate Code 700 = .08313 Firm General Service Rate Code 701 = .87387 Firm General Service Rate Code 920 = .08139 Firm General Service Rate Code 921 = .73984
Actual Degree Days	-	The actual degree days reported by the National Weather Service Stations for applicable service areas in North Dakota weighted by customers.

Date Filed:

Effective Date:

Issued By:

Case No.:

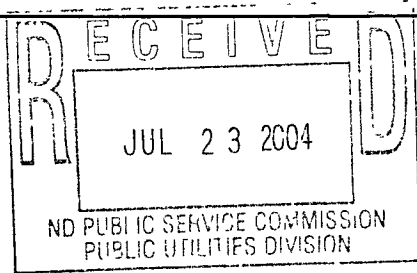


MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900



July 22, 2004

Executive Secretary
North Dakota Public Service
Commission
State Capitol Building
Bismarck, ND 58505-0480

Re Application for Trade Secret Protection
Case No. PU-04-97

Montana-Dakota Utilities Co (Montana-Dakota), a Division of MDU Resources Group, Inc , herewith respectfully files an original and seven (7) copies of its Reply in Support of Trade Secret Application in response to the Staff Response to Trade Secret Application filed on July 15, 2004 in the above referenced case.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope

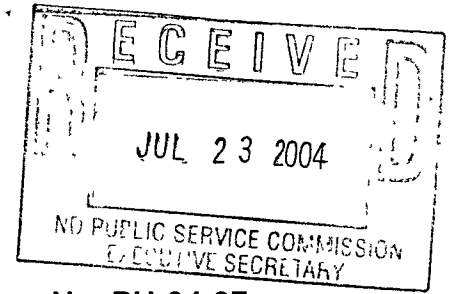
Sincerely,

Donald R Ball
Assistant Vice President –
Regulatory Affairs

Attachment

cc Douglas W Schulz
Daniel S Kuntz

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

REPLY IN SUPPORT OF TRADE SECRET APPLICATION

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc , in support of its Application for Trade Secret protection of information it provided in discovery responses and which is included within the direct testimony and exhibits of Advocacy Staff Witness Charles W King, submits the following reply to the Advocacy Staff's response to Montana-Dakota's Application

Montana-Dakota's application seeks Trade Secret protection for the following categories of information included in Mr King's testimony:

- 1 Factors and characteristics of Montana-Dakota's management and executive incentive compensation plans
- 2 Amounts paid by Montana-Dakota under its incentive compensation plans to its various employee groups.
3. Average annual compensation and average annual percentage compensation increases paid by Montana-Dakota to its various employee groups since 1999.
- 4 The number of employees within Montana-Dakota's various employee groups.

A "Trade Secret" is defined at NDCC Section 47-25.1-01:

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique or process, that

- a. Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy

Accordingly, an Application for Trade Secret Protection under N D Admin C. §69-02-09-01 should be granted for (1) information, that (2) derives economic value, actual or potential, and is (3) subject to reasonable efforts to maintain its secrecy. The North Dakota Supreme Court has recognized that the definition of a trade secret is broad. Northern States Power Company v. N D Public Service Commission, 502 N.W.2d 240 1243(ND 1993) Under the plain language of the statute, “trade secret” information can include any information. US WEST Communications, Inc v. Office of Consumer Advocate, 498 N.W.2d 711 statutory (Iowa 1993). Although the examples cited in the definition of “trade secret” are those normally associated with the production of goods, “trade secrets” are not limited to the listed examples. Id. Trade secrets also include financial information and there is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret 2 Roger M. Millgrim, Millgrim on Trade Secrets, §9 03(3)(f) (1991) A broad range of business data and facts which, if kept secret, provide the holder with an economic advantage over competitors or others, qualify as trade secrets. US WEST Communications, Inc. v. Office of Consumer Advocate, supra. These business data and facts can include employee and similar compensation related information. For

example, in Fox v. Tropical Warehouses, Inc., 121 S.W.3d, 853 (Tex. App. 2004), the court upheld a temporary injunction prohibiting disclosure of various types of business information, including payroll reports, on the grounds that the information was trade secret. The court found that the party seeking to protect the information from use by a former employee did not intend to share this information outside of the business, that it took steps to limit the number of employees with access to the information, and that this type of information is not generally shared within the industry. Id at 859. In Rugen v. Interactive Business Systems, Inc., 864 S.W. 2d 548 (Tex. App. 1993) the court held that trade secret information included the identity of a company's consultants and the pricing of those consultants. The court held that when an effort is made to keep material important to a particular business from competitors, trade secret protection will be available. Supra, at 552.

The Advocacy Staff argues that the information Montana-Dakota seeks to protect cannot be trade secret because it involves employees rather than products and services and that competition is not generally understood to mean competition for employees. Montana-Dakota's employees are its most important resource. Montana-Dakota continually competes with other companies, including other companies that provide utility services, to attract and retain quality employees. Information that has economic value and is protected from disclosure is entitled to trade secret protection even if it is employee related information. Indeed, neither the Commission's rules nor the statutory definition of "trade secret" require that the economic value of the information necessarily be obtainable by a competitor. Rather, "economic value" as used in the definition of a "trade secret" speaks to the value of the information to either the owner or a competitor

and includes any information which protects the owner's competitive edge or advantage. US WEST Communications, Inc. v. Office of Consumer Advocate, supra at 714. Accordingly, information kept secret that would be useful to a competitor and would require cost, time and effort to duplicate is of economic value. Id.

Montana-Dakota expends considerable resources to assure its compensation packages are sufficient to compete with Montana-Dakota's competitors and other employers in attracting and retaining high quality employees. Montana-Dakota conducts internal analysis and retains consultants to provide information to assure the market competitiveness of its employee compensation packages. That information, along with the actual salary and other aspects of compensation provided to Montana-Dakota's employees, are kept confidential and would require considerable cost, time and effort by a competitor to duplicate or to obtain. Similarly, Montana-Dakota has expended considerable resources to develop the factors and characteristics of its various compensation plans, including its incentive compensation plans for its management and executive employees. Montana-Dakota has retained consultants such as Towers Perrin and the Hay Group to provide it with information to assure the market competitiveness of both the nature and the overall amount of the compensation packages provided to Montana-Dakota's employees. The annual compensation amounts and increases reflected in Mr. King's testimony, as obtained in discovery from Montana-Dakota's records, are the result of the information purchased from these consultants that is not publicly available. This information provides "economic value" to both Montana-Dakota and its competitors and is entitled to trade secret protection because of the cost, time and effort required to duplicate this information. Montana-

Dakota believes these compensation packages have been a key attribute in retaining the employees that have contributed to its business success. Montana-Dakota should not be required to disclose this information, or the results of this information as reflected in its compensation packages, for the benefit of its competitors who have not expended the resources to develop this information.

The Advocacy Staff also argues that the compensation information should not be provided trade secret protection because it is available to the individual employees that receive the compensation and therefore Montana-Dakota cannot assure the confidentiality of that information. The definition of a trade secret does not require efforts by Montana-Dakota to maintain absolute secrecy of the relevant information. Rather, the efforts must be reasonable under the circumstances to maintain secrecy. Although Montana-Dakota does not prohibit an employee from disclosing details regarding the employee's compensation, Montana-Dakota does not disclose that information except to those persons within the organization that have a need to know the information to perform their duties. Most employees consider information regarding their compensation confidential to themselves and their employer, Montana-Dakota, and generally do not and would not disclose such information without assurances of confidential treatment. This expectation of confidentiality by employees should be respected. The efforts of Montana-Dakota and its employees to maintain the confidentiality of information regarding compensation plans and amounts is sufficiently reasonable under the circumstances to entitle the information to trade secret protection.

The Advocacy Staff also contends that the Application should be denied because the information does not deal with individual employees, the information is relevant to a

review of Montana-Dakota's rate request, and because the Staff does not recall that other utilities have claimed trade secret protection for information relating to officer and employee compensation within the past 15 years. Although the information is not employee specific, it is sufficiently disaggregated to entitle it to trade secret protection. Aggregated information regarding salary expense for the test year and prior years is available in the public filings submitted by Montana-Dakota in the format typically submitted by utilities in support of a review of the utility's existing or proposed rates. The information included in Mr. King's testimony and exhibits is disaggregated to the point that it provides detail of employee compensation information that has economic value to Montana-Dakota and its competitors

Granting Montana-Dakota's Application for Trade Secret Protection does not prevent disclosure of the information to the Commission, its Staff, their consultants, and any other person that has a need or a desire to review the information for purposes of this proceeding. Trade secret information is available for review for purposes of this proceeding pursuant to the Commission's trade secret rules subject to the requirement that the person reviewing the information maintain its confidentiality. Accordingly, granting Montana-Dakota's Application does not in anyway inhibit a complete review of Montana-Dakota's proposed rates.

Finally, although the Staff does not recall another situation where a utility has sought trade secret protection for employee and officer compensation information, the Staff does also not identify another situation when either the Staff or its consultants have sought to introduce as evidence information regarding employee and officer compensation plans and amounts in the detail provided by Mr. King's testimony. The

lack of precedent on this issue is reflective of the nature of the information included in Mr. King's testimony and is not grounds for denial of Montana-Dakota's application.

Conclusion

The information sought to be protected by Montana-Dakota meets the definition of "trade secret" information. The information sought to be protected derives economic value from not being generally known or readily ascertainable by proper means and is subject to reasonable efforts to maintain its secrecy. Although the Staff suggests that Montana-Dakota's motivation for its Application is to protect the trade secret information from public review, Montana-Dakota simply seeks to preserve its right to protect its confidential information and to have this proceeding conducted in accordance with proper administrative procedure.

Dated this 22nd day of July, 2004

Respectfully submitted,

By: 

Daniel S. Kuntz (ID #03490)
Senior Attorney
MDU Resources Group, Inc
918 East Divide Avenue
P.O. Box 5650
Bismarck, ND 58506-5650
(701)222-7612

APPROVED

DATE: 7-21-04
KME

MOTION

July 21, 2004

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

I move the Commission bill Montana-Dakota Utilities Co for costs
incurred to date in Case No PU-04-97, Montana-Dakota Utilities Co., Natural
Gas Rate Increase, Application



Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco

600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

July 21, 2004

Don Ball
Montana-Dakota Utilities Co.
400 N 4th St
Bismarck ND 58501

RE: Case No. PU-04-97
Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Enclosed is a copy of the statement approved at the July 21, 2004 Public Service Commission meeting for the expenses incurred to date in Case No. PU-04-97.

Under N.D.C.C. 49-02-02, these expenses are billed through the Valuation Fund and must be paid for by the company involved.

Please make your check payable to the Public Service Commission.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gloria Geiger".

Gloria Geiger
Administrative Staff Officer
701-328-2401

Enc.

Billing Statement

July 21, 2004

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

Expenses Incurred to Date:

Consulting Services	\$18,699.49
Advertising Costs	1,143.98
Interactive Video Networking (Public Input Sessions)	315.00
Office of Administrative Hearings	27.28

Amount Due:

Montana-Dakota Utilities Co.	\$20,185.75
------------------------------	-------------

Send Payment and a Copy of this Statement To:

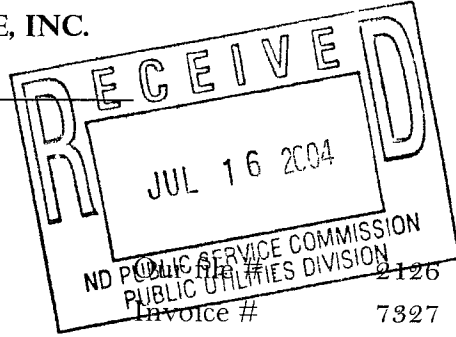
Public Service Commission
600 E Boulevard Ave Dept 408
Bismarck ND 58505-0480

Federal Tax ID 45-0309764



SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
 ECONOMIC AND MANAGEMENT CONSULTANTS

June 25, 2004



Invoice # 7327
 Billing through 06/25/04

Michael Diller
 North Dakota Public Utilities Commission
 State Capitol, 12th Floor
 Bismarck, ND 58505-0480

For services rendered during the month ending June 25, 2004 in connection with the compensation issues in North Dakota P S C Docket No PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates

FEES

King, C	15 00 hrs	135 00 /hr	2,025 00
Gildea, H	5 00 hrs	75 00 /hr	375 00
	TOTAL FEES	20 00 hrs	<u>\$2,400 00</u>
	TOTAL FEES		\$2,400 00
	TOTAL EXPENSES		\$0 00
	TOTAL AMOUNT DUE		<u>\$2,400.00</u>

ok to pay

Charles W. King
3WV12

For Period Beginning 5/26/64
Ending 6/25/64

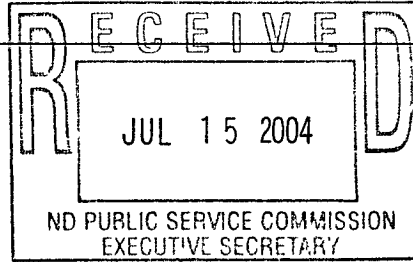
Client ND PSC - Compensation

Billing Code 2-126

Date	Hours	Activity
6/2	3.0	Draft Testimony on SISP + Bonuses
6/4	2.5	" " " " "
6/8	.5	" " " " "
6/10	2.0	Review Data Response No 2
6/11	1.5	Write memo to HG re Comp Issues
6/17	4.0	Prepare data requests
6/18	.5	Revise data request
6/25	10	Confer w HG on comp studies
Page Total		
Month Total	15.0	



Public Service Commission
State of North Dakota



600 E Boulevard Ave Dept 408
Bismarck, North Dakota 58505-0480
web www.psc.state.nd.us
e-mail ndpsc@psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Illona A. Jeffcoat-Sacco

July 15, 2004

Ms. Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E Boulevard Ave. Dept. 408
Bismarck, ND 58505-0480

RE: **Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application
Case No. PU-04-97**

Dear Ms. Jeffcoat-Sacco:

Enclosed for filing in the above referenced case are the original and seven copies of the **Staff Response to Trade Secret Application**.

Thank you.

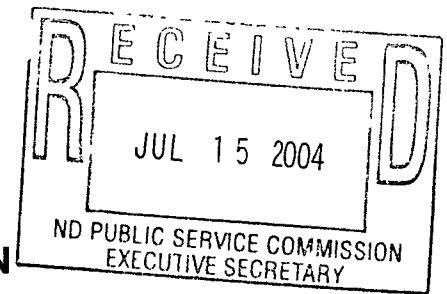
Sincerely,

William W. Binek
Chief Counsel

WWBsIs
Enclosure

C Douglas W. Schulz
Daniel S. Kuntz
Don Ball
Allen Hoberg

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**



**Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application**

Case No. PU-04-97

ADVOCACY STAFF RESPONSE TO TRADE SECRET APPLICATION

On July 4, 2004, Montana-Dakota Utilities Co., a division of MDU Resources Group ("MDU) filed an application for a protective order limiting the disclosure of certain trade secret information provided by MDU in response to Discovery Requests by the Public Service Commission's Advocacy Staff (Advocacy Staff) and is included within the direct testimony and exhibits of Charles W. King to be filed on behalf of the Advocacy Staff. In support of its application, MDU provided information as follows:

1. A General Description of the Nature of the Information Sought to be Protected.

The information MDU seeks to protect includes:

- A. Confidential information on pages 15-17 of the Direct Testimony of Charles W. King stating the amounts paid by MDU under its incentive compensation plans to its various employee groups and describing factors and characteristics of those plans.
- B. Confidential information on pages 25-28 if the Direct Testimony of Charles W. King stating the percentage increases in annual compensation to officers and other employees since 1999.

- C. Confidential information on page 4 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the amounts paid by MDU under its incentive compensation plans to its various employee groups and describing the factors and characteristics of those plans.
- D. Confidential information on page 8 of Exhibit CWK-1 to the Direct Testimony of Charles W. King stating the number of employees within MDU's various employee groups and the average compensation and average annual percentage compensation increase for each group since 1999.

2. An Explanation of Why the Information Derives Independent Economic Value, Actual or Potential, From not Being Generally Known to Other Persons.

MDU states that the confidential information contained in the testimony and exhibits describes the average annual amounts, annual percentage increases, and the factors and characteristics of MDU's incentive plans for its various employee groups, and that it also describes the number of employees within MDU's employee groups and the average compensation and average annual percentage compensation increases for each group since 1999. MDU states that the information is confidential and proprietary to MDU and is not publicly disclosed, that the information is sensitive, and that its public disclosure would place MDU at a competitive disadvantage in attracting and retaining employees. MDU states that if the information is disclosed publicly, it would disadvantage MDU because the information reflects specifics regarding MDU's compensation programs, particularly compensation programs for MDU's executives and officers.

3. An Explanation of Why the Information is Not Readily Ascertainable by Proper Means by Other Persons.

MDU states that the information is proprietary to MDU, and is available only to those employees and representatives of MDU who have a need to know the information to perform their duties and responsibilities. MDU states that it does not disclose the information outside the company except pursuant to the terms of agreements and orders to maintain the confidentiality of the information.

4. A General Description of the Persons or Entities that would Obtain Economic Value from Disclosure or Use of the Network.

MDU states that competitors or potential competitors of MDU for qualified and experienced employees in the fields of electric and natural gas distribution would obtain economic value from the disclosure or use of the information.

