

Montana-Dakota Utilities Co. - Electric Operations
Revenue Deficiency Calculation and Rate Base
(000's)

| <u>Line</u> | <u>Description</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-------------|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| 1 | Average Rate Base | \$129,898 | \$127,798 | \$134,699 | \$139,238 | \$138,665 |
| 2 | Rate of Return Required | 9.90% | 9.88% | 9.71% | 9.63% | 9.63% |
| 3 | Return Required | \$12,858 | \$12,630 | \$13,075 | \$13,414 | \$13,359 |
| 4 | Return Earned | \$16,982 | \$14,799 | \$15,075 | \$12,502 | \$12,129 |
| 5 | Return (Excess) | (\$4,124) | (\$2,169) | (\$2,000) | \$912 | \$1,230 |
| 6 | Tax Factor | 1.656 | 1.656 | 1.656 | 1.656 | 1.656 |
| 7 | Revenue Deficiency (Excess) | (\$6,829) | (\$3,591) | (\$3,312) | \$1,511 | \$2,036 |

Rate Base:

| | | | | | | |
|----|----------------------------|-----------|-----------|-----------|-----------|-----------|
| 8 | Plant in Service | \$378,437 | \$384,662 | \$399,634 | \$410,812 | \$417,101 |
| 9 | Accum. Res. for Depr. | 210,278 | 220,847 | 230,039 | 236,464 | 244,282 |
| 10 | Avg. Net Plant in Service | \$168,159 | \$163,815 | \$169,595 | \$174,348 | \$172,819 |
| 11 | Constr. Work in Progress | 518 | 803 | 1,588 | 1,021 | 864 |
| 12 | Materials & Supplies | 3,136 | 3,122 | 3,149 | 3,374 | 3,447 |
| 13 | Fuel Stocks | 1,190 | 1,365 | 1,495 | 1,643 | 1,695 |
| 14 | Prepayments | 129 | 240 | 293 | 348 | 281 |
| 15 | Net Negative Salvage | | | | | |
| 16 | Accum. Def. Income Taxes | (40,437) | (39,497) | (39,749) | (40,196) | (39,487) |
| 17 | Accum. Invest. Tax Credits | (2,521) | (2,040) | (1,663) | (1,291) | (945) |
| 18 | Customer Advances | (276) | (10) | (9) | (9) | (9) |
| 19 | Average Rate Base | \$129,898 | \$127,798 | \$134,699 | \$139,238 | \$138,665 |

Rate of Return on Rate Base 13.07% 11.58% 11.19% 8.98% 8.75%

Rate of Return on Equity 17.25% 14.31% 14.02% 9.70% 9.35%

Montana-Dakota Utilities Co. - Electric Operations
Cost of Capital Statement
(000's)

| <u>Line</u> | <u>Description</u> | <u>Balance</u> | <u>Capital Ratio</u> | <u>Cost</u> | <u>Required Return</u> |
|-------------|--------------------|------------------|----------------------|-------------|------------------------|
| 2001 | | | | | |
| 9 | Long-Term Debt | \$133,350 | 43.81% | 9.27% | 4.06% |
| 10 | Preferred Stock | 16,400 | 5.39% | 4.63% | 0.25% |
| 11 | Common Equity | 154,620 | 50.80% | 11.00% | 5.59% |
| 12 | TOTAL | \$304,370 | 100.00% | | 9.90% |
| 2002 | | | | | |
| 13 | Long-Term Debt | \$132,850 | 43.44% | 9.21% | 4.00% |
| 14 | Preferred Stock | 16,300 | 5.33% | 4.62% | 0.25% |
| 15 | Common Equity | 156,667 | 51.23% | 11.00% | 5.64% |
| 16 | TOTAL | \$305,817 | 100.00% | | 9.88% |
| 2003 | | | | | |
| 17 | Long-Term Debt | \$147,600 | 45.78% | 8.88% | 4.06% |
| 18 | Preferred Stock | 16,250 | 5.04% | 4.62% | 0.23% |
| 19 | Common Equity | 158,539 | 49.18% | 11.00% | 5.41% |
| 20 | TOTAL | \$322,389 | 100.00% | | 9.71% |
| 2004 | | | | | |
| 21 | Long-Term Debt | \$154,100 | 44.86% | 8.62% | 3.87% |
| 22 | Preferred Stock | 16,150 | 4.70% | 4.62% | 0.22% |
| 23 | Common Equity | 173,289 | 50.44% | 11.00% | 5.55% |
| 24 | TOTAL | \$343,539 | 100.00% | | 9.63% |
| 2005 | | | | | |
| 25 | Long-Term Debt | \$135,425 | 38.06% | 8.71% | 3.32% |
| 26 | Short-Term Debt | 12,666 | 3.56% | 5.16% | 0.18% |
| 27 | Preferred Stock | 16,050 | 4.51% | 4.61% | 0.21% |
| 28 | Common Equity | 191,702 | 53.87% | 11.00% | 5.93% |
| 29 | TOTAL | \$355,843 | 100.00% | | 9.63% |