5. A Specific Description of Known Competitors and Competitors' Goods and Services that are Pertinent to the Tariff or Rate Filing.

MDU states that competitors and potential competitors of MDU for electric and natural gas employees include all investor owned utilities and rural electric cooperatives in North Dakota and any other state in the United States.

6. A Description of the Efforts Used to Maintain the Secrecy of Information.

MDU references No. 3 above.

Staff has reviewed MDU's request for trade secret protection of compensation information. N.D.C.C. § 47-25.1-01 defines the term "trade secret" as follows:

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

a. Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper

means by, other persons who can obtain economic value from its disclosure or use; and

b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

N.D. Admin. Code § 69-02-09-04 requires that the “commission staff examine the information and application and make a prima facie recommendation of whether the information is relevant and a trade secret under the definition of trade secret in North Dakota Century Code section 47-25.1-01.”

The information is relevant to the application because, under N.D.C.C. § 49-05-06, the company applying for a rate increase has the burden to show that the increased rate is just and reasonable. Compensation plans for officers and employees including incentive compensation plans and bonuses are a critical part of a rate filing. The whole purpose of the rate proceeding is to convince the Commission to allow the company to collect rates to cover the costs associated with the implementation of these plans from ratepayers. The manner in which MDU compensates its employees is an important part of a rate case, and it is information that MDU’s ratepayers are entitled to see.

In order to qualify for trade secret protection, other persons must obtain economic value from the disclosure or use of the information. MDU asserts that competitors for experienced employees would obtain economic value from disclosure or use of the information. MDU identifies its competitors as all investor owned utilities, rural electric cooperatives and other providers of electric or natural gas utility service. Competition, as used in the context of the Commission’s rule, is generally understood to mean competition between parties in the sale of goods or services and not in the trading or acquisition of employees. Therefore, the information is not trade secret.

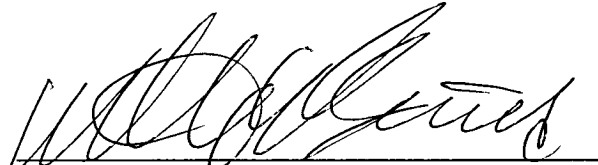
In order to qualify for trade secret protection, the information must be of economic value to others. The information MDU seeks to protect does not identify individual salaries or bonuses. The information relates to amounts paid under incentive plans to various employee groups, percentage increases in annual compensation to officers and other employees, numbers of employees within the various employee groups and the average compensation and average annual percentage compensation increase for each group since 1999. Release of this information cannot place MDU at a competitive disadvantage in attracting and retaining employees because the information is not specific to any individual employee. Therefore, the information is not trade secret.

Employees are not property of MDU—they are people who have a right to change jobs at their discretion. MDU has a compensation package that it presumably has determined is fair to its employees and will be adequate to recruit and employ personnel. Disclosure of such information does not inhibit MDU in recruiting or retaining employees. Since the plans are of such importance to MDU, it is logical to assume that MDU uses this information in its recruiting retention efforts. Employees and potential employees of MDU are not likely required to sign confidentiality agreements concerning compensation. Therefore, MDU has no way to maintain confidentiality.

The information should not be protected under the guise that it will be beneficial to MDU's competitors. Staff does not recall a single instance in at least the past fifteen years where a public utility has claimed trade secret protection for information relating to compensation for officers and employees of the company. The information may very well be sensitive from MDU's perspective because of public reaction to the amounts being paid, but that is not justification for trade secret protection.

MDU has not made a showing that it is entitled to trade secret protection under North Dakota law for this information. For reasons set forth above, staff recommends that the Commission deny MDU's Application Requesting Trade Secret Protection in this case.

Dated July 15, 2004.



William W. Binek
Counsel for Advocacy Staff

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sandra L. Scott deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **15th day of July, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **four** envelopes with first class postage, fully prepaid, securely sealed and each containing a photocopy of:

Advocacy Staff Response to Trade Secret Application

The envelopes were addressed as follows

Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mr. Allen C. Hoberg
Administrative Law Judge
Office of Administrative Hearings
1707 North 9th Street, Lower Level
Bismarck, ND 58501

Each address shown is the respective addressee's last reasonably ascertainable post office address.

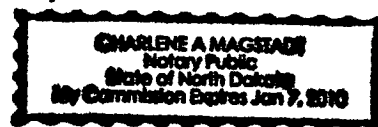
Subscribed and sworn to before me
this **15th day of July, 2004**.

SEAL

Sandra L. Scott

Charlene A. Magstad

Notary Public





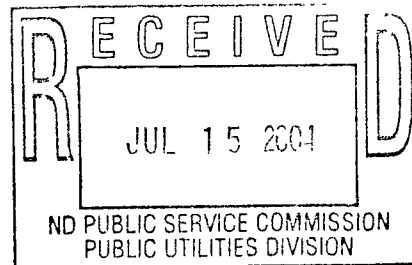
SNAVELY KING MAJOROS O'CONNOR & LEE, INC.
ECONOMIC AND MANAGEMENT CONSULTANTS

June 25, 2004

Michael Diller
North Dakota Public Utilities Commission
State Capitol, 12th Floor
Bismarck, ND 58505-0480

Our file # 2124
Invoice # 7325
Billing through 06/25/04

For services rendered during the month ending June 25, 2004 in connection with the non-compensation issues in North Dakota P S C Docket No PU-04-97, the application of the Montana-Dakota Utilities Company for an increase in gas distribution rates



FEES

King, C	21 00 hrs	135 00 /hr	2,835 00
Gildea, H	16 00 hrs	75 00 /hr	1,200 00
	TOTAL FEES	37 00 hrs	<u>\$4,035 00</u>

EXPENSES

Communications, Telephone		0 76
		<u>\$0 76</u>

TOTAL FEES	\$4,035 00
TOTAL EXPENSES	\$0 76
TOTAL AMOUNT DUE	<u>\$4,035.76</u>

*ok to pay
PJ*

Account Number	Bill Date	Payment Due Date
030 237 1228 001	APR 28, 2004	MAY 23, 2004



SNAVELEY KING & ASSOC
1220 L ST NW STE 410
WASHINGTON DC 20005-4018

Location: 011 024 2327 003

TELEPHONE NUMBER: 202 371 1111

AT&T All in One Service

Call Detail

For Customer Care: 1 877 325-0445

ITEM	DATE	TIME (hh:mm:ss)	DAY OF WEEK	PLACE	AREA CODE/ NUMBER	DURATION (hh:mm:ss)	CALL TYPE	AMOUNT
PRIMARY ACCOUNT CODE: 00071								
LONG DISTANCE SERVICE								
STATE-TO-STATE CALLS								
SUBTOTAL						0:27:00		\$3.36
TOTALS FOR ACCOUNT CODE: 00071						0:27:00		\$3.36
PRIMARY ACCOUNT CODE: 02072								
STATE-TO-STATE CALLS								
1	3/27/04	4:05:47P	SAT	TO WEST RIVER	MD 410 867-8565	4:00	DDC	0.45
2	4/09/04	11:15:09A	FRI	TO SOLOMONS	MD 410 326-2504	14:00	DDC	1.76
3	4/22/04	2:07:01P	THU	TO ANNAPOLIS	MD 410 626-2197	7:00	DDC	0.88
4	4/26/04	1:28:12P	MON	TO BALTIMORE	MD 410 332-9000	1:00	DDC	0.13
5	4/26/04	1:29:00P	MON	TO BALTIMORE	MD 410 332-9000	4:00	DDC	0.50
SUBTOTAL						0:30:00		\$3.72
TOTALS FOR ACCOUNT CODE: 02072						0:30:00		\$3.72
PRIMARY ACCOUNT CODE: 02072								
STATE-TO-STATE CALLS								
6	4/21/04	12:47:25P	WED	TO SEATTLE	WA 206 389-2005	2:00	DDC	0.25
7	4/21/04	12:49:23P	WED	TO SEATTLE	WA 206 389-2055	37:00	DDC	4.66
8	4/21/04	3:09:39P	WED	TO FRANKFORT	KY 502 696-5453	3:00	DDC	0.38
SUBTOTAL						0:42:00		\$5.29
TOTALS FOR ACCOUNT CODE: 02072						0:42:00		\$5.29
PRIMARY ACCOUNT CODE: 02123								
STATE-TO-STATE CALLS								
9	4/12/04	10:48:52A	MON	TO LANSING	MI 517 930-2811	1:00	DDC	0.13
10	4/21/04	3:54:46P	WED	TO LANSING	MI 517 373-1123	28:00	DDC	3.53
SUBTOTAL						0:29:00		\$3.66
TOTALS FOR ACCOUNT CODE: 02123						0:29:00		\$3.66
PRIMARY ACCOUNT CODE: 02124								
STATE-TO-STATE CALLS								
11	4/07/04	10:02:21A	WED	TO BISMARCK	ND 701 328-7035	1:00	DDC	0.13
12	4/07/04	10:03:10A	WED	TO BISMARCK	ND 701 328-1035	5:00	DDC	0.63
SUBTOTAL						0:06:00		\$0.76
TOTALS FOR ACCOUNT CODE: 02124						0:06:00		\$0.76

AT&T Call Type Information:
DDC - Direct Dialed Call
LCS - Calling Card Station Call

CCO - Operator Handled Card Call
CSP - Calling Card Person Call
OHS - Operator Handled Station Call

DDR - Operator Handled Station Call-Dial Rate
DOP - Operator Handled Person Call
DOP - Operator Handled Person Call



Public Service Commission

State of North Dakota

COMMISSIONERS

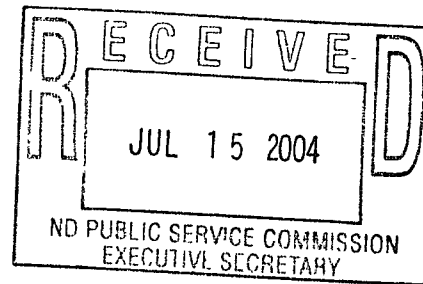
Tony Clark, President
Susan E Wefald
Kevin Cramer

Executive Secretary
Illona A Jeffcoat-Sacco

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July 15, 2004

Ms. Illona A. Jeffcoat-Sacco
Executive Secretary
Public Service Commission
600 E. Blvd. Ave., Dept. 408
Bismarck, ND 58505-0480



Re: Case No. PU-04-97
Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Dear Ms. Jeffcoat-Sacco

Enclosed for filing in the above case are the original and seven copies of the public version, with redacted information, of the Direct Testimony of Charles W. King on behalf of the Commission Adversary Staff.

Thank you.

Sincerely,

William W. Binek
Chief Counsel

WWB/sls
Enclosure

C: Douglas W. Schulz
Daniel S. Kuntz
Don Ball
Allen Hoberg

75 PU-04-97

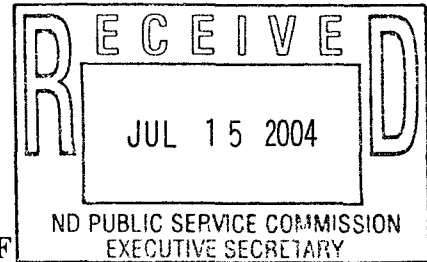
Pages 1

Cover letter re Direct Testimony of
Charles W. King
by Public Service Commission by William W. Binek
07/15/2004 CC Comm Legal PUD (3) Mike ALJ

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES CO.,)
a Division of MDU Resources Group, Inc.)
for Authority to Establish Increased)
Rates for Natural Gas Service)

Case No. PU-04-97



DIRECT TESTIMONY OF

CHARLES W. KING

**ON BEHALF OF
THE COMMISSION ADVERSARY STAFF**

July 6, 2004

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**DIRECT TESTIMONY OF
CHARLES W. KING**

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INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Charles W. King. I am President of the economic consulting firm of Snavelly King Majoros O'Connor & Lee, Inc. ("Snavelly King"). My business address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. PLEASE DESCRIBE SNAVELLY KING.

A. Snavelly King, formerly Snavelly, King & Associates, Inc., was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. The firm has a professional staff of 12 economists, accountants, engineers and cost analysts. Most of its work involves the development, preparation and presentation of expert witness testimony before federal and state regulatory agencies. Over the course of its 34-year history, members of the firm have participated in over 1000 proceedings before almost all of the state commissions and all Federal commissions that regulate utilities or transportation industries.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. Attachment A is a summary of my qualifications and experience.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN REGULATORY PROCEEDINGS?

1 A. Yes. Attachment B is a tabulation of my appearances as an expert witness before
2 state and federal regulatory agencies.

3

4 **Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?**

5

6 A. I am appearing on behalf of the Advocacy Staff of the North Dakota Public
7 Service Commission.

8

9 **Q. WHAT SUBJECTS DOES YOUR TESTIMONY ADDRESS?**

10

11 A. My testimony addresses three broad subjects. Part I addresses the revenues,
12 expenses and rate base that Montana-Dakota Utilities, Inc. (“MDU” or “the
13 Company”) has claimed for its two test years, 2004 and 2005. Part II develops the
14 appropriate rate of return on the rate base associated with the North Dakota gas
15 distribution activities. It concludes with my recommendation as to the level of
16 rate relief to which the Company is entitled. Finally, Part III discusses issues of
17 class cost allocation, rate design and Company’s proposed Distribution Delivery
18 Stabilization Charge.

19

20 **Q. WHAT IS THE COMPANY SEEKING WITH RESPECT TO THE THREE**
21 **BROAD SUBJECT AREAS?**

22

23 A. Although the Company earned 9.55 percent on its rate base in 2003,¹ it claims that
24 unless rates are increased, its return on rate base will decline to 3.332 percent in
25 2004 and 0.244 percent in 2005. The Company is seeking an authorized rate of
26 return on rate base of 9.887 percent, inclusive of a 11.5 percent return on the 51.9
27 percent of its capital that is common equity. To achieve its proposed rate of
28 return, the Company contends that its 2004 rates must be increased by \$1,870,978
29 annualized and its 2005 rates by \$3,334,226.

30

¹ Net operating income of \$1,886,617 (Statement L, page 1) divided by rate base of \$19,755,709

1 Based on a projected 2005 cost of service study that shows a negative return on
2 residential service and very high returns on the Air Force and interruptible
3 services, MDU proposed to increase residential rates by 3.5 percent, firm general
4 service rates by 2.3 percent, and to hold Air Force and Interruptible rates at their
5 present levels.

6
7 Finally, the Company proposes a Distribution Delivery Stabilization Mechanism
8 that would adjust customers' bills for normal weather. Under this proposal, class
9 rates will be adjusted each year for the departure from normal weather
10 experienced the previous winter. Thus, if the weather is colder than normal in the
11 winter of 2004-2005, customers would receive a surcredit on their bills beginning
12 in May, 2005 for the effect of the Company's over-collection of revenue due to
13 that cold weather.

14
15 **Q. WOULD YOU PLEASE SUMMARIZE YOUR CONCLUSIONS WITH**
16 **RESPECT TO EACH OF THESE ISSUES?**

17
18 A. Yes. As regards revenue requirements, I have identified one revenue adjustment,
19 eight expense adjustments and one rate base adjustment that result in the
20 Company's earning and adjusted 7.440 percent return on rate base in 2004 and
21 6.177 percent return on rate base in 2005. I have applied all of the Commission's
22 findings as to rate of return in last MDU gas case, Case No. PU-399-02-183. In
23 that case, the Commission included short-term debt in MDU's capital structure,
24 and I have done likewise, using the quarterly balances of this debt at the end of
25 the last four quarters. When current data are applied to the Commission's
26 findings as regards return to equity, the result 8.8 percent, which I have rounded
27 up to 9.0 percent. The composite rate of return to rate base is 7.926 percent.

28
29 When 7.926 percent is used as the target return and applied to the adjusted
30 revenue requirements calculation, the indicated revenue deficiencies are \$162,000
31 in 2004 and \$603,000 in 2005.

1

2 I find that 70 percent of mains costs are fixed relative to peak gas volume, and I
3 allocate that proportion among customer classes based on the respective class's
4 total annual consumption of gas. While this allocation does not reflect cost-
5 causality, neither does the Company's allocation on a customer count basis.
6 Annual gas consumption reflects instead the total value of gas service to the
7 respective customer classes. This reallocation reduces the disparities among class
8 rates of return exhibited by the Company's study, but it does not eliminate them.
9 Accordingly, I recommend that the Company's proposed increases in Basic
10 Service Charges be adopted, and any remaining revenue requirement be captured
11 in the per-dekatherm Distribution Delivery Charges to the firm service customers.

12

13 I object to the Company's proposed Distribution Delivery Stabilization
14 Mechanism on the grounds that the delay in the weather normalization adjustment
15 could exaggerate, rather than diminish, the weather-related fluctuations in the
16 Distribution Delivery Charge. I recommend instead a DDSM that operates on a
17 real-time basis by applying a weather- related adjustment to the customers'
18 current bills.

19

20

21

PART I – REVENUES, EXPENSES AND RATE BASE

22

23 **Q.****WHAT RATES ARE AT ISSUE IN THIS PROCEEDING?**

24

25 **A.**

26 The rates that are at issue in this proceeding are the rates that MDU charges for
27 distributing gas to its customers in North Dakota. These rates principally cover
28 the cost of operating and maintaining a system of gas mains and services that
29 not cover the cost of the gas itself, nor do they cover the cost of transporting and
30 storing gas prior to its delivery to MDU's distribution system. These latter costs,

1 which are recovered through the Purchased Gas Cost Adjustment (“PGCA”), are
2 not at issue in this case.

3
4 In 2003, revenues from the North Dakota gas distribution charges at issue in this
5 case were \$21.2 million, or slightly over 20 percent of the total North Dakota
6 revenues, including the cost of gas, of \$103.1 million.

7
8 **Q. HOW DOES THE COMMISSION DETERMINE WHETHER MDU**
9 **NEEDS TO INCREASE ITS GAS DISTRIBUTION RATES?**

10
11 A. The Commission identifies a test year jurisdictional revenue requirement and
12 compares that amount with the jurisdictional revenues the Company will receive
13 during the same test year. If the revenue requirement is greater than the revenues,
14 then the rates are increased sufficiently to recover the revenue requirement.

15
16 **Q. WHAT DO YOU MEAN BY “JURISDICTIONAL” REVENUES AND**
17 **REVENUE REQUIREMENT?**

18
19 A. In spite of its name, there is no corporate entity known as Montana-Dakota
20 Utilities Company. Montana-Dakota Utilities is the public utility division within
21 MDU Resources Group, Inc.² Aside from operating the utilities division, MDU
22 Resources Group has a wholly-owned subsidiary, Centennial Holdings, which in
23 turn owns subsidiaries engaged in gas pipeline service, construction and
24 construction products, and foreign utility operations.

25
26 The MDU utilities division provides both gas and electric utility services, and it
27 operates in five different states. All of this means that “jurisdictional” revenues
28 and revenue requirements in this case are:

- 29
- the utilities division of MDU Resources,

² Great Plains Natural Gas is another utility division within MDU Resources and is considered as part of Montana-Dakota Utilities Co. for purposes of this case

- 1 • the gas portion of the utilities division, and
2 • the North Dakota portion of the gas utilities division.

3

4 Fortunately, most of the revenues at issue in this case are discrete to North Dakota
5 gas operations. They are collected from residents and businesses in North Dakota
6 under the P.S.C. gas tariff schedules. A substantial portion of the plant is discrete
7 to North Dakota as well. It consists of “*situs*” mains, services, regulator stations
8 and meters physically located in North Dakota. More complicated are the
9 headquarters functions, most of which are located in Bismarck but apply to all
10 MDU states, some to both gas and electric, and at the top, to both regulated and
11 unregulated activities.

12

13 **Q. WHAT ARE THE COMPONENTS OF THE REVENUE REQUIREMENT?**

14

15 A. The components are maintenance and operating expenses, including depreciation,
16 income taxes, and a return on rate base. The term “return” is synonymous with
17 “profit,” but in utility regulation it is treated as a cost, specifically the cost of
18 equity capital. That cost will be the subject of Part II of this testimony.

19

20 **Q. WHAT TEST YEAR DOES THE COMPANY PROPOSE IN THIS CASE?**

21

22 A. The Company proposes two test years, 2004 and 2005. Calendar year 2004 is the
23 basis for MDU’s “interim” relief, presumably to take effect as soon as the
24 Commission reaches a decision in this case. Calendar year 2005 is proposed as
25 the basis for MDU’s “permanent” relief, with rates presumably taking effect on
26 January 1, 2005.

27

28 **Q. THESE ARE BOTH FORECAST YEARS. WHAT STANDARDS**
29 **GOVERN THE USE OF FORECAST TEST YEARS?**

30

1 A. In 1995, the North Dakota legislature enacted legislation that offered utilities a
2 choice as to test years:³

3
4 1. A public utility, at its option, may use any one of the following
5 twelve-month periods as its test year for rate filings with the commission:
6

7 a. A historical test year, which may be either the latest twelve-month
8 period for which actual data is available at the time of filing new
9 schedules or the latest calendar or fiscal year for which actual data is
10 available at the time of filing new schedules.

11
12 b. A current test year, which is any consecutive twelve-month period
13 ending not later than twelve months after the date new schedules are filed.
14 A public utility selecting a current test year also shall file data for the
15 twelve-month period immediately preceding the current test year selected
16 and that period is the "historical period" for the public utility.

17
18 c. A future test year, which is any consecutive twelve-month period
19 ending no later than twenty-four months after the date new schedules are
20 filed. A public utility selecting a future test year must file data for the
21 twelve consecutive months immediately preceding the future test year and
22 that period is the "current period" for the public utility.

23
24 2. A public utility selecting a current or future test year shall present the following
25 information:
26

27 a. A comparison of forecast data to historical period data to demonstrate
28 the reliability and accuracy of the utility's forecast including a comparison
29 of the prior years' forecast or budgeted data to actual data for those
30 periods.

31
32 b. A statement that the public utility's forecast is reasonable, reliable,
33 and was made in good faith and that all basic assumptions used in making
34 or supporting the forecast are reasonable, evaluated, identified, and
35 justified to allow the commission to test the appropriateness of the
36 forecast.

37
38 c. A statement that the accounting treatment that has been applied to
39 anticipated events and transactions in the forecast is the same as the
40 accounting treatment to be applied in recording the events once they have
41 occurred.

42
43 3. The public utility may update its filing for material changes as actual data
44 becomes available up to thirty days before the hearing. Except for good cause

³ ¶49 05 04 1

1 shown, a public utility may not submit more than one updated filing before the
2 hearing. In the absence of an updated filing by the public utility, the commission
3 may require a public utility to update its filing when the commission staff
4 introduces evidence that a material change has occurred.

5
6 4. A public utility may propose estimated or calculated adjustments to the selected
7 historical or current test year for all known and measurable changes in operating
8 results as measured in the test year. The adjustments must be made in the same
9 context and format as the information was provided in the original filing. The
10 adjustments may reflect material changes in plant investment, operating revenues,
11 expenses, and capital structure if the changes occurred during the selected
12 historical or current test year or are reasonably certain to occur subsequent to the
13 selected test year within twelve months from the date of the rate filing.
14

15 **Q. IS MDU'S SELECTION OF 2004 AND 2005 IN ACCORDANCE WITH**
16 **PARAGRAPH 1c QUOTED ABOVE?**

17
18 A. Yes. The latest test year, calendar year 2005, ends two months before the 24-
19 month limit from the date the Company filed its application and schedules, March
20 3, 2004.

21
22 **Q. HAS MDU SUBMITTED A COMPARISON OF FORECAST DATA TO**
23 **HISTORICAL PERIOD DATA, AS REQUIRED BY PARAGRAPH 2a**
24 **QUOTED ABOVE?**

25
26 A. Yes. That information is provided in Statement N. Further detail, comparing
27 2003 actual expenses with budgeted 2004 expenses, is found in the Statement N
28 workpapers.

29
30 **Q. HAS MDU DEMONSTRATED THAT "ALL BASIC ASSUMPTIONS**
31 **USED IN MAKING OR SUPPORTING THE FORECAST ARE**
32 **REASONABLE, EVALUATED, IDENTIFIED AND JUSTIFIED TO**
33 **ALLOW THE COMMISSION TO TEST THE APPROPRIATENESS OF**
34 **THE FORECAST," AS REQUIRED BY PARAGRAPH 2b QUOTED**
35 **ABOVE?**

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A. Not in every case, as I shall discuss subsequently in this testimony.

Q. ARE THE TEST YEAR ADJUSTMENTS “KNOWN AND MEASURABLE CHANGES” THAT “ARE REASONABLY CERTAIN TO OCCUR” AS REQUIRED BY PARAGRAPH 4 ABOVE?

A. Again, not in every case, as I shall discuss subsequently in this testimony.

Q. WHAT SPECIFIC ITEMS IN THE COMPANY’S FORECAST TEST YEAR RESULTS FAIL THE “REASONABLE, EVALUATED, IDENTIFIED AND JUSTIFIED”, “KNOWN AND MEASURABLE” AND “REASONABLY CERTAIN TO OCCUR” TESTS SET FORTH IN THE LEGISLATION QUOTED ABOVE?

A. I have identified one revenue assumption, eight expense elements, and one rate base adjustment that fail these tests. They relate to the following items:

- The assumption that a one percent conservation adjustment applies to commercial and industrial customers;
- The inclusion of the Company’s Supplemental Income Support Plan (“SISP”) as an expense item;
- The inclusion of the cost of SISP-related testimony in the Company’s rate case expenses and a three-year amortization of those expenses;
- The inclusion of bonuses related to Company profitability;
- The inclusion of institutional advertising a recoverable expense;
- The projection of vehicles and work equipment expense based on their depreciation charges;
- The projection of 2005 pension and post-employment benefit costs;
- The projection of miscellaneous costs into 2005;
- The incorporation of officers compensation increases since 1999; and
- The failure to reflect growth in contributions in aid of construction.

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Q. HAVE YOU SUMMARIZED THE EFFECT OF THE ADJUSTMENTS YOU PROPOSE ON MDU'S CLAIMED 2004 AND 2005 REVENUE REQUIREMENT?

A. Yes. The effect of these adjustments is shown on page 1 of Exhibit CWK-1.

ADJUSTMENT 1 – CONSERVATION REDUCTION

Q. WHAT IS THE CONSERVATION ADJUSTMENT TO WHICH YOU REFER?

A. In projecting its revenues into late 2004 and 2005, MDU has reduced the forecast consumption of all firm service customers by one percent to recognize the effect of improved appliance efficiency and improved insulation. This adjustment begins in September 2004 and runs through 2005.

Q. HAS THE COMPANY SUPPORTED THIS ADJUSTMENT?

A. Yes, but only for residential customers. In response to my data requests, the Company has provided several studies that persuasively support the one percent conservation adjustment for residential gas users.⁴ However, the Company has provided no support whatever for the proposition, implicit in its adjustment, that the same degree of conservation will apply to commercial and industrial customers. Since it is the Company's burden to justify its adjustments, I consider the one percent reduction in commercial and industrial consumption as unsupported. It should therefore be disallowed.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

⁴ MDU response to Staff Data Request No 3, Question 15

1 A. As shown on page 2 of Exhibit CWK-1, the effect of eliminating the assumed one
2 percent conservation reduction in commercial and industrial consumption during
3 the last four months of 2004 is to increase total revenue for the year by \$491,558.
4 Of this amount, \$458,597 represents revenue from the purchased gas adjustment,
5 which would be offset by a corresponding reduction in cost. The net effect is to
6 increase the Company's revenues by \$32,961.

7
8 The impact on 2005 revenues is much greater because the Company has applied
9 the adjustment throughout the entire year. When this adjustment to commercial
10 and industrial consumption is eliminated, total revenues increase by \$5,344,356,
11 of which \$4,985,995 represents fuel costs, leaving a net increase in 2005 revenue
12 of \$358,361.

13
14 **ADJUSTMENT 2 – SUPPLEMENTAL INCOME SECURITY PLAN**

15
16 **Q. WHAT IS THE SUPPLEMENTAL INCOME SECURITY PLAN?**

17
18 A. MDU's Supplemental Income Security Plan ("SISP") is a supplemental pension
19 benefit to 48 officers and senior managers of MDU Resources, Inc. It provides
20 "income replacement" at retirement of up to 80 percent for lower income
21 employees qualifying for the plan to 50 percent for the higher income levels. SISP
22 supplements the retirement income that these employees receive from Social
23 Security, 401k plans, and the "qualifying" pensions that are available to all 1,013
24 employees of MDU Resources.

25
26 **Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO SISP?**

27
28 A. I recommend that SISP expenses be disallowed. MDU did not seek recovery of
29 SISP expenses until the 2001-2002 electric rate case, Case No. PU-399-01-186,
30 even though the plan has been in effect since 1982. In that case Staff argued that
31 SISP is a double pension for senior management staff and is unduly weighted in

1 favor of the highest income employees. The Commission agreed with Staff and
2 excluded SISP from recoverable expenses. The Commission again excluded SISP
3 in the 2002 gas rate case, Case No. PU-399-02-183. The issue arose yet again in
4 the recent electric case PU-399-03-296, but the case was settled, so the matter was
5 never decided.

6
7 Quite apart from Commission precedent, an additional reason for disallowing
8 SISP costs relates to incentives. The Internal Revenue Service treats payments
9 into special retirement plans such as SISP that apply only to highly-paid senior
10 executive managers and directors, most of whom are probably also stockholders,
11 as taxable income of the Company. If these costs were allowed to be deductible,
12 the managers and directors would have an incentive to hide corporate income by
13 paying benefits to themselves through these plans.⁵

14
15 The same principle applies to the establishment of the regulated revenue
16 requirement. The personnel who recommend the level of benefits are the same
17 personnel who receive them.⁶ If those benefits (along with associated income
18 taxes) are incorporated into the revenue requirement, then the incentive will be
19 make them very, very generous. That generosity would be entirely at the expense
20 of the ratepayers.

21
22 **Q. HOW DO YOU RESPOND TO MR. CONLEY'S ASSERTION THAT SISP**
23 **IS A CONVENTIONAL AND NECESSARY PART OF THE**
24 **COMPENSATION PACKAGE TO KEY EMPLOYEES AND IS**
25 **REQUIRED TO MAKE MDU COMPETITIVE WITH OTHER**
26 **EMPLOYMENT OPPORUNITIES AVAILABLE TO THESE HIGHLY**
27 **SKILLED INDIVIDUALS?**

⁵ It is my understanding that the IRS does allow deduction of pension payments to retired employees

⁶ Executive compensation is ultimately determined by a Compensation Committee consisting of three outside (non-employee) directors. However, this committee acts on the recommendations of management

1 A. Even if the managers and directors exert self-control and avoid overly generous
2 benefits, the benefits should still be paid by shareholders. As Mr. Conley
3 accurately points out, the employees who receive SISP “are responsible for
4 planning for the future, identifying and implementing appropriate strategies for
5 the Company, implementing effective cost reduction programs, streamlining the
6 organization, implementing new technologies and maintaining and increasing the
7 efficiencies of the Company.” As such, they are the direct representatives of the
8 Company’s stockholders, and they are the employees most responsible for
9 providing the profits that those stockholders expect. For this reason, I believe that
10 the stockholders, not ratepayers, should bear the relatively minor cost of
11 supplementing the retirement income of these key individuals.
12

13 **Q. WHAT ARE THE COSTS OF SISP THAT YOU ARE RECOMMENDING**
14 **BE DISALLOWED?**

15
16 A. On Statement N, page 10, MDU reports that its 2004 SISP costs are expected to
17 be \$260,000 and its 2005 SISP costs are forecast as \$243,000.
18

19 **ADJUSTMENT 3 – RATE CASE EXPENSES**

20
21 **Q. WHAT RATE CASE EXPENSES DOES THE COMPANY PROPOSE TO**
22 **INCLUDE IN ITS REVENUE REQUIREMENT?**

23
24 A. The Company is seeking to incorporate \$124,610 in rate case expenses into its
25 revenue requirement for both 2004 and 2005. These include a three-year
26 amortization of \$244,557 in expenses for this case, \$42,000 in amortization for
27 the last gas case, No. PU-399-02-183, and \$1,091 in recurring annual regulatory
28 expenses.
29

supplemented by reports from outside compensation consultants such as The Hay Group and Towers
Perrin

1 **Q. WHAT ADJUSTMENTS DO YOU PROPOSE IN THESE EXPENSES?**

2
3 A. I propose two adjustments. The first is a follow-through from the last adjustment.
4 If SISP costs are to be disallowed, then the cost of hiring the witness to support
5 SISP's inclusion should likewise be disallowed. That amount is \$79,400.
6 Second, I propose that the remaining expenses from this rate case be amortized
7 over four years, consistent with the amortization period of expenses from the last
8 rate case.

9
10 **Q. WHAT IS THE EFFECT OF THESE TWO ADJUSTMENTS ON THE**
11 **ANNUAL RECOVERY OF RATE CASE EXPENSES?**

12
13 A. As shown on page 3 of Exhibit CWK-1, I propose that rate case expenses be
14 reduced from \$124,610 to \$84,380, or by \$40,230.

15
16 **ADJUSTMENT 4 – BONUSES**

17
18 **Q. WHAT BONUS AMOUNTS HAS MDU INCLUDED WITH ITS LABOR**
19 **EXPENSES?**

20
21 A. The Company has based its 2004 and 2005 North Dakota labor costs on the
22 expected percentage changes in total Company-wide labor costs from the
23 preceding year. In projecting its 2004 labor cost, however, the Company did not
24 include its forecast 2004 bonuses, but instead a three-year average of bonuses
25 during 2002 through 2004. This treatment appears to reduce 2004 gas service
26 bonuses on a Company-wide basis from \$2,839,960 to \$1,875,113. It has the
27 effect of reducing the 2003-2004 inflator for North Dakota labor costs from 7.77
28 percent to 6.82 percent.

29
30 **Q. IS THERE ANY OBJECTION TO THIS PROCEDURE?**

31

1 A. Yes. Bonuses are based in part on Company-wide profitability. I have no
 2 objection to flowing through to employees some of the benefits of improved
 3 profits when prices are stable. However, when profits increase due to rate cases,
 4 the incorporation into the subsequent rate case of bonuses resulting from those
 5 increased profits becomes circular. Rate case increases cause bonuses to increase,
 6 which then inflate the next rate case increase.