Montana-Dakota Utilities Co. - Electric Operations
Income Statement
(000's)

| <u>Line</u> | <u>Description</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--------------------------------|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| 1 | Sales for Resale | \$17,687 | \$10,182 | \$16,058 | \$17,114 | \$14,001 |
| 2 | All Other Revenues | 84,415 | 86,957 | 90,177 | 89,253 | 92,366 |
| 3 | Total Revenues | \$102,102 | \$97,139 | \$106,235 | \$106,367 | \$105,918 |
| 4 | Production Expense | 40,671 | 40,196 | 45,577 | 47,313 | 46,576 |
| 5 | Gross Margins | \$61,431 | \$56,943 | \$60,658 | \$59,054 | \$59,342 |
| 6 | Transmission Expense | 3,915 | 4,265 | 4,471 | 4,658 | 4,580 |
| 7 | Distribution Expense | 5,010 | 4,664 | 5,001 | 5,514 | 6,132 |
| 8 | Customer Accounts | 2,233 | 2,065 | 2,177 | 2,328 | 2,279 |
| 9 | Customer Service & Information | 113 | 92 | 84 | 118 | 125 |
| 10 | Sales Expense | 281 | 344 | 239 | 240 | 218 |
| 11 | Administration & General | 8,968 | 8,925 | 10,666 | 13,397 | 12,242 |
| 12 | Depreciation | 11,955 | 12,095 | 12,489 | 12,273 | 12,570 |
| 13 | Taxes Other Than Income | 4,019 | 3,901 | 4,169 | 4,453 | 4,474 |
| 14 | Income Tax Expense | 7,955 | 5,793 | 6,287 | 3,571 | 4,593 |
| 15 | Net Regulated Income | 16,982 | 14,799 | 15,075 | 12,502 | 12,129 |
| <i>Income Tax Calculation:</i> | | | | | | |
| 16 | Net Income Before Taxes | \$24,937 | \$20,592 | \$21,362 | \$16,073 | \$16,722 |
| 17 | Less Interest Deduction: | | | | | |
| 18 | Rate Base | \$129,898 | \$127,798 | \$134,699 | \$139,238 | \$138,665 |
| 19 | Weighted Cost of Debt | 4.06% | 4.00% | 4.06% | 3.87% | 3.50% |
| 20 | Calculated Interest Deduction | \$5,276 | \$5,114 | \$5,475 | \$5,386 | \$4,853 |
| 21 | Other Tax Adjustments | \$422 | (\$853) | (\$15) | (\$1,671) | (\$274) |
| 22 | Taxable Income | \$20,083 | \$14,625 | \$15,872 | \$9,015 | \$11,596 |
| 23 | Combined Tax Rate | 39.61% | 39.61% | 39.61% | 39.61% | 39.61% |
| 24 | Income Tax Expense | \$7,955 | \$5,793 | \$6,287 | \$3,571 | \$4,593 |