7

8 In this specific case, it would appear that one of the reasons that Company-wide
 9 gas service bonuses increased from \$834,870 in 2002 to \$1,950,510 in 2003 was
 10 the success of the Company in receiving, in December 2002, \$1.972 million in
 11 additional revenue as a result of Case No. PU-399-02-183. One of the reasons
 12 that the Company expects its 2004 gas service bonuses to increase further to
 13 \$2,839,960 may be the rate increase the Company hopes to obtain in this case.

14

15 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO BONUSES?**

16

17 I recommend that a portion of the increase in bonuses from their 2002 level to the
 18 three-year average used by the Company be disallowed. This portion would be
 19 the proportion of each bonus that is based on the profitability of the Company.

20

21 **Q. WHAT SPECIFIC BONUS PLANS DOES THE COMPANY MAINTAIN?**

22

23 A. The company has four separate bonus plans:

24

2003 Amount⁷

25

• Executive Incentive Compensation Plan (“EICP”) **

26

• Management Incentive Compensation Plan (“MICP”) **

27

• Mid-Management Plan **

28

• BETA Plan **

29

Total **

30

⁷ Response to Staff Data Request No 2, Question 13, Attachment B Confidential

1 Q. TO WHAT EXTENT ARE THESE BONUS PLANS BASED ON THE
2 PROFITABILITY OF THE COMPANY?

3

4 A. The largest plan, and the clearest from the standpoint of identifying profit
5 relationship, is the BETA plan. The maximum bonus is 7.0 percentage points of
6 salary, and there are six measures comprising this total. The first measure is
7 “utility earnings” which is up to 5 percentage points. The third measure is “group
8 service and repair activities”, which is up 0.5 percentage points. In spite of its
9 name, this measure is profit-related because it depends specifically on district
10 gross profits. Therefore, 5.5% of the 7.0% total (78.5 percent) is explicitly profit
11 related.

12

13 Next clearest is the Mid-Management Bonus plan. The description furnished by
14 the company states that “**

15

16 **”⁸ Therefore,
17 approximately ** percent of this bonus is profit related. Indeed, the
18 company’s worksheet calls this component “utility profitability payout.”

19

20 The other two plans, Executive Incentive Compensation Plan (“EICP”) and
21 Management Incentive Compensation Plan (“MICP”), are much more amorphous.
22 Both plans are designed to reward successful corporate performance as measured
23 against specified performance goals, as well as exceptional individual
24 performance. Quoting from the EICP description, the primary basic concept is

25

26

27 **”⁹
28 Nothing is actually specified or quantified in the Company’s documentation we
29 received. However, since these plans apply to senior executives, it would be

⁸ Response to Staff Data Request No 2, Question 13, Attachment A

⁹ Id

1 very conservative to assume that ** percent of the total is determined on the
2 basis of profitability measures.

3

4 **Q. HAVE YOU CALCULATED AN ADJUSTMENT THAT WOULD**
5 **ELIMINATE THE PROFIT-RELATED PORTION OF THE INCREASES**
6 **IN BONUSES?**

7

8 A. Yes. Page 4 of Exhibit CWK-1 shows this calculation. The first five lines
9 calculate the increases in bonuses from 2002 to the three-year average 2002-2004.
10 That increase is \$1.04 million for all gas operations. On lines 6 through 10, I
11 calculate that ** percent of this increase is related to the profitability of the
12 Company. For total gas operations, the profit-related increase in bonuses is
13 **, or ** percent of total labor costs. When applied to North
14 Dakota, the disallowance or the profit-based bonus increase is \$244,613 in 2004
15 and \$257,670 in 2005.

16

17 **ADJUSTMENT 5- INSTITUTIONAL ADVERTISING**

18

19 **Q. WHAT FORMS OF ADVERTISING DOES THE COMPANY**
20 **PURCHASE?**

21

22 A. There are three forms of advertising that the Company purchases, informational,
23 promotional and institutional. In 2003, the Company paid \$27,000 for
24 informational advertising, \$35,000 for promotional advertising, and \$111,000 for
25 institutional advertising, for a total of \$173,000 in advertising expenses.

26

27 **Q. HOW MUCH OF THIS ADVERTISING EXPENSE DOES THE**
28 **COMPANY SEEK TO RECOVER FROM RATEPAYERS?**

29

1 A. The Company seeks to recover \$138,000 from ratepayers in both 2004 and 2005.
2 This amount includes informational and institutional advertising, but no
3 promotional advertising.
4

5 **Q. HOW ARE “INFORMATIONAL” AND “INSTITUTIONAL”**
6 **ADVERTISING DEFINED?**
7

8 A. The Uniform System of Accounts of the Federal Energy Regulatory Commission
9 (“FERC”) defines informational advertising as follows:

10 (A)ctivities which primarily convey information as to what the utility
11 urges or suggests customers should do in utilizing gas service to protect
12 health and safety, to encourage environmental protection, to utilize their
13 gas equipment safely and economically, or to conserve natural gas.¹⁰
14

15 NDCC 69-09-01-29 states as follows:

16 “Institutional advertising” means advertising which has as its primary
17 objective the enhancement or preservation of the corporate image of the
18 utility and to present it in a favorable light to the general public and
19 investors.
20

21 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THESE**
22 **TWO FORMS OF ADVERTISING?**
23

24 A. It is obvious that informational advertising benefits ratepayers because it conveys
25 to them information they need for the safe and efficient use of their gas
26 appliances. The same cannot be said of institutional advertising. As defined by
27 the North Dakota code, it appears to accrue to the primary benefit of stockholders
28 by persuading the public to take a more favorable view of the Company. It is also
29 designed to influence investors favorably, with the immediate effect of increasing
30 the share prices of the Company’s stock. For this reason, I recommend that
31 institutional advertising be supported by the Company’s shareholders, not by its
32 ratepayers.
33

1 **Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT ON THE COMPANY'S**
2 **REVENUE REQUIREMENT?**

3

4 A. The Company predicts that its institutional advertising budget will remain at its
5 2003 level through 2004 and 2005. That level is \$111,000 per year. This amount
6 should be removed from the Company's revenue requirement in each year.

7

8 **ADJUSTMENT 6 – VEHICLES AND WORK EQUIPMENT**

9

10 **Q. HOW HAS THE COMPANY FORECAST THE OPERATING AND**
11 **MAINTENANCE EXPENSE OF ITS VEHICLES AND WORK**
12 **EQUIPMENT FOR THE YEARS 2004 AND 2005?**

13

14 A. The Company has forecast its vehicles and work equipment expense based on the
15 predicted depreciation charges for these categories of equipment from 2003 to
16 2004 and 2005.

17

18 **Q. IS THIS A REASONABLE BASIS FOR FORECASTING OPERATING**
19 **AND MAINTENANCE EXPENSES?**

20

21 A. No. In a delayed phase of the last rate case, Case No. PU-399-02-183, MDU and
22 the Staff agreed to a settlement that changed the Company's gas and common
23 plant depreciation rates. Among the most radical changes were increases in the
24 depreciation rates for vehicles. The settlement was approved on July 31, 2003 and
25 the rates became effective September 1, 2003. This Commission-approved
26 depreciation rate increase accounts for the dramatic increase in vehicle
27 depreciation from \$290,000 in 2003 to a projected \$606,000 in 2004.¹¹

28

¹⁰ 18 CFR Ch 1, ¶ 909

¹¹ See Statement N workpapers, page 67

1 The change in depreciation expense might be an appropriate predictor of
2 operating and maintenance expense if the depreciation rate remained the same,
3 but there is no reason whatever to believe that O&M expenses would increase
4 when the depreciation rate changes.

5
6 **Q. WHAT IS THE APPROPRIATE BASIS FOR PREDICTING VEHICLE
7 AND WORK EQUIPMENT O&M EXPENSES?**

8
9 A. It is fairly obvious that gross plant would be a much better indicator of the
10 requirements for operating and maintaining vehicles and work equipment.

11
12 **Q. HAVE YOU CALCULATED THE ADJUSTMENT REQUIRED TO
13 RESTATE 2004 AND 2005 VEHICLE AND WORK EQUIPMENT O&M
14 EXPENSES ON THE BASIS OF GROWTH IN GROSS PLANT
15 INVESTMENT?**

16
17 A. Yes. That calculation is presented on page 5 of Exhibit CWK-1. It shows that if
18 vehicle and work equipment O&M expenses are forecast on the basis of gross
19 plant, the 2004 expenses are reduced by \$265,000, and the 2005 expenses are
20 reduced by \$297,000.

21
22 **ADJUSTMENT 7 – PENSION AND OPEBs**

23
24 **Q. WHAT COSTS HAS MDU INCLUDED IN ITS TEST YEAR REVENUE
25 REQUIREMENTS FOR PENSIONS AND OTHER POST-EMPLOYMENT
26 BENEFITS?**

27
28 A. The Company has included \$295,000 for pensions and \$619,000 for Other Post-
29 Employment Benefits (“OPEBs”) – principally health insurance – in its 2004
30 revenue requirement, for a total of \$914,000. The Company predicts that in 2005

1 pension costs will almost double to \$546,000, and OPEBs will increase to
2 \$635,000, for a total cost in that year of \$1,181,000.¹²

3
4 **Q. WHAT WERE THE COSTS FOR THESE ITEMS IN 2003?**

5
6 A. In 2003, pension costs were negative 201,000, and OPEB costs were \$579,000.

7
8 **Q. WHAT ACCOUNTS FOR THE VERY DRAMATIC INCREASE IN**
9 **PENSION COSTS?**

10
11 A. Under Statement of Financial Accounting Standards No. 87, the annual
12 recognition of pension costs is very much affected by the relationship of the asset
13 value of the pension fund to the Projected Benefit Obligation ("PBO"). The PBO
14 is based on an actuarial analysis of the cumulative future obligations to pay
15 pensions to existing and retired employees. Those obligations are discounted to
16 their present value based on the current yield of corporate bonds. When the asset
17 value of the pension fund is greater than the PBO, then pension costs are negative,
18 as happened in 2003. But when the PBO exceeds the asset value of the pension
19 fund, then pension costs can become quite large.

20
21 Both the asset value of the pension fund and the PBO are somewhat unstable
22 numbers. The value of the pension fund is heavily influenced by changes in the
23 securities markets. If the stock market declines, the value of the pension fund
24 declines, and a shortfall against the PBO develops. Also, if the current earnings
25 of the fund decline, then there is less money to offset current pension payments,
26 and again, the pension costs increase.

27
28 The PBO is also subject to change, principally due to changes in interest rates.
29 Paradoxically, when interest rates decline, the PBO increases. That is because the
30 factor used to discount the future obligations to their present value declines,

¹² Statement N, page 10

1 increasing the PBO. Conversely, if interest rates increase, then the present value
2 of the PBO declines, all else being equal.

3
4 Between 2003 and 2004, the asset value of MDU's pension funds declined due to
5 the poor performance of the stock market. Meanwhile, interest rates fell to their
6 lowest levels in decades, so that the present value of the PBO increased. The
7 result was a PBO that exceeded the value of the pension fund, creating a sudden
8 jump in pension costs.

9

10 **Q. WHAT ACCOUNTS FOR THE DRAMATIC INCREASE IN PENSION**
11 **COSTS IN 2005.**

12

13 A. The Company has forecast both the asset value of its fund and its PBO. That
14 forecast shows a much higher pension cost in 2005 than 2004.

15

16 **Q. IS THIS FORECAST REASONABLE?**

17

18 A. I do not see how it can be. To forecast 2005 pension costs requires the Company
19 to predict measures that it cannot possibly know. Specifically, the Company must
20 predict the asset value of its pension fund, it must predict the earnings of the
21 pension fund, and it must forecast the interest rate on corporate bonds, all as of
22 the end of 2004. These values are not "known and measurable" as required by
23 North Dakota law. That being the case, the Company's pension costs are not
24 known and measurable.

25

26 **Q. WHAT ADJUSTMENT DO YOU PROPOSE FOR PENSION COSTS?**

27

28 A. I recommend using the latest "known and measurable" cost of pensions, which is
29 the 2004 cost, calculated at the beginning of that year, as the costs for 2005.

30

31 **Q. DO THE SAME CONSIDERATIONS APPLY TO OPEBs?**

1

2 A. Yes. Statement of Financial Accounting Standards No. 106 (“SFAS 106”), which
3 covers OPEBs, parallels SFAS 87, which covers pensions. The same problem
4 with “known and measurable” costs applies to OPEB costs as well.

5

6 **Q. WHAT IS THE EFFECT OF YOUR PROPOSED ADJUSTMENT TO**
7 **PENSION AND OPEB COSTS?**

8

9 A. As shown on page 6 of Exhibit CWK-1, the effect of holding 2005 pension and
10 OPEB costs to their 2004 levels is to reduce the Company’s 2005 revenue
11 requirement by \$267,000.

12

13 **ADJUSTMENT 8 – 2.5 PERCENT INFLATION FACTOR**

14

15 **Q. WHAT IS THE 2.5 PERCENT INFLATION FACTOR?**

16

17 A. In forecasting its 2005 expenses, MDU made specific predictions with respect to
18 most of its costs. Labor, for example, was forecast based on the Company’s
19 union contract. Depreciation reflected its capital additions budget. But for the
20 remainder of its expenses, it used a 2.5 percent inflation factor from the budgeted
21 2004 costs. The specific costs that were inflated by this factor were:

22

- 23 • Contract Labor,
- 24 • Materials, net of capital installation credits and reimbursements,
- 25 • Postage,
- 26 • Telephone,
- 27 • Office Supplies, and
- 28 • All other operating and maintenance costs.

29

30 **Q. WHAT IS THE BASIS FOR THE 2.5 PERCENT FACTOR?**

31

1 A. The 2.5 percent factor is intended to be the overall rate of inflation between the
2 year 2004 and 2005. It is presumably based on 10 different forecasts of consumer
3 price inflation that the Company presented on page 9 of its Statement N
4 workpapers.

5

6 **Q. DO THE 10 FORECASTS SUPPORT A 2.5 PERCENT INFLATION**
7 **FACTOR BETWEEN 2004 AND 2005?**

8

9 A. No. The average of the 10 forecasts for 2004 is 1.84 percent, and for 2005 it is
10 2.22 percent. The simple average of these two numbers is 2.03 percent.

11

12 **Q. DOES THE USE OF A 2.5 PERCENT INFLATION FACTOR REFLECT**
13 **“KNOWN AND MEASURABLE” CHANGES THAT ARE**
14 **“REASONABLY CERTAIN TO OCCUR,” AS REQUIRED BY NORTH**
15 **DAKOTA LAW?**

16

17 A. No. The Company has put forth no data to demonstrate that these various items
18 of cost will change in lock step with changes in the Consumer Price Index. It is
19 possible that some of these costs may, in fact, decline between 2004 and 2005.
20 Postage, for example could decline if the Company uses more electronic billing.
21 The increased use of e-mail could cause telephone costs to decrease. Contract
22 labor appears to vary erratically. Page 12 of Statement N shows that two of the
23 four categories of contract labor costs are budgeted to decline between 2003 and
24 2004.

25

26 **Q. BUT DOESN'T IT STAND TO REASON THAT COSTS WILL INCREASE**
27 **BETWEEN 2004 AND 2005?**

28

29 A. No. Between November 1993 and December 2003, MDU's gas rates (exclusive
30 of the cost of gas) did not increase. In fact, rates were reduced by \$800,000 in

1 1999.¹³ During that ten-year period, the CPI increased 26.4 percent.¹⁴
2 Apparently, MDU was able during those years to hold its cost increases relative to
3 its revenue growth well below the rate of inflation.

4

5 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THESE COSTS?**

6

7 A. Since the Company apparently has no specific bases for predicting the 2005 level
8 of these various cost categories, I recommend that they be held to their budgeted
9 2004 levels for the year 2005.

10

11 **Q. WHAT IS EFFECT OF THIS ADJUSTMENT?**

12

13 A. Page 7 of Exhibit CWK-1 shows that the impact of holding these six categories of
14 expense to their 2004 levels is to reduce the Company's 2005 revenue
15 requirement by \$85,000.

16

17 **ADJUSTMENT 9 – OFFICERS' COMPENSATION INCREASES**

18

19 **Q. WHAT IS THE ISSUE WITH RESPECT TO OFFICERS'**
20 **COMPENSATION?**

21

22 A. The issue is presented on page 8 of Exhibit CWK-1. At the top of the page, I
23 show the number of employees, the average annual compensation, and the
24 average annual increase in per-employee direct compensation between 1999 and
25 2003 for each category of MDU's employees. The tabulation reveals that the
26 Company's officers enjoyed average annual increases in compensation of
27 ** percent. The only other categories that even approached this level of
28 increase were the next levels down, the regional managers and the directors, who
29 received ** and ** percent annual increases, respectively. All other

¹³ See Order Approving Settlement Offer, Case No PU-399-96-325, December 16, 1998

¹⁴ All urban consumers, November 1993 145 8, December 2003 184 3 bls gov/pub/special requests/cpi

1 categories received increases within the range of ** to ** percent
2 annually.

3
4 In the middle of the page, I display the annual numbers for officers and all other
5 employees for each year since 1999. This tabulation reveals that, in addition to
6 receiving annual increases more than ** those of any other category of
7 employees, the number of officers increased from ** to **, accounting
8 for three of the four net employee increase between 1999 and 2003. Total officer
9 compensation increased ** percent annually as against ** percent for
10 all other employees. In 1999, officer compensation amounted to ** percent
11 of all other compensation. By 2003, that percentage had increased to **
12 percent.

13
14 The issue is whether these highly disproportionate compensation increases should
15 be passed through to ratepayers in the form of higher rates, or whether
16 shareholders should be required to absorb some or all of these increases.

17
18 **Q. DOES THIS ISSUE INVOLVE THE SAME CONSIDERATIONS AS**
19 **THOSE RELATED TO THE SUPPLEMENTAL INCOME SECURITY**
20 **PLAN (SISP)?**

21
22 **A.** Yes, it does. These disproportionate compensation increases have been awarded
23 solely to the handful of top management personnel. No other class of employees
24 has enjoyed even half the rate of compensation increase. The determination of
25 management compensation is made by a three-member compensation committee
26 selected from the outside (non-employee) directors of the Company.
27 Nevertheless, this compensation committee acts on the advice and
28 recommendations of management, augmented by consultants' reports that may
29 reflect a bias toward pleasing their clients. For this reason, it is not unfair to argue
30 that the compensation awards to senior officers are influenced, if not directly
31 determined by the recipient officers themselves. A check against the possibility

1 of such self-serving activity is to challenge the incorporation of the
2 disproportionate compensation increases into the ratepayers' revenue requirement.

3
4 Additionally, as with SISP, the officers who receive these benefits are the direct
5 representatives of the shareholders. They, more than any other employees, are
6 beholden to the shareholders to maximize profits, build shareholder value, and
7 ensure the integrity of the shareholders' equity investment. For this reason, it is
8 not unreasonable to ask shareholders to support the portion of the officers'
9 compensation increases that exceeds those of other employees of the Company.

10
11 **Q. ARE THERE ANY OTHER CONSIDERATIONS THAT BEAR**
12 **DIRECTLY ON THE OFFICER' COMPENSATION INCREASES?**

13
14 A. Yes. The request to incorporate these disproportionate officer compensation
15 increases comes in the context of two rate increase applications in as many years.
16 To some extent, these applications reflect a failure of management. Between
17 1993 and 2001, MDU was able to resist seeking rate increases without suffering
18 any significant loss in net income. Indeed, the Company agreed to reduce rates in
19 1998. Then, in 2002, the Company approached this Commission for a rate
20 increase. This was the same year that the Company's officers enjoyed an
21 ** percent increase in direct compensation, and the number of officers
22 increased from seven in 2000 to nine in 2002. Following the end of 2003, the
23 Company again approached the Commission for a rate increase. This filing
24 followed a year during which average officer compensation vaulted **
25 percent, and the number of officers increased again, now to 10. To my
26 knowledge, this increase in the number of officers has not coincided with any
27 expansion in the scope of activities conducted by the Company.

28
29 It seems highly inappropriate to impose rate increases on ratepayers that reflect
30 disproportionate compensation increases to the very employees who were
31 positioned to avoid those rate increases. One might even argue that those

1 employees should be penalized, not rewarded, for the fact that now, after almost a
2 decade of rate stability, they suddenly find that they cannot maintain the
3 profitability of the operation without two rate increases in two years.

4
5 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND WITH REGARD TO**
6 **OFFICERS' COMPENSATION?**

7
8 A. I recommend that the base year 2003 revenue requirement be reduced by the
9 extent to which increases in officers' compensation since 1999 have exceeded
10 increases in compensation to all other employees.

11
12 The calculation of the adjustment is presented at the bottom of page 8 of Exhibit
13 CWK-1. Non-officer compensation has increased at an annual rate of
14 ** percent since 1999. Had officers' compensation increased at that rate, it
15 would have been ** less in 2003 than it actually was. To identify
16 the portion of this disproportionate increase allocable to North Dakota gas
17 operations, I used the ratio of total company SISP costs to North Dakota gas SISP
18 costs, as claimed by the Company. That proportion is 13.125 percent, so that the
19 recommend disallowance is \$290,154. This disallowance applies to both test
20 years, 2004 and 2005.

21
22 **ADJUSTMENT 10 – CUSTOMER ADVANCES FOR CONSTRUCTION**

23
24 **Q. WHAT ARE CUSTOMER ADVANCES FOR CONSTRUCTION?**

25
26 A. These are advances that customers make to cover their allotted portion of new
27 construction when the Company extends (or expands) gas lines to service specific
28 customers or, in the case of developers, new neighborhoods. These advances are
29 an offset to capital costs included in rate base.

1 **Q. WHAT ASSUMPTION HAS THE COMPANY MADE WITH RESPECT**
2 **TO THE TEST YEAR AMOUNTS OF THESE ADVANCES?**

3

4 A. As shown on page 12 of Statement N, the Company has assumed that customer
5 advances during 2004 and 2005 will remain at their 2003 average level.

6

7 **Q. IS THIS A REASONABLE ASSUMPTION?**

8

9 A. No. A much more reasonable assumption would be that customer advances
10 would change as the level of construction changes. Since the Company is
11 assuming that its construction budget will increase, it should as well assume that
12 customer advances will increase.

13

14 **Q. WHAT IS THE EFFECT OF MATCHING THE RATE OF CUSTOMER**
15 **ADVANCES TO THE RATE OF CONSTRUCTION DURING THE**
16 **YEARS 2004 AND 2005?**

17

18 A. Page 9 of Exhibit CWK-1 shows that MDU has forecast increases in capital
19 additions of 20.2 percent in 2004 over 2003 and 8.8 percent in 2005 over 2004.
20 Applying these percentage increases to customer advances has the effect of
21 reducing rate base by \$51,000 in 2004 and by \$78,000 in 2005. The
22 corresponding reduction in depreciation during 2004 is \$2000 and in 2005 it is
23 \$3000.

24

25 **SUMMARY OF ADJUSTMENTS**

26

27 **Q. WHAT IS THE OVERALL EFFECT OF ALL OF THE REVENUE,**
28 **EXPENSE AND RATE BASE ADJUSTMENTS YOU HAVE**
29 **RECOMMENDED?**

30

1 A. Page 1 of Exhibit CWK-1 shows that the cumulative effect of the adjustments I
2 have made is to increase the Company's net operating income from North Dakota
3 gas distribution operations during 2004 from \$672,000 to \$1,497,000 and from
4 \$51,000 to \$1,287,000 in 2005. These figures reflect the calculation of income
5 taxes on page 10 of Exhibit CWK-1. The after-tax rate of return in 2004 is 7.440
6 percent in 2004, rather than 3.332 percent. In 2005, the rate of return is 6.177
7 percent, rather than the Company's asserted 0.244 percent.

8
9
10 **PART II – RATE OF RETURN**

11
12 **Q. WHAT HAVE YOU FOUND TO BE THE APPROPRIATE RATE OF**
13 **RETURN ON MSU'S NORTH DAKOTA GAS RATE BASE?**

14
15 A. Based on the analyses presented in this testimony, I find that the appropriate rate
16 of return on the Company's gas rate base in North Dakota is **7.926 percent**,
17 inclusive of a return to equity of **9.0 percent**. These percentages are presented in
18 Exhibit CWK-2.

19
20 **Q. WHAT INFORMATION DID YOU EXAMINE IN PREPARING YOUR**
21 **TESTIMONY ON RATE OF RETURN?**

22
23 A. I began by reading the testimonies of MDU witnesses Craig Keller and J. Stephen
24 Gaske and their associated exhibits and statements. I prepared a series of data
25 requests to which the Company responded. These responses in turn prompted a
26 further round of data requests to which the Company has since responded. I also
27 reviewed the rate of return portion of the Commission's December 10, 2002
28 decision in Case No. PU-399-02-183, MDU's last gas case, which as I shall
29 discuss, is the basis for my recommendation in this case.

30
31 **Q. WHAT COMPONENTS MAKE UP MDU'S RATE OF RETURN?**

1

2 A. There are three components to MDU's rate of return, the capital structure, the cost
3 of preferred stock and debt, and the cost of equity.

4

5 **Q. WHAT CAPITAL STRUCTURE DOES THE COMPANY PROPOSE?**

6

7 A. The Company proposes a forecast capital structure for the year 2005, as follows:¹⁵

8

9	Long Term Debt	\$153,350,000	43.535%
10	Preferred Stock	16,050,000	4.614%
11	Common Equity	<u>182,743,012</u>	<u>51.908%</u>
12	Total	\$352,243,012	100.000%

13

14 **Q. IS THIS AN APPROPRIATE CAPITAL STRUCTURE?**

15

16 A. No. In its order in the last gas rate case, Case No. PU-399-02-183, the
17 Commission agreed with me that the capital structure should reflect the makeup
18 of the rate base. The rate base includes elements such as materials and supplies
19 inventories, fuel stocks and prepayments, which are short-term commitments that
20 would be financed with short-term debt. Accordingly, the Commission included
21 short-term debt in MDU's capital structure.

22

23 **Q. HOW HAVE YOU CALCULATED SHORT-TERM DEBT FOR
24 PURPOSES OF INCORPORATING IT INTO MDU'S CAPITAL
25 STRUCTURE?**

26

27 A. MDU uses a forecast 2005 capital structure, which it is entitled to do under North
28 Dakota law. Since short-term debt is quite variable, it is difficult to predict with
29 any precision. For this reason, I have used the average amount of short-term debt
30 outstanding during the four most recent quarters for which data are available. As

¹⁵ MDU Statement F, page 3

1 shown in Note 3 on Exhibit CWK-2, the average daily amount of short-term debt
 2 outstanding during the four quarters ending March 31, 2004 was \$34.67 million,
 3 and the average annualized cost was 1.18 percent.

4
 5 **Q. WHAT IS THE CAPITAL STRUCTURE THAT INCLUDES THIS**
 6 **ESTIMATE OF SHORT-TERM DEBT?**

7
 8 A. That capital structure is developed in Exhibit CWK-2. It consists of the following
 9 components:

11	Long Term Debt	\$153,350,000	39.634%
12	Short Term Debt	34,670,505	8.961%
13	Preferred Stock	16,250,000	4.614%
14	Common Equity	<u>182,843,012</u>	<u>47.257%</u>
15	Total	\$386,913,517	100.000%

16
 17 **Q. WHAT DO YOU RECOMMEND AS THE COST OF DEBT AND**
 18 **PREFERRED STOCK?**

19
 20 A. I have accepted the Company's estimate that its 2005 cost of debt will be 8.518
 21 percent and its cost of preferred stock will be 4.614 percent.

22
 23 **Q. WHAT RETURN TO EQUITY DO YOU RECOMMEND?**

24
 25 A. I recommend a return to equity of 9.0 percent.

26
 27 **Q. HOW DID YOU ARRIVE AT THIS FIGURE OF 9.0 PERCENT?**

28
 29 A. I have simply implemented all of the Commission's findings with respect to
 30 equity return in its December 10, 2002 decision in Case No. PU-399-183. In that
 31 case, I disputed the Company's witness, Stephen Gaske, on a number of topics.

1 On some, the Commission sided with me, on others with Dr. Gaske, and on still
2 others, it acknowledged both our arguments but declined to adjust the rate of
3 return based on them. A summary of the Commission's findings is as follows:

- 4 • The Commission agreed with me that Dr. Gaske's flotation cost adder should
5 be rejected.
- 6 • The Commission agreed with my broader selection of comparison gas
7 distribution companies.
- 8 • The Commission adopted Dr. Gaske's factor of 1.625 for calculating next
9 year's dividends.
- 10 • The Commission adopted the more current data that I presented.
- 11 • The Commission found the "basic DCF" calculation most useful and rejected
12 the modifications of it recommended by both Dr. Gaske and myself.
- 13 • The Commission declined to adjust the basic DCF findings for the risk
14 considerations recommended by both Dr. Gaske and myself.
- 15 • The Commission declined to adjust the basic DCF findings based on
16 "benchmark" analyses recommended by both Dr. Gaske and myself.

17
18 **Q. DOES DR. GASKE'S PRESENTATION IN THIS CASE REFLECT THE**
19 **COMMISSION'S FINDINGS IN CASE NO. PU-399-02-183?**

20
21 A. Only in one respect. Dr. Gaske has expanded his selection of comparison
22 companies from six to ten. Otherwise, Dr. Gaske repeats virtually all of the
23 arguments and makes the same adjustments that he made in the last case.

24
25 **Q. WHAT IS THE RESULT OF DR. GASKE'S ANALYSES IF YOU ADOPT**
26 **ALL OF THE FINDINGS THAT THE COMMISSION MADE IN THE**
27 **LAST CASE?**

28
29 A. Exhibit CWK-3 replicates the table on page 19 (para. 79) in the Commission's
30 order in Case No. PU-399-02-183. It was from that table that the Commission
31 found MDU's rate of return. All of the data are drawn from Dr. Gaske's Exhibit

1 (SJG-2). Page 1 of Exhibit CWK-3 shows the results of the “basic” DCF
2 analysis. Page 2 uses Dr. Gaske’s “second-stage retention growth rate estimates”
3 in which he weighted the growth factor two-thirds based on analysts’ predictions
4 and one third on a calculation of the ability of the utilities’ to fund earnings
5 growth given their pattern of reinvestment. The exhibit reveals that the basic
6 DCF procedure yields a return of 9.96 percent, while the second-stage retention
7 growth method shows a DCF return of 10.06 percent.

8
9 **Q. HAVE YOU UPDATED THE DATA THAT YOU EXTRACTED FROM**
10 **DR. GASKE’S EXHIBIT?**

11
12 A. Yes. That updating is presented in Exhibit CWK-4. Page 1 of this exhibit reveals
13 that an updating of Dr. Gaske’s “basic” DCF analysis yields an average rate of
14 return of 8.67 percent. On page 2 of Exhibit CWK-4, I have updated Dr. Gaske’s
15 “Second-stage Projected Earnings Retention Growth Rates” which are weighted
16 one third by the retention growth potential and two-thirds by Zack’s forecasts.
17 The result of this calculation is a growth factor of 5 percent. Page 3 of Exhibit
18 CWK-4 shows that this formulation of the DCF procedure yields a return of 8.93
19 percent.

20
21 **Q. BASED ON THESE EXHIBITS, WHAT RETURN TO EQUITY DO YOU**
22 **RECOMMEND?**

23
24 A. Based purely on the results presented in Exhibit CWK-4, I could recommend a
25 return to equity of 8.8 percent. However, this simple average contrasts strongly
26 with the 10.0 percent that results from simply plugging Dr. Gaske’s six-month old
27 numbers into the calculation. It is also dramatically below the 11.329 percent
28 found by the Commission in Case No. PU-399-02-183, decided December 10,
29 2002. For this reason, I recommend that the Exhibit CWK-4 results be rounded
30 upward to **9.0 percent**.

1 **Q. WHAT OVERALL RATE OF RETURN ON RATE BASE DO YOU**
2 **RECOMMEND?**

3

4 A. I recommend an overall post-tax rate of return on rate base of 7.926 percent. The
5 calculation of this number is presented on Exhibit CWK-2.

6

7 **Q. BASED ON YOUR RECOMMENDED RATE OF RETURN AND**
8 **RATEMAKING ADJUSTMENTS, WHAT LEVEL OF RATE RELIEF**
9 **DOES THE COMPANY REQUIRE?**

10

11 A. My calculation of the revenue relief required by the Company is presented in
12 Exhibit CWK-5. As calculated on page 1 of Exhibit CWK-1, the Company will
13 earn an adjusted rate of return of 7.440 percent in 2004. It will require a revenue
14 increase of \$162,000 to bring this return up to the target of 7.926 percent in that
15 year. In 2005, the Company will earn 6.177 percent on its adjusted rate base, and
16 a revenue increase of \$603,000 will be required to bring that return up to 7.926
17 percent.

18

19

PART III – COST ALLOCATION AND RATE DESIGN

20

21 **Q. WHAT IS MEANT BY “COST ALLOCATION AND RATE DESIGN?”**

22

23 A. Cost allocation conventionally refers to the process of distributing the revenue
24 requirement among the respective classes of customers. In MDU’s case, there are
25 five classes of customers:

26

- Residential

27

- Firm General (non-residential)

28

- Air Force

29

- Small Interruptible

30

- Large Interruptible

1 These customer classes are not altogether mutually exclusive. Specifically, a
 2 number of the firm service customers have portions of their load on the
 3 interruptible rate schedules. For purposes of cost allocation, however, the firm
 4 and interruptible loads are considered to be in separate classes.

5
 6 Rate design refers to the actual rates by which MDU collects its revenue. Gas
 7 service rate design is quite simple. There are only three rates:

- 8 • a Basic Delivery Charge per customer per day or per month,
- 9 • a Distribution Delivery Charge per dekatherm,
- 10 • a Cost of Gas Charge per dekatherm.

11 The first rate, the Basic Delivery Charge, is fixed for each class of customers.
 12 The Distribution Delivery Charge is fixed for firm service customers, including
 13 residential, but may be negotiated within maximums and minimums for
 14 interruptible customers. The Cost of Gas Charge changes quarterly based on the
 15 market price for gas and the pipeline charges for transportation and storage of gas.

16
 17 **Q. HAS MDU PERFORMED A COST ALLOCATION STUDY?**

18
 19 A. Yes. MDU's cost allocation study is Statement M in the Company's filing. It is
 20 sponsored by MDU witness Tamie Aberle. Ms. Aberle distributed the
 21 Company's 2005 expenses and rate base among the five classes. She then
 22 identified the revenue that each class would generate under present rates in 2005.
 23 From these data, she developed class rates of return, as follows:¹⁶

24	Residential Service	(3.26%)
25	Firm General Service	2.69%
26	Air Force	27.12%
27	Small Interruptible	18.91%
28	Large Interruptible	39.26%
29	Total Jurisdictional	0.243%

¹⁶ Testimony of Tamie A Aberle, page 4

1

2 **Q. DO YOU AGREE WITH MS. ABERLE'S STUDY?**

3

4 A. No. I disagree with Ms. Aberle's allocation of the cost of distribution mains.
5 Mains account for 36 percent of all North Dakota jurisdictional gas plant in
6 service. The allocation of mains cost also "drives" the allocation of a number of
7 other overhead costs. An inappropriate allocation of mains therefore results in a
8 severely flawed cost allocation study.

9

10 **Q. HOW DID MS. ABERLE ALLOCATE THE COST OF DISTRIBUTION**
11 **MAINS?**

12

13 A. Ms. Aberle has apparently assumed that one third of mains costs are "fixed", that
14 is, not associated with the volume of gas that flows through the mains. She has
15 allocated this one third based on the number of customers in the respective
16 classes. She has allocated the remaining two-thirds "variable" mains costs on the
17 basis of the respective classes' peak day consumption at the distribution level.

18

19 **Q. WITH WHAT PORTIONS OF THIS ALLOCATION DO YOU**
20 **DISAGREE?**

21

22 A. I disagree with Ms. Aberle's one-third/two-thirds allocation between base and
23 variable costs, and I disagree with her allocation of fixed costs on the basis of the
24 number of customers.

25

26 **Q. WHY DO YOU DISAGREE WITH MS. ABERLE'S ONE-THIRD/TWO-**
27 **THIRDS BASE/VARIABLE ALLOCATION?**

28

29 A. In response to a data request, the Company identified the total number of feet of
30 plastic and metallic pipe of various diameters that it has installed over the last five
31 years and the fully-loaded cost of that pipe and its installation. From these data, I

1 was able to identify the per-foot cost of installing pipe of various diameters, and
2 therefore of various throughput capacities.

3
4 I then conducted regression studies of plastic and metallic pipe, using capacity
5 (area within the pipe) as the independent variable, and cost per foot as the
6 dependent variable. Because of the variation in the amount of steel pipe of
7 varying diameters, I was not able to derive useful results from my metallic pipe
8 regression. However, for the plastic pipe – which constitutes the majority of pipe
9 installed – I was able to derive useful results. They are reported in Exhibit CWK-
10 6. That exhibit demonstrates that the installation cost of plastic pipe is 30 percent
11 variable and 70 percent fixed.

12
13 **Q. WHY DO YOU OBJECT TO THE ALLOCATION OF FIXED MAINS**
14 **COSTS ON THE BASIS OF THE NUMBER OF CUSTOMERS?**

15
16 A. The difficulty with allocating fixed costs is that their very “fixedness” means that
17 it is impossible to identify causality. The fixed costs of mains do not vary
18 according to the amount of gas that passes through them. That being the case,
19 Ms. Aberle has assumed that they must vary with the number of customers
20 served. The problem with that argument is that, except for extensions on the very
21 edge of the system, fixed mains costs do not vary by the number of customers
22 either. A 100-yard section of 4.5 inch main will cost the same whether there are
23 1, 10, 100 or 1000 customers attached to it. The fixed costs of the main will not
24 increase if customers are added, nor will they decrease if customers drop off.

25
26 Why were the mains constructed in the first place? Was it to reach customers, or
27 was it to deliver gas? The answer is that it was to reach customers so that gas
28 could be sold to those customers. The element of value is not the customer, but
29 the gas that can be sold to the customer. To the extent there is causality to fixed
30 mains costs, it is associated with this element of value, that is, gas delivered. For
31 this reason, I have allocated fixed mains costs among the customer classes on the

1 basis of gas consumed. Other costs that are clearly related to the number of
 2 customers, e.g. services, meters, billing and collecting, continue to be allocated on
 3 that basis.

4
 5 **Q. HAVE YOU PERFORMED A REVISED COST OF SERVICE STUDY**
 6 **THAT INCORPORATES YOU PROPOSED CHANGES TO THE MAINS**
 7 **ALLOCATION?**

8
 9 A. Yes. Exhibit CWK-7 is a summary of the Company's cost of service study
 10 (Statement M) with the following changes to the allocation of mains investment:

- 11 • 30% allocated on the basis peak day demand at distribution level;
- 12 • 70% allocated on the basis of dekatherm throughput at distribution.

13
 14 **Q. WHAT ARE THE RESULTS OF YOUR REVISED COST OF SERVICE**
 15 **STUDY?**

16
 17 A. Exhibit CWK-7 reveals the following class rates of return. For purposes of
 18 comparison, I show the corresponding results from the Company's cost of service
 19 study:

	Staff Study	Company Study
20 Residential Service	-0.75%	-3.26%
21 Firm General Service	0.63%	2.69%
22 Air Force	12.78%	27.12%
23 Small Interruptible	1.56%	18.91%
24 Large Interruptible	5.68%	39.26%
25 Total Jurisdictional	0.243%	0.243%

26
 27
 28 The principal effect of my revision to the Company's study is to reduce the
 29 disparity in rates of return among the customer classes. However, the relative
 30 profitability among the classes remains much the same. Residential service
 31 continues to show the lowest rate of return. The negative numbers for this class

1 should be disregarded, however, as this study reflects 2005 costs that are
 2 overstated for reasons discussed earlier in this testimony. Firm general service
 3 generates the next higher return, although the disparity relative to residential
 4 service has now much reduced. The Air Force rates continue to generate the
 5 largest return, but again, the disparity relative to other classes is much reduced.
 6 The same can be said of the higher rates of return for the two interruptible classes.

7
 8 **Q. HOW, IF AT ALL, DO THESE REVISED RESULTS AFFECT THE**
 9 **DISTRIBUTION OF ANY REVENUE INCREASE AMONG CUSTOMER**
 10 **CLASSES?**

11
 12 A. As noted, the Company's proposal is to increase the residential rates by the largest
 13 percentage, firm general service rates by a somewhat smaller percentage, and to
 14 hold the Air Force and interruptible service rates at their present levels. My study
 15 reduces the apparent need for these disparate class treatments, but it does not
 16 eliminate them. For this reason, I believe that the general format of the
 17 Company's revenue increase distribution should be maintained. Obviously, the
 18 amount of the increases will differ, since I find that the Company needs much less
 19 new revenue than it claims.

20
 21 **Q. WHAT SPECIFIC CHANGES IN RATES DOES THE COMPANY**
 22 **PROPOSE?**

23
 24 A. Concentrating solely on the final 2005 rates, the Company is proposing the
 25 following rate changes:

26

Rate Schedule	Basic Service Charge (per day)			Distribution Delivery (per dk)		
	Pres.	Prop.	% Inc.	Pres.	Prop.	% Inc.
Residential Rate 60	\$0.29	\$0.30	3.4%	\$0.641	\$0.894	39.5%
General Svs. Rate 70 <500 cf. mtr	\$0.50	\$0.52	4.0%	\$0.473	\$0.626	32.3%
General Svs. Rate 70 >500 cf mtr.	\$1.70	\$1.75	2.9%	\$0.473	\$0.626	32.3%

27

1 The Company proposes modest increases in the Basic Service Charges. The bulk
2 of its increases are collected through the Distribution Delivery Charges

3
4 **Q. DO YOU AGREE WITH THIS METHOD OF RECOVERING REVENUE?**

5
6 A. If the Company were to receive all the revenue it is requesting, I would object to
7 the recovery of most of it through the Distribution Delivery Charges. Being based
8 on consumption, those charges are most susceptible to the effect of weather, and
9 they come on top of what will probably be very large increases in the cost of gas
10 this coming winter. Were the Company to receive its full revenue award, I would
11 recommend that the increases be spread proportionally between the Basic Service
12 Charge and the Distribution Delivery Charge.

13
14 However, I am proposing much more modest increases than the Company is
15 seeking. Furthermore, I am also proposing a concurrent Distribution Delivery
16 Stabilization Mechanism (“DDSM”) that will have the effect of stabilizing the bill
17 impact of the Distribution Delivery Charge in the face of unusually warm or
18 unusually cold winters. If the Commission adopts my DDSM recommendation,
19 then I would support an approach that adopts the Company’s proposed small
20 increases in the Basic Service Charge, and then recovers whatever further revenue
21 that is required through the Distribution Delivery Charge.

22
23 **Q. WHAT IS THE DDSM?**

24
25 A. The DDSM – Distribution Delivery Stabilization Mechanism – is designed to
26 adjust rates each year to correct for the under or over- collection of the
27 distribution delivery charge during the previous heating season. The Company
28 will calculate the extent to which revenue collections from each rate schedule
29 departed from normal during each heating season, and it will surcharge or
30 surcredit the Distribution Delivery Charge in each monthly bill beginning May 1
31 and the following 12 months.

1

2 **Q. WHAT IS THE LOGIC BEHIND THE DDSM?**

3

4 A. The theory underlying the DDSM is that the Company will be protected from the
5 adverse effects of unusually warm winters by allowing it to recover the under-
6 collections that result from relatively low gas sales. When there is unusually cold
7 weather, the DDSM will reduce the appearance of excessive profitability that can
8 result in pressure for rate reductions when, under normal weather conditions, no
9 reductions are justified.

10

11 **Q. WILL THE DDSM, AS PROPOSED BY THE COMPANY, ACHIEVE**
12 **THESE BENEFITS?**

13

14 A. No. To the contrary, the DDSM proposed by MDU could seriously aggravate the
15 instability of revenue collection from year to year. That is because the one-year
16 lag between heating seasons imposes the weather effects of the prior year on
17 ratepayers without regard to the weather conditions during the current year.
18 Assume that there is an unusually warm winter. As recommended by the
19 Company, a DDSM surcharge would be imposed on all firm service customers
20 beginning in May and running through to the following April. If the next heating
21 season were unusually cold, then the Company would not only over-collect for
22 the current cold season, it would compound that over-collection by recovering
23 more than it intended from the prior warm winter.

24

25 The same thing would happen in reverse if a cold winter is followed by a warm
26 one. The surcredit from the prior year would reduce the Company's revenue
27 recovery, which would further be reduced by the unusually low dekatherm sales
28 during the subsequent mild winter.

29

30 The exaggerated instability in revenue recovery would be passed through to
31 customers. Whenever there are two consecutive winters with widely varying

1 average temperatures, ratepayers would experience changes in their bills that
2 would be more exaggerated up or down than if there were no DDSM.

3
4 **Q. CAN THIS DEFECT OF THE DDSM BE RECTIFIED?**

5
6 A. Yes. If the DDSM operates concurrently with the variations in weather, then it
7 will avoid exaggerating the effects of unusual weather. Instead, it will stabilize
8 rates and revenues so as to cushion the effect of very cold or very mild winters on
9 both customers and the Company.

10
11 **Q. CAN THE DDSM BE MADE TO OPERATE ON A CONCURRENT**
12 **BASIS?**

13
14 A. Yes. The Company has indicated that the DDSM could be administered on a real-
15 time basis so that the adjustment applies to the current billing period.¹⁷

16
17 **Q. CAN YOU PROVIDE A RECOMMENDED TARIFF FOR A REAL-TIME**
18 **DDSM?**

19
20 A. Yes. Exhibit CWK-8 is copied largely word-for-word from the tariff of the Delta
21 Natural Gas Company, a small gas distribution company operating in the
22 Commonwealth of Kentucky. This provision, called the "Weather Normalization
23 Adjustment" has been in effect since January 1, 2000. It differs from MDU's
24 proposal in that it operates concurrently with the current billing cycle. It increases
25 or decreases the per-dekatherm Distribution Delivery Charge in the customer's
26 bill based on a factor representing the departure of the customer class's actual
27 heat load from its normal heat load.

28
29 **Q. ASIDE FROM STABILIZING CUSTOMERS' BILLS AND THE**
30 **COMPANY'S REVENUES, HAS THERE BEEN ANY OTHER BENEFIT**

¹⁷ MDU Response to Data Request No 1, Question 70

1 **FROM THE WEATHER NORMALIZATION ADJUSTMENT TO DELTA**
2 **NATURAL GAS?**

3
4 A. Yes. Virtually every investment analyst that has examined Delta Natural Gas has
5 cited the Weather Normalization Adjustment as a factor reducing the risk of the
6 Company's stock. There is little question that the Adjustment has resulted in a
7 lower cost of capital for this company. There is every reason to believe that it
8 would have the same effect on MDU.

9
10 **Q. DO YOU THEREFORE RECOMMEND ADOPTION OF EXHIBIT CWK-**
11 **8 AS PART OF MDU'S NORTH DAKOTA TARIFF?**

12
13 A. Yes. I do.

14
15 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

16
17 A Yes. It does.

Experience

Snavely King Majoros O'Connor & Lee, Inc. Washington, DC

***President (1989 to Present)
Vice President (1970 - 1989)***

Mr King, a founder of the firm and acknowledged authority on regulatory economics, brings over thirty years of experience in economic consulting to his direction of the firm's work in transportation, utility and telecommunications economics

Mr King has appeared as an expert witness on over 300 separate occasions before more than thirty state and nine U S Canadian federal regulatory agencies, presenting testimony on rate base calculations, rate of return, rate design, costing methodology, depreciation market forecasting, and ratemaking principles Mr King has also testified before House and Senate Committees on energy and telecommunications legislation pending before the U S Congress

In telecommunications, Mr King has testified before the Federal Communications Commission on a number of policy issues, service authorization, competitive impacts, video dialtone, and prescription of interstate depreciation rates Before state regulatory bodies, he has presented testimony in proceedings on intrastate rates, earnings and depreciation Mr King recently directed analyses of the prices of services under Federal Government's FTS2000 long distance system

In addition to his appearances as a witness in judicial and administrative proceedings, Mr King has negotiated settlements among private parties and between private parties and regulatory offices Mr King also has directed depreciation studies, investment cost benefit analyses, demand forecasts, cost allocation studies and antitrust damage calculations

In Canada, Mr King designed and directed an extended inquiry into the principles and procedures for regulating the telecommunication carriers subject to the jurisdiction of the Canadian Transport Commission He also was the principal investigator in the Canadian Transport Commission's comprehensive review of rail costing procedures

EBS Management Consultants, Inc., Washington, DC

***Director, Economic Development Department
(1968-1970)***

Mr King organized and directed a five-person staff of economists performing research, evaluation, and planning relating to economic development of depressed areas and communities within the U S Most of this work was on behalf of federal, state, and municipal agencies responsible for community or regional economic development

Principal Consultant (1966-1968)

Mr. King conducted research on a broad range of economic topics, including transportation, regional economic development, communications, and physical distribution

W.B. Saunders & Company, Inc., Washington, DC

Staff Economist (1962-1966)

For this economic consulting firm, which later merged with EBS Management Consultants, Inc , Mr King engaged in numerous research efforts relating primarily to economic development and transportation

U.S. Bureau of the Budget, Office of Statistical Standards

Analytical Statistician (1961-1962)

Mr King was responsible for the review of all federal statistical and data-gathering programs relating to transportation

Education

Washington & Lee University, B.A in Economics

*The George Washington University, M A in
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Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AK	Exxon USA	P-89-1,2	Trans Alaska Pipeline System	October 18, 1990
AZ	Arizona Corporation Commission Arizona Retailers Association	U-1345-I U-1345-II	Arizona Public Service Co Arizona Public Service Co	December 16, 1980 January 15, 1981
CA	California Retailers Association California Retailers Association California Retailers Association California Retailers & California Manufacturers California Retailers Association	57666 57602 59351 59351 61138	Pacific Gas & Electric Co Southern California Edison Pacific Gas & Electric Co Southern California Edison Southern California Edison	March 6, 1978 April 25, 1978 June 12, 1981 May 20, 1982 May 28, 1982
CO	U S Department of Defense J C Penny Company U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense U S Department of Defense	I&S 1100 5693 I&S 1339 I&S 1540 C Council C Council C Council C Council	Colorado Springs (Elec) All Electric Utilities Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Gas) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec) Colorado Springs DPU (Elec)	June 14, 1977 March 8, 1978 October 18, 1979 February 9, 1982 September 30, 1984 June 6, 1985 May 19, 1986 June 30, 1987
CT	Retailers Merchants Association Division of Consumer Counsel Public Utilities Control Auto Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Division of Consumer Counsel Coalition of Hotels, Alloys & Retailers Coalition of Hotels, Alloys & Retailers	72-0204 76-0604,5 78-0303 80-0403,4 81-0413 81-0602,4 82-0701 85-10-22 87-07-01	Various Electric Utilities CL&P and HELCO Bridgeport Hydraulic Co CL&P and HELCO United Illuminating Company CL&P and HELCO CL&P CL&P CL&P	July 22, 1976 November 10, 1977 (none) August 11, 1980 July 20, 1981 October 5, 1981 September 28, 1982 (none) April 25, 1988

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utilty	
DC	D C People's Counsel	685	Potomac Electric Power Company	March 6, 1978
	D C People's Counsel	715	Potomac Electric Power Company	(none)
	D C People's Counsel	725	Potomac Electric Power Company	April 4, 1980
	D C People's Counsel	737	Potomac Electric Power Company	January 1, 1981
	Washington Metro Area Transit Authority	748	Potomac Electric Power Company	June 26, 1981
	Washington Metro Area Transit Authority	758	Potomac Electric Power Company	December 15, 1981
	D C People's Counsel	785	Potomac Electric Power Company	September 21, 1982
	Washington Metro Area Transit Authority	759	Potomac Electric Power Company	March 29, 1984
	D C People's Counsel	685 Remand	Potomac Electric Power Company	June 10, 1985
	D C People's Counsel	905	Potomac Electric Power Company	August 20, 1991
	D C People's Counsel	912	Potomac Electric Power Company	May 7, 1992
	D C People's Counsel	834, III	Potomac Electric Power Company	May 22, 1992
	D C People's Counsel	917	Potomac Electric Power Company	September 24, 1992
	D C People's Counsel	922	Washington Gas Light Company	June 15, 1993
	D C People's Counsel	929	Potomac Electric Power Company	December 16, 1993
	D C People's Counsel	934	Washington Gas Light Company	Filed April 22, 1994
	D C People's Counsel	939	Potomac Electric Power Company	March 16, 1995
	D C People's Counsel	917	Potomac Electric Power Company	April 16, 1995
	D C People's Counsel	951	Potomac Electric Power Company	February 20, 1997
	D C People's Counsel	945	Potomac Electric Power Company	September 29, 1999
D C People's Counsel	847	Washington Gas Light Company	June 27, 2001	
D C People's Counsel	989	Washington Gas Light Company	May 22, 2002	
D C People's Counsel	1016	Washington Gas Light Company	September 23, 2003	
DE	Delaware PSC Staff	94-164	Artesian Water Company	Filed March 10, 1995
	Delaware PSC Staff	94-149	Wilmington Suburban Water Company	March 10, 1995
FL	Florida Retail Federation	790593-EU	All Electric Utilites	March 5, 1981
	Florida Retail Federation	810002-EU	Florida Power and Light Company	July 23, 1981
	Florida Retail Federation	820097-EU	Florida Power and Light Company	September 22, 1982
	Florida Retail Federation	820097-EU	Florida Power and Light Company	April 11, 1983
	Florida Retail Federation	830012-EU	Tampa Electric Company	August 19, 1983
	Florida Retail Federation	830465-EI	Florida Power and Light Company	April 19, 1984
Florida Retail Federation	830465-EI	Tampa Electric Company	(none)	

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
GA	Georgia Retail Federation Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission Georgia Public Service Commission	3270-U 4007-U 4384-U 4755-U 4697-U 9355-U 14000-U 14618-U 14311-U 17066-U	Georgia Power Company Georgia Power Company All Electric Utilities Georgia Power Company All Utilities Georgia Power Company Georgia Power Company Savannah Electric & Power Company Atlanta Gas Light Company Georgia Power Company	September 3, 1981 August 21, 1991 August 1, 1993 January 25, 1994 May 10, 1994 November 4, 1998 October 23, 2001 March 27, 2002 April 8, 2002 July 31, 2003
HI	Public Utilities Department Hawaii Consumer Advocate	2793 4536	All Electric Utilities Hawaiian Electric Company	February 14, 1978 February 1, 1983
IL	Illinois Retail Merchants Association ("IRMA"/ Chicago Bldg Mgrs Association ("CBMA") IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA IRMA/CBMA City of O'Fallon, IL	76-0698 76-0568 80-0546 82-0026 83-0537 87-0427 90-0169 02-0690	Commonwealth Edison All Electric Utilities Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Commonwealth Edison Illinois-American Water Company	June 22, 1977 (none) March 5, 1981 July 22, 1982 March 19, 1984 March/April 22, 1988 October 29, 1990 Filed Feb 5, Apr 11, 2003
IN	Indiana Retail Council Indiana Retail Council Indiana Retail Council	35780-S2 35780-S1 36318	N Ind Public Service co Public Service of Indiana Public Service of Indiana	June 1, 1980 October 15, 1980 May 4, 1982
KS	J C Penny Company	115,379-U	All Kansas Utilities	January 22, 1981
KY	Seven Kentucky Retailers Attorney General of Kentucky Attorney General of Kentucky	7310 2002-145 2003-252	Louisville Gas & Electric Co Columbia Gas of Kentucky Union Heat Light & Power Co	April 25, 1979 Filed August 8, 2002 September 30, 2003

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MA	Coalition of Municipalities	20279	Western Massachusetts Electric	March 19, 1980
	Coalition of Municipalities	557/558	Western Massachusetts Electric	May 14, 1981
	Coalition of Municipalities	957	Western Massachusetts Electric	March 9, 1982
	Coalition of Municipalities	1300	Western Massachusetts Electric	January 1, 1983
	Coalition of Municipalities	85-270	Western Massachusetts Electric	March 26, 1986
MD	Maryland People's Counsel	6977	Washington Gas & Light Company	September 17, 1976
	Maryland People's Counsel	6814	Potomac Electric Power Company	
	Maryland People's Counsel	6807	All Electric Utilities	September 1, 1977
	Maryland People's Counsel	6882	Baltimore Gas & Electric Company	(none)
	Maryland People's Counsel	6985	Baltimore Gas & Electric Company	September 28, 1976
	Maryland People's Counsel	7070	Baltimore Gas & Electric Company	December 20, 1976
	Maryland People's Counsel	7149	Potomac Electric Power Company	April 18, 1978
	Maryland People's Counsel	7163	All Electric Utilities	January 17, 1979
	Maryland People's Counsel	7236	Delmarva Power & Light Company	October 23, 1978
	Retail Merchants of Baltimore	7397	Baltimore Gas & Electric Company	June 20, 1980
	Maryland People's Counsel	7427	Delmarva Power & Light Company	September 8, 1980
	Maryland People's Counsel	7574	Baltimore Gas & Electric Company	December 2, 1981
	Maryland People's Counsel	7597	Potomac Electric Power Company	February 18, 1982
	Organization of Consumer Justice	7604	Potomac Electric Power Company	April 20, 1982
	Maryland People's Counsel	7588	Baltimore Gas & Electric Company	October 19, 1982
	Maryland People's Counsel	7663	Potomac Electric Power Company	November 22, 1982
	Retail Merchants of Baltimore	7685	Baltimore Gas & Electric Company	April 12, 1983
	Genstar Stone Products, et al	7878	Potomac Electric Power Company	December 9, 1985
Industrial Intervenors	7878	Potomac Electric Power Company	June 28/July 1986	
Maryland People's Counsel	7983	Baltimore Gas & Electric Company	March 4, 1987	
Giant Foods, Inc	8855	Baltimore Gas & Electric Company	January 8, 2003	
MI	General Services Administration	U-10102	Detroit Edison Company	March 22, 1993
	Michigan Attorney General	U-11722	Detroit Edison Company	November 6, 1998
	Michigan Attorney General	U-11772	Consumers Energy/Detroit Edison	November 16, 1998
	Michigan Attorney General	U-11495	Detroit Edison Company	December 8, 1999
	Michigan Attorney General	U-11956	Consumer Energy/Detroit Edison	December 15, 1999
	Michigan Attorney General	U-12505	Consumers Energy Company	September 7, 2000
	Michigan Attorney General	U-12478	Detroit Edison Company	October 5, 2000
	Michigan Attorney General	U-12639	Consumers Energy/Detroit Edison	July 18, 2001
	Michigan Attorney General	U-13000	Consumers Energy Company	January 29, 2002
	Michigan Attorney General	U-13380	Consumers Energy Company	September 9, 2002
	Michigan Attorney General	U-13715	Consumers Energy Company	April 24, 2003
	Michigan Attorney General	U-13808	Detroit Edison Company	Dec 12, 2003, Jan 30, Mar 5, March 26, 2004

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MN	Minnesota Retail Federation	EOO2/6R-77-611	Northern States Power	1979
MO	Missouri Retailers Association	EO-78-161	Kansas City Power & Light Company	February 19, 1981
NC	North Carolina Merchants Association	E-100	All Electric Utilities	December 18, 1975
ND	North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission North Dakota Public Service Commission	PU-400-00-521 PU-399-01-786 PU-399-02-183 PU-399-02-183 PU-399-03-296	Xcel Energy, Inc Montana-Dakota Utilities (Electric) Montana-Dakota Utilities (Gas) Montana-Dakota Utilities (Gas Depr) Montana-Dakota Utilities (Electric)	April 20, 2001 February 25, 2002 October 7, 2002 Filed April 7, 2003 Filed October 15, 2003
NH	Business & Industry Association of N H Business & Industry Association of N H. Business & Industry Association of N H	79-187-II 80-260 82-333	Public Service of N H Public Service of N H. Public Service of N H	February 6, 1981 February 5, 1981 November 2, 1983
NJ	N J Retail Merchants Association Department of Public Advocate Resorts International Hotel, Inc Dept of Public Advocate Dept of Public Advocate Dover Township Fire Chiefs	803-151 815-459 8011-827 822-116 355-87 88-080967	All New Jersey Utilities N J. Natural Gas Company Atlantic City Sewerage Co Atlantic City Electric Co Elizabethtown Gas Tom's River Water Company	March 31, 1981 (none) (none) August 11, 1982 June 9, 1987 February 22, 1989

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Electric, Gas, Water Utility Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
NY	N Y Council of Retail Merchants Metropolitan N Y Retail Council Metropolitan N Y Retail Council N Y Metro Transit Authority	26806 27029 27136 27353	All Electric Utilities Consolidated Edison Company Long Island Lighting Company Consolidated Edison Company	February 3, 1976 (none) July 1, 1977 September 5, 1980
OH	Ohio Council of Retail Association Ohio Council of Retail Association	88-170-EL 83-1529-EL	Cleveland Elec Illuminating Cincinnati Gas & Electric	(none) February 15, 1992
PA	Pennsylvania Retail Association Southeastern Pa Transp Authority Eastern Penn Energy Users Group Eastern Penn Energy Association Penn Business Utility User Group Pennsylvania Office of Consumer Advocate	76-PRMD-7 R-811626 R-822169 R-842651 R-850152 R-00016339	All Electric Utilities Philadelphia Electric Company Penn Power & Light Company Penn Power & Light Company Philadelphia Electric Company Pennsylvania-American Water Co	September 7, 1977 December 11, 1981 March/April 1983 December 3, 1984 February 19, 1986 September 19, 2001
TX	Houston Retailers Association Houston Retailers Association Cities for Fair Utility Rates	5779 6765 8425/8431	Houston Lighting Company Houston Lighting Company Houston Lighting Company	October 19, 1984 September 25, 1986 April 25, 1989
UT	Div Of Public Utilities Dept of Commerce	98-2035-33	Pacific Corp	Filed August 16, Sept 22, 1999
VA	Consumer Congress of Virginia Consumer Congress of Virginia Va Business Committee on Energy Virginia Pipe Trades Council	19426 19960 PUE 7900012 PUE 8900051	Virginia Electric Power Company Virginia Electric Power Company Virginia Electric Power Company Old Dominion Electric Corp &	July 1, 1975 September 19, 1978 February 25, 1981 October 31, 1989
WI	Wisconsin Merchants Federation	6630-ER-2	Wisconsin Electric Power Company	May 15, 1978

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
AL	U S Department of Defense	24472	All Telephone Companies	June 14, 1995
AK	GCI Communications, Inc	U-97-82,U-97-143	Alaska Communications Systems	Filed Feb 25, April 5, 2004
AZ	Arizona Burglar & Fire Alarm Association	9981-E-1051-80-64	Mountain State Telephone	(none)
	Federal Executive Agencies U S Department of Defense	E-1051-88-146 T-01051B-99-0105	Mountain State Telephone US WEST Communications	(none) Filed July 26, Sept 8, 2000
CA	Western Burglar & Fire Alarm Association	59849	Pacific Telephone & Telegraph	March 25, 1981
	Western Burglar & Fire Alarm Association	5984cont	Pacific Telephone & Telegraph	June 23, 1982
	Western Burglar & Fire Alarm Association	A83-01-22	Pacific Telephone & Telegraph	June 29, 1983
	Western Burglar & Fire Alarm Association	A83-02-02	General Telephone of California	January 17, 1984
	Western Burglar & Fire Alarm Association	A82-11-07	Pacific Telephone & Telegraph	Jan 18, Oct 31, Nov 28, 1984
	Western Burglar & Fire Alarm Association	A85-01-034	Pacific Telephone & Telegraph	June 4, 1985, October 2, 1986
	Western Burglar & Fire Alarm Association	A87-01-02	General Telephone of California	October 22, 1987
	Western Burglar & Fire Alarm Association	A88-07-17019	Pac Bell Tel & GTE of CA	January 23, 1989
	California Cellular Resellers	A 88-11-1040	All Cellular Carriers	August 11, 1989
	Federal Executive Agencies	1 87-11-033	All Telephone Companies	March 6-7, 1991
	California Cellular Resellers	1 88-11-040	All Cellular Carriers	August 19, 1991
Cellular Services, Inc	1 88-11-040	All Cellular Carriers	October 3, 1991	
Federal Executive Agencies	A92-05-004	Pacific Telephone & Telegraph	June 9, 1993	
CO	U S Department of Defense	I&S 717	Mountain Bell Telephone Company	1972
	U S Department of Defense	I&S 1700	Mountain Bell Telephone Company	(none)
	U S Department of Defense	Appl	Mountain Bell Telephone Company	September 18, 1986
	U S Department of Defense	I&S 1766	Mountain Bell Telephone Company	November 28, 1988
	Colorado Municipal League	Appl 36883	Mountain Bell Telephone Company	December 13, 1988
	U S Department of Defense	I&S 891-082T	U S West Communications	February 21, 1990
	U S Department of Defense	905-544T	U S West Communications	July 17, 1991
	U S Department of Defense	90A-665T	U S West Communications	October 23, 1991
	U S Department of Defense	92M-039T	U S West Communications	February 24-24, 1992
	U S Department of Defense	92S-229T	U S West Communications	July 30-31, 1992
	U S Department of Defense	90A-665T	U S West Communications	November 6, 1996
AT&T	96S-331T	U S West Communications	April 17, 1997	

CHARLES W KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
CT	Connecticut Consumer Counsel CT Cellular Resellers Assn CT Cellular Resellers Coalition AT&T Connecticut Consumer Counsel Connecticut Consumer Counsel	770526 89-12-05 94-03-27 AT&T/SNET Arbitration 96-04-07 00-07-17	Southern New England Telephone Co Southern New England Telephone Co Springwich Cellular/Bell Atlantic Southern New England Telephone Co Southern New England Telephone Co Southern New England Telephone Co	November 10, 1977 (none) May 16, June, 1994 Filed October 28, 1996 February 10, 1998 December 5, 2000
DC	D C People's Counsel D C People's Counsel General Services Administration General Services Administration General Services Administration General Services Administration	729 798 827 854 850 926	Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co Chesapeake & Potomac Tel Co	May 13, 1980 July 18, 1983 May 7, 1985 April 16, 1987 October 7, 1991 October 7, 1993
DE	Public Service Commission Federal Executive Agencies Public Service Commission	Depr Repre 86-20 Depr Repre	Diamond State Telephone Co Diamond State Telephone Co Diamond State Telephone Co	April 1, 1985 July 31, 1987 March 8, 1988
FL	GTE Sprint Communications Company Office of Public Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	720536-TP Depr Repre 880069-TL 880069-TL 880069-TL	All Telephone Companies Southern Bell Southern Bell Southern Bell Southern Bell	September 12, 1983 July 30, 1986 July 21, 1988 November 30, 1990 February 11, 1992
GA	Georgia Attorney General Federal Executive Agencies Federal Executive Agencies Georgia Public Service Commission	3893-U 3905-U 3987-U 4018-U	Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co Southern Bell Telephone Co	January 8, 1990 June 12, 1990 February 13, 1992 Jan 14, Feb 10, 1993
HI	Hawaii Public Utility Commission Four Hawaii Counties Department of Defense Department of Defense Department of Defense Department of Defense Department of Defense	1871 4588 7579 94-0093 7702 94-0298 7720	Hawaiian Telephone Company Hawaiian Telephone Company Hawaiian Telephone Company Oceanic Communications All Communications Carriers GTE Hawaiian Telephone Company Verizon-Hawaii	July 8, 1971 December 15, 1983 April 26, 1994 March 13, 1995 June 2, 1995 May 7, 1996 November 15, 2000

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
ID	U S Department of Energy U S Department of Energy	U-1000-63 U-1000-70	Mountain Bell Telephone Co Mountain Bell Telephone Co	May 16, 1983 March 6, 1984
IL	Illinois Aalarm Companies Attorney Generaal of Illinois GTE Sprint Communications Co Federal Executive Agencies	79-0143 81-0478 83-0142 89-0033	Illinois Bell Telephone Illinois Bell Telephone All Telephone Companies Illinois Bell Telephone	September 26, 1979 December 28, 1981 August 4, 1983 June 12, 1989
KS	State Corporation Commission Federal Executive Agencies Federal Executive Agencies	Depr Repr 166 856-U 190, 492	Southwestern Bell Southwestern Bell All Telephone Companies	May 12-14, 1986 November 7, 1989 November 4, 1994
KY	Kentucky Cable Telecommunications Assn Kentucky Cable Telecommunications Assn	2000-414 2000-39	Blue Grass Energy Cooperative Cumberlant Valley Electric, Inc	January 11, 2001 January 11, 2001
MD	Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Maryland People's Counsel Federal Executive Agencies Federal Executive Agencies Federal Executive Agencies	6813 6881 7025 7467 7851 8106 8274	C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company C&P Telephone Company	1975 December 17, 1975 March 15, 1975 October 20, 1981 March 20, 1985 May 9, 1988 August 2, 1990
MI	Michigan Attorney General Michigan Attorney General	U-8911 U-9553	Michigan Bell Telephone Co AT&T Communications/MCI	November 7, 1988 December 4, 1990
MN	GTE Sprint Communications Co U S Department of Defense	83-102-HC 87-021-BC	All Telephone Companies Northwest Bell Telephone Co	August 5, 1983 (none)

CHARLES W KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
MO	GTE Sprint Communications Co Federal Executive Agencies Federal Executive Agencies	TR83-253 TC-89-14 TO-89-56	Southwestern Bell Tel Co Southwestern Bell Tel Co Southwestern Bell Tel Co	September 5, 1983 (none) November 7, 1990
MS	Federal Executive Agencies	U-5453	South Central Bell Tel Co	May 15, 1990
NJ	Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate Department of Public Advocate	Depr Repr 815-458 Depr Repr Depr Repr T092030358	N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company N J Bell Telephone Company	Mar-79 October 15, 1981 March 1, 1982 February 1, 1985 September 30, 1992
NM	New Mexico Corporation Commission New Mexico Corporation Commission	1032 86-151-TC	Mountain Bell Telephone Co General Telephone of Southwest	November 14, 1983 February 5, 1987
NV	Prime Cable of Las Vegas Prime Cable of Las Vegas	95-8034/8035 96-9035	Central Telephone - NV Sprint/Centel, Nevada Bell	Filed November 22, 1995 June 2, 1997
NY	Holmes Protection, Inc Holmes Protection, Inc 5 Alarm Companies GTE Sprint Communications Co	27350 27469 27710 28425	New York Telephone Company New York Telephone Company New York Telephone Company All Telephone Companies	October 17, 1978 May 17, 1979 July 24, 1980 July 8, 1983
PA	City of Philadelphia	R-832316	Pennsylvania Bell Telephone	September 20, 1983
SC	Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate Office of Consumer Advocate	Depr Repr 86-511-C 86-541-C Depr Repr 89-180-C	Southern Bell Southern Bell General Telephone of South Southern Bell ALLTEL of South Carolina	July 1, 1986 December 11, 1986 April 8, 1987 July 10, 1989 September 26, 1989

CHARLES W. KING
Appearances before State Regulatory Agencies

State	Telecommunications Cases			Date of Cross-Examination
	Client	Case		
		Case Number	Utility	
TX	U S Department of Defense	8585/8218	Southwestern Bell Telephone Co	(none)
VA	U S Dept Of Defense, GSA, et Federal Executive Agencies	19696 PUC 890014	C&P Telephone Company All Telephone Companies	October 6, 1976 February 13, 1989
VI	V I Department of Commerce V.I Public Service Commission	205 341	Virgin Islands Telephone Co. Virgin Islands Telephone Co.	April 29, 1980 March 20, 1991
WA	U S Department of Defense U.S Department of Defense U S Department of Defense U.S Department of Defense WA Attorney General/TRACER U S Department of Defense U S. Department of Defense WA Attorney General/TRACER WA Attorney General/TRACER U S Department of Defense	U-72-39 U-87-796-T U-88-20524 U-89-2698-F UT-940641 UT-941464 UT-951425 UT-961632 UT-021120	Pacific Northwest Bell Pacific Northwest Bell Pacific Northwest Bell US West Communications US West Communications US West Communications US West Communications US West Communications US West Communications GTE Northwest, Inc Qwest Communications	1973 December 20, 1983 November 8, 1988 November 28, 1989 Filed October 14, 1994 June 22, 1995 January 22, 1996 Filed June 23, 1997 July 29, 1997 May 22, 2003
WI	GTE Sprint Wisconsin Consumers Utility Board Wisconsin Consumers Utility Board	6720-TR-38 2055-TR-102 5846-TR-102	All Telephone Companies CenturyTel of Central Wisconsin Telephone USA, LCC	October 20, 1983 June 26, 2002 June 26, 2002

CHARLES W. KING
Appearances before Federal Regulatory Agencies

Federal Communications Commission			
Client	Docket	Subject	Date of Cross-Examination
Department of Defense	16020	Consat Rate of Return	1973
Airline Parties	16258	Bell System Rates	July 22, 1968
Airline Parties	18128	TELPAC	3/22, 10/15 1971, Feb 22, 1972
National Data Corporation	19989	WATS	(none)
Press Wire Services	19919	Private Line Rates	(none)
Aeronautical Radio	20814	Private Line Rates	October 5, 1978
Department of Defense	20690	1,544 Mbps Service	January 30, 1979
State of Hawaii	21263	Interstate Separation	February 7, 1979
International Record Carriers	CC78-97	Telex/TWX Rates	March 6, 1980
ITT World Communications	CC84-633	Rate of Return	(none)
Aeronautical Radio	CC78-72	Access Line Charges	(none)
MCI	CC84-800	Rate of Return	(none)
Ind Data Com Mfg Assn	CC85-26	AT&T Accounting Plan	(none)
Tymnet, Inc	ENF84-22	Packet Switching Costs	(none)
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 7/29/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 8/23/94
Adelphia Jones Intercable, et al	Bell Atlantic	Video Dialtone	Filed 2/21/95
Nuclear Regulatory Commission			
Fauquier League for Environment Protection	50-328 50-329	Va Electric Power Co	1976
Postal Rate Commission			
Association of Third Class Mail Users	R71-1	Rates	1970
Dow Jones & Company	R72-1	Rates	1972
Dow Jones & Company	R74-1	Rates	September 13, 1974
Dow Jones & Company	MC76-2	Rate Structure	January 6, 1979
Dow Jones & Company	MC79-3	Rate Structure	September 12, 1979
Dow Jones & Company	R80-1	Rates	November 25, 1980
Warshawsky & Company	C82-1	Rate Structure	(none)
Dow Jones & Company	R84-1	Postal Costs	June 14, 1984
Dow Jones & Company	R87-1	Rate Structure Costs	November 2, 1987
Dow Jones & Company	R90-1	Rate Structure Costs	Sept 12, Oct 10, 1990
Dow Jones & Company	MC91-1	Pre-barcoding Discounts	November 19, 1991
Dow Jones & Company	MC91-3	Palletization Discounts	March 2, 1992

CHARLES W KING
Appearances before Federal Regulatory Agencies

Client	Docket	Subject	Date of Cross-Examination
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U S Congress

National Retail Merchants Association	House/Senate Hearings	Electric Rate Reform Legislation	1976, 1977 & 1979
National Wireless Resellers Association	House Commerce Committee	Interconnection & Resale of Wireless Services	October 12, 1995

Federal Maritime Commission

State of Hawaii	71-18	Ocean Shipping Rates	October-71
Foss Alaska Line	79-54	Barge Rate Increase	July 1979
Palmetto Shipping and Stevedoring	85-20	Vessel Charge Liability	October 27, 1986

Interstate Commerce Commission

Western Coal Traffic League	Ex Parte 349	R R Rate Increase	May-76
Western Coal Traffic League	Ex Parte 357	R R Rate Increase	Oct-78
Western Coal Traffic League	Ex Parte 375 (Sub1)	R R Rate Increase	June 1, 1980
Arkansas Power & Light Co	37276	Cost of Capital	(none)
Central Illinois Light Co	37450	Cost of Capital	March 10, 1981
Western Coal Traffic League	Ex Parte 347	Costing Methods	(none)

Civil Aeronautics Board

Thomas Cook, Inc	36595	Air Fare Deregulation	(none)
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Copyright Royalty Tribunal

Public Broadcasting Service	88-2-86CD	Television Valuation	(none)
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Federal Energy Regulatory Commission

Exxon USA	OR89-2-000	Pipeline Quality Bank	October 18, 1990
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Canadian Transport Commission

Rail Costing Inquiry, 1967-1969 Telecommunications Costing Inquiry, 1972-1975			
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Surface Transportation Board

Williams Energy Services, Inc	Ex Parte 582, Sub 1	Rail Merger Guidelines	April 5, 2001
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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	52,017		52,017	
3 Total to be amortized	<u>244,557</u>		<u>165,157</u>	
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			
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)		

TRADE SECRET ENDS

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
Officers	TRADE SECRET BEGINS		
Region/Power Center			
Directors			
Managers			
Superintendents/Supervisors			
All Management			
Professionals	TRADE SECRET BEGINS		
Technicians			
Sales			
Office/Clerical			
Craft Work (Skilled)			
Craft Work (Semi-Skill)			
Total (Note)	TRADE SECRET ENDS		

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

Officers Comp Increased at Avg of All Other Employees

Disallowed Officers' Compensation, 2003		less		=	
	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 Compositied 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 Compositied 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.

DISTRIBUTION DELIVERY STABILIZATION MECHANISM Rate 87

A Distribution Delivery Stabilization Mechanism Factor (“DDSMF”) shall be utilized during the December through April billing months to calculate the non-gas portion of the bills of all Rate 60, 90, 70 and 92 heating customers. During the remainder of the year, May through November, the monthly bills shall be computed solely on actual consumption.

DDSM WILL BE CALCULATED USING THE FOLLOWING FORMULA:

$$\text{DDSM} = \text{DDSMF} * \text{Actual Dekatherms} * \text{Distribution Delivery Charge}$$

An average daily base load will be calculated separately for customers on each rate schedule. The average daily base load will remain the same for the DDSM December-April billing months. DDSM will be billed for 5 billing months.

An Average Monthly Base Load (“AMBL”) for customer on each rate schedule will be calculated by using total dekatherms for two month non-heat usage (August/September) divided by total number customers billed on each rate schedule for the two month period.

$$\text{AMBL} = \text{Dekatherms} / \text{Number of Customers}$$

To calculate the Average Daily Base Load (“ADBL”), divide the Average Monthly Base Load by the average number of days in the two-month non-heat billing cycle.

$$\text{ADBL} = \text{AMBL} / \text{Average Number of Days}$$

Base Load (“BL”) is determined by multiplying the ADBL per customer on each rate schedule by the number of days in the billing cycle times the number of customers on each rate schedule during the billing cycle.

$$\text{BL} = \text{ADBL} * \text{Number of Days in Billing Cycle} * \text{Number of Customers in Billing Cycle}$$

The heat load (“HL”) is then determined by subtracting the base load of all customers on each rate schedule from the total dekatherms billed in the billing cycle.

$$\text{HL} = \text{Dekatherms Billed in Cycle} - \text{BL}$$

A Heating Degree Factor (“HDF”) is then determined by dividing the Normal Degree-Days (“NDD”) for the billing cycle by the Actual Degree-Days (“ADD”) in the billing cycle.

$$\text{HDF} = \text{NDD}/\text{ADD}$$

The DDSM Consumption (“DDSMC”) is computed by multiplying the Heating Degree Factor times the Heat Load and adding the Base Load to that number.

$$\text{DDSMC} = \text{HDF} * \text{HL} + \text{BL}$$

The DDSM Factor is then calculated by dividing the DDSM Consumption by the total dekatherms billed in the cycle

$$\text{DDSMF} = \text{DDSMC}/\text{Dekatherms Billed in Cycle}$$

The DDSMF will be recomputed monthly based on North Dakota averages. If the DDSMF is less than 1.0, the customers’ billed amount will be less than the actual billed amount would have been. If the DDSMF is greater than 1.0, the customers’ billed amount will be more than the actual amount would have been. Each customer’s bill is calculated by multiplying the actual dekatherm usage by the DDSMF times the Distribution Delivery Charge set forth in the respective rate schedules in this tariff.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sandra L. Scott deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **15th day of July, 2004**, she deposited in the United States Mail, Bismarck, North Dakota, **four** envelopes with first class postage, fully prepaid, securely sealed and each containing a photocopy of

Public Version, with Redacted Information, of the Direct Testimony of Charles W. King on Behalf of the Commission Adversary Staff.

The envelopes were addressed as follows.

Douglas W Schulz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dan Kuntz
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

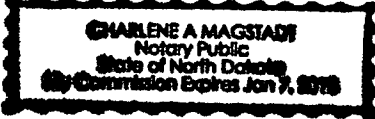
Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Mr. Allen C. Hoberg
Administrative Law Judge
Office of Administrative Hearings
1707 North 9th Street, Lower Level
Bismarck, ND 58501

Each address shown is the respective addressee's last reasonably ascertainable post office address

Subscribed and sworn to before me
this **15th day of July, 2004**

SEAL

Sandra L. Scott
Charlene A Magstad
Notary Public


97-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to

Don Ball
MIDL
400 W 4th St
Bismarck ND 58501

2 Article Number

(Transfer from service label)

7003 2260 0001 3517 0272

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

COMPLETE THIS SECTION ON DELIVERY

A Signature

X

Agent

Addressee

B Received by (Printed Name)

C Date of Delivery

D Is delivery address different from item 1? Yes

If YES, enter delivery address below No

3 Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C O D

4 Restricted Delivery? (Extra Fee)

Yes

97-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to

Douglas Schulz
MIDL
400 W 4th St
Bismarck ND 58501

2 Article Number

(Transfer from service label)

7003 2260 0001 3517 0258

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

COMPLETE THIS SECTION ON DELIVERY

A Signature

X

Agent

Addressee

B Received by (Printed Name)

C Date of Delivery

D Is delivery address different from item 1? Yes

If YES, enter delivery address below No

3 Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C O D

4 Restricted Delivery? (Extra Fee)

Yes

97-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to

Dan Kuntz
MIDL
400 W 4th St
Bismarck ND 58501

2 Article Number

(Transfer from service label)

7003 2260 0001 3517 0265

COMPLETE THIS SECTION ON DELIVERY

A Signature

X

Agent

Addressee

B Received by (Printed Name)

C Date of Delivery

D Is delivery address different from item 1? Yes

If YES, enter delivery address below No

3 Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C O D

4 Restricted Delivery? (Extra Fee)

Yes

PU-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to
 Don Ball
 Montana - Dakota Utilities Co
 400 N 4th St
 Bismarck ND 58501

2 Article Number
 (Transfer from service label)

COMPLETE THIS SECTION ON DELIVERY

A Signature
 X *[Signature]* Agent Addressee

B Received by (Printed Name) *AT Solberg* C Date of Delivery *9/10/04*

D Is delivery address different from item 1? Yes No
 If YES, enter delivery address below

3 Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C O D

4 Restricted Delivery? (Extra Fee) Yes

7003 2260 0001 3517 0449

PU-04-97

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3 Also complete item 4 if Restricted Delivery is desired
- Print your name and address on the reverse so that we can return the card to you
- Attach this card to the back of the mailpiece, or on the front if space permits

1 Article Addressed to
 Dan Kuntz
 Montana - Dakota Utilities Co
 400 N 4th St
 Bismarck ND 58501

2 Article Number
 (Transfer from service label)

COMPLETE THIS SECTION ON DELIVERY

A Signature
 X *[Signature]* Agent Addressee

B Received by (Printed Name) *AT Solberg* C Date of Delivery *9/10/04*

D Is delivery address different from item 1? Yes No
 If YES, enter delivery address below

3 Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C O D

4 Restricted Delivery? (Extra Fee) Yes

7003 2260 0001 3517 0456

HARD COPY OF DVD - Newspaper article

VHS Tape
Tapes

DOCKET SEQUENCE NO. _____

EXHIBIT _____

CASE NO. PU-04-97

ON FILE IN

STATE ARCHIVES

CONTROL NUMBER: 80051



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.
400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 7
2nd Revised Sheet No. 3 1
Canceling 1st Revised Sheet No. 3 1

RATE SUMMARY SHEET

Page 2 of 2

Miscellaneous Charges	Amount
Late Payment	1% per month
Returned Check	\$10 00 per check
Reconnection charge after termination for nonpayment	
-During normal business hours	\$12 00
-After normal business hours	Current service labor rate per hour
Reconnection charge after termination for causes defined in Rate 100 ¶19	
-During normal business hours	\$30 00
-After normal business hours	Current service labor rate per hour
Reconnection charge applicable to seasonal or temporary customers	Basic Service Charge applicable during the period while service was not being used
-During normal business hours	Minimum- \$30 00
-After normal business hours	Minimum- Current service labor rate per hour
Maximum reconnection charge applicable to transportation customers when remote data acquisition equipment must be reinstalled	\$160 00

Date Filed:

Effective Date:

Issued By

Case No.: