

**REPRESENTATIVE LISTING OF TESTIMONY EXPERIENCE OF  
GEORGE MATHAL, CPA**

<b>Utility Company</b>	<b>Regulatory Agency</b>	<b>Docket No.</b>	<b>Date Filed</b>
Oklahoma Gas and Electric ("OG&E")	Oklahoma Corporation Commission	29450	1985
Oklahoma Natural Gas Company ("ONG"), A Division of ONEOK	Oklahoma Corporation Commission	29562	1985
Empire District Electric Company	Oklahoma Corporation Commission	28167	1984
Oklahoma Gas and Electric ("OG&E")	Oklahoma Corporation Commission	28123	1983
Oklahoma Natural Gas Company ("ONG"), A Division of ONEOK	Oklahoma Corporation Commission	28069	1983
Public Service Company of Oklahoma ("PSO"), a subsidiary of American Electric Power ("AEP")	Oklahoma Corporation Commission	28331	1983
Oklahoma Natural Gas Company ("ONG"), A Division of ONEOK	Oklahoma Corporation Commission	27347	1982
Public Service Company of Oklahoma ("PSO"), a subsidiary of American Electric Power ("AEP")	Oklahoma Corporation Commission	27068	1982
Empire District Electric Company	Oklahoma Corporation Commission	27144	1981
Oklahoma Gas and Electric ("OG&E")	Oklahoma Corporation Commission	27275	1981
Oklahoma Natural Gas Company ("ONG"), A Division of ONEOK	Oklahoma Corporation Commission	26981	1981

**REPRESENTATIVE LISTING OF TESTIMONY EXPERIENCE OF  
GEORGE MATHAI, CPA**

<b>Utility Company</b>	<b>Regulatory Agency</b>	<b>Docket No.</b>	<b>Date Filed</b>
Oklahoma Natural Gas Company ("ONG"), A Division of ONEOK	Oklahoma Corporation Commission	Various Fuel Clause Audits	1980 - 1992
Center Point Energy, formerly known as ARKLA Gas Company	Oklahoma Corporation Commission	Various Fuel Clause Audits	1980 - 1992
Oklahoma Gas and Electric ("OG&E")	Oklahoma Corporation Commission	Various Fuel Clauses Audits	1980 - 1992
Public Service Company of Oklahoma ("PSO"), a subsidiary of American Electric Power ("AEP")	Oklahoma Corporation Commission	Various Fuel Clauses Audits	1980 - 1992
<b><u>Telecommunications</u></b> 52 Telephone Utilities	Oklahoma Corporation Commission	Various Rate Case Audits	1980 - 2000
Oklahoma Universal Service Fund (OUSF) and E-911 Fund Administration	Oklahoma Corporation Commission	Various	1997 - 2005 (Administrator)

**MONTANA-DAKOTA UTILITIES CO.  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

NDPSC Case No. PU-10-124  
 Schedule GM-3-A

**RATE BASE ADJUSTEMENTS**

RB1	Wind Production Plant - Diamond Willow	(\$40,822,130)
RB1A	Wind Production Plant - Cedar Hills	(\$31,116,000)
RB1B	Accumulated Depreciation Production	\$ 2,266,000
RB2	Wind Transmission Plant - Diamond Willow	(\$1,731,862)
RB2A	Wind Transmission Plant - Cedar Hills	(\$99,000)
RB2B	Accumulated Depreciation Transmission	\$85,993
RB3	Aircraft Equipment	(\$1,080,835)
RB3A	Accumulated Depreciation Aircraft	\$305,817
RB4	Level of Deferred Generation costs	(\$1,547,000)
RB5	Unamortized Loss on debt	(\$4,555,571)
RB6	Level of Wind Farm ADIT	\$34,000
Wind Only	Additional Level of Wind Farm ADIT left out from filing	\$3,241,000
RB7	Customer Deposits	(\$946,219)

**INCOME STATEMENT ADJUSTEMENTS**

IS1	Depreciation Expense Transmission--Wind	(\$91,543)
IS2	Depreciation Expense Production--Wind	(\$3,596,907)
IS3	Depreciation Expense Aircraft	(\$38,478)
IS4	O&M Wind Farm Production/Transmissioin	(\$586,850)
IS5	Level of Deferred Generation costs	(\$172,000)
IS6	Corporate Aircraft O&M	(\$21,229)
IS7	Cost of Fuel Expense	\$1,063,438
IS8	Labor Expense Bonuses & Commissions	(\$520,447)
IS8A	Labor Expense Incentive Compensation	(\$627,054)
IS9	Labor Expense Annualization	(\$271,498)
IS10	Corporate Allocations to North Dakota Electric	(\$69,677)
IS11	Transmission	(\$325,000)
IS12	Coyote Generation Maitenance	(\$453,444)
IS13	Big Stone Generation Maitenance	\$157,863
IS14	Storm Costs of 2010	\$129,279
IS15	Customer Deposits Interest Expense	\$8,043
IS16	Wind Farm Ad Valorem Taxes	(\$134,000)
IS17	Interest Synchronization	\$5,952,000
IS18	Amortizatin of Loss on Debt	(\$459,510)

**REVENUE ADJUSTEMENTS**

REV1	Revenue from Sales for Resale	(\$1,456,520)
REV2	Margin Sharing Adjustment	(\$604,256)

**MONTANA-DAKOTA UTILITIES CO.  
REVENUE REQUIREMENTS  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010  
(000s)**

NDPSC Case No. PU-10-124  
Schedule GM-3-1 (L-1)

	Test Year Revenue Requirements Per Company	Test Year Revenue Requirements Per Advocacy Staff
Rate Base	\$276,685	\$197,477
Recommended Rate of Return	8.699%	8.679%
Return Requirement	\$ 24,069	\$ 17,139
Current Operating Income	17,061	18,845
Return Excess or (Deficiency)	(\$7,008)	\$1,706
Current Income Tax Rate <sup>1</sup>	1.6436555	1.6436555
Revenue Excess or (Deficiency)	(\$11,518)	\$2,804
Difference between Company and Advocacy Staff		\$14,322

Note 1: Tax Factor at 39.16% Federal and State Combined Tax Rate 1.6436555

**MONTANA-DAKOTA UTILITIES CO.  
 PROJECTED OPERATING INCOME AND ROR  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010  
 (000s)**

NDPSC Case No. PU-10-124  
 Schedule GM-3-2

	Before Additional Revenue Requirements <sup>1/</sup>	Advocacy Staff Projected 2010 Revenue Requirements <sup>1/</sup>
<b>Operating Revenues</b>		
Sales	\$110,925	\$110,925
Sales for Resale	0	2,060
Other	5,075	5,075
Total Revenues	\$ 116,000	\$ 118,060
<b>Operating Expenses</b>		
Operation and Maintenance		
Fuel & Purchased Power	\$ 33,267	\$ 34,330
Other O&M	40,485	37,906
Total O&M	\$ 73,752	\$ 72,236
Depreciation	18,757	14,398
Taxes Other Than Income	4,636	4,502
Current Income Taxes <sup>2/</sup>	1,794	8,079
Deferred Income Taxes	0	0
Total Expenses	\$ 98,939	\$ 99,215
Operating Income	<u>\$17,061</u>	<u>\$18,845</u>
Rate Base	<u>\$276,685</u>	<u>\$197,477</u>
<b>Rate of Return</b>	<b>6.166%</b>	<b>9.543%</b>

1/ Statement M, Amended Page 1.

2/ Reflects state and federal taxes at 39.16%.

**MONTANA-DAKOTA UTILITIES CO.  
OPERATION & MAINTENANCE EXPENSE  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010**

NDPSC Case No. PU-10-124  
Schedule GM-3-3 (M-1)

	Company Per Books	Company Projected Adjustments	Company Projected 2010	Advocacy Staff Adjustments to Projected 2010	Advocacy Staff Projected 2010
<b>Operating Revenues</b>					
Sales	\$ 105,442	\$ 5,483	\$ 110,925	\$ -	\$ 110,925
Sales for Resale	4,698	(4,698)	-	2,060	2,060
Other	4,684	391	5,075	0	5,075
<b>Total Revenues</b>	<b>\$ 114,824</b>	<b>\$ 1,176</b>	<b>\$ 116,000</b>	<b>\$ 2,060</b>	<b>\$ 118,060</b>
<b>Operating Expenses</b>					
Fuel and Purchased Power	\$ 32,069	\$ 1,198	\$ 33,267	\$ 1,063	\$ 34,330
O&M Expenses:					
Production			\$ 15,650	\$ (882)	\$ 14,768
Transmission			5,305	(325)	4,980
Distribution			5,966	129	6,095
Customer Accounting			2,123	8	2,131
Customer Service & Information			292	-	292
Sales			113	-	113
Administrative & General			11,036	(1,509)	9,527
Subtotal O&M	\$ 39,364	\$ 1,121	\$ 40,485	\$ (2,579)	\$ 37,906
<b>Total Operating Expenses</b>	<b>\$ 71,433</b>	<b>\$ 2,319</b>	<b>\$ 73,752</b>	<b>\$ (1,516)</b>	<b>\$ 72,236</b>
Depreciation and Amortization	15,705	3,052	18,757	(4,359)	14,398
Taxes Other Than Income	4,338	298	4,636	(134)	4,502
Current Income Taxes	(3,811)	5,605	1,794	6,285	8,079
Deferred Income Taxes	8,806	(8,806)	-	-	-
<b>Total Expenses</b>	<b>\$ 96,471</b>	<b>\$ 2,468</b>	<b>\$ 98,939</b>	<b>\$ 276</b>	<b>\$ 99,215</b>
<b>Operating Income</b>	<b>\$ 18,353</b>	<b>\$ (1,292)</b>	<b>\$ 17,061</b>	<b>\$ 1,784</b>	<b>\$ 18,845</b>
<b>Rate Base</b>	<b>\$ 210,903</b>	<b>\$ 67,259</b>	<b>\$ 276,685</b>	<b>\$ (79,208)</b>	<b>\$ 197,477</b>
<b>Rate of Return</b>	<b>8.702%</b>		<b>6.166%</b>		<b>9.543%</b>





MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPE  
 ADVOCACY STAFF POSITION  
 ELECTGRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010

NDPSC Case No. PU-10-124  
 Schedule GM-3-4  
 Page 3 of 3

Function	Amort of Loss on Debt	IS14 Storm Costs of 2010	IS15 Customer Deposits Interest Exp	IS16 Wind Farm Ad Valorem Taxes	Income Tax Difference	Total
<b>Operating Revenues</b>						
Sales						\$ 110,925
Sales for Resale						2,060
Other						5,075
Total Revenues		\$ -	\$ -	\$ -	\$ -	\$ 118,060
<b>Operating Expenses</b>						
Cost of Fuel & Purchased Power						\$ 34,330
<b>Operations &amp; Maintenance Expenses</b>						
Production						\$ 14,768
Transmission						4,980
Distribution		129				6,095
Customer Accounting			8			2,131
Customer Service & Information						292
Sales						113
Administrative & General						9,527
Subtotal O&M		\$ 129	\$ 8	\$ -	\$ -	\$ 37,906
Total O&M		\$ 129	\$ 8	\$ -	\$ -	\$ 72,236
Depreciation and Amortization	(460)					14,398
Taxes Other Than Income				(134)		4,502
Current Income Taxes					6,285	8,079
Deferred Income Taxes						0
Total Expenses	\$ (460)	\$ 129	\$ 8	\$ (134)	\$ 6,285	\$ 99,215
Operating Income	\$ 460	\$ (129)	\$ (8)	\$ 134	\$ (6,285)	\$ 18,845
Interest Synchronization Rate Base						\$ 197,477
Rate of Return						9.543%

**MONTANA-DAKOTA UTILITIES CO.  
UTILITY CAPITAL STRUCTURE  
TWELVE MONTHS ENDING DECEMBER 31, 2009  
PROJECTED 2010**

NDPSC Case No. PU-10-124  
Schedule GM-3-5

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>	<u>Return with Tax</u>
<b><u>2009</u></b>					
Long Term Debt	\$280,502,591	45.662%	6.845%	3.126%	3.126%
Short Term Debt 1/	1,880,548	0.306%	11.590%	0.035%	0.035%
Preferred Stock	15,600,000	2.540%	4.594%	0.117%	0.192%
Common Equity	316,314,714	51.492%	11.500%	5.922%	9.734%
Total	<u>\$614,297,853</u>	<u>100.000%</u>		<u>9.200%</u>	<u>13.087%</u>
<b><u>Advocacy Staff Projected 2010</u></b>					
Long Term Debt	\$280,502,591	41.756%	6.845%	2.858%	2.858%
Unamort. Loss on Bond Redemption	\$7,561,148	1.126%	6.845%	0.077%	0.077%
Short Term Debt 1/	20,829,409	3.101%	2.535%	0.079%	0.079%
Preferred Stock	15,500,000	2.306%	4.590%	0.106%	0.174%
Common Equity	347,368,141	51.710%	10.750%	5.559%	9.137%
Total	<u>\$671,761,289</u>	<u>100.00%</u>		<u>8.679%</u>	<u>12.325%</u>

1/ Reflects average monthly balance.

**MONTANA-DAKOTA UTILITIES CO.  
ELECTRIC UTILITY -NORTH DAKOTA  
INTEREST EXPENSE  
ADVOCACY STAFF PROJECTED 2010**

NDPSC Case No. PU-10-124  
Schedule GM-3-6  
Page 1 of 3

	<u>Projected 2010</u>	<u>Advocacy Staff 2010</u>
Rate Base 1/	\$276,685	\$197,477
Weighted Cost of Debt	<u>2.970%</u>	<u>3.01%</u>
Interest Expense	<u><u>\$8,218</u></u>	<u><u>\$5,952</u></u>

1/ Statement N, Amended Page 1.

**MONTANA-DAKOTA UTILITIES CO.  
ELECTRIC UTILITY - NORTH DAKOTA  
CALCULATION OF INCOME TAXES  
PROJECTED 2010  
(000s)**

NDPSC Case No. PU-10-124  
Schedule GM-3-6  
Page 2 of 3

	Projected 2010	Advocacy Staff W/Out Production and ITC 2010
<b>Operating Revenues</b>		
Sales Revenues	\$110,925	\$110,925
Sales for Resale		\$2,060
Other Revenues	5,075	\$5,075
Total Operating Revenues	<u>\$ 116,000</u>	<u>\$ 118,060</u>
<b>Operating Expenses</b>		
Operation and Maintenance		
Cost of Fuel & Purchased Power	33,267	34,330
Other O&M	40,485	37,906
Total O&M	<u>73,752</u>	<u>72,236</u>
Depreciation and Amortization Expense	18,757	14,398
Taxes other Than Income	4,636	4,502
Total Operating Expenses	<u>97,145</u>	<u>91,136</u>
<b>Gross Adjustments to Operating Income</b>	<u>18,855</u>	<u>26,924</u>
Deductions and Adjustments to Book Income:		
Interest 1/	8,218	5,952
Total Adjustments to Taxable Income	<u>8,218</u>	<u>5,952</u>
Taxable Income	10,637	20,972
Federal & State Income Taxes	4,165	8,213
Production Tax Credit 2/	(2,237)	-
Full Normalization	(134)	(134)
Total Income Taxes	<u>\$1,794</u>	<u>\$8,079</u>

1/ Amended Page 43.

2/ Page 44.

**MONTANA-DAKOTA UTILITIES CO.  
 PRODUCTION TAX CREDIT  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

	<u>Projected 2010</u>	<u>Advocacy Staff 2010</u>
<u>Generation - Kwh</u>		
Cedar Hills	64,700,000	66,619,800
Diamond Willow	99,500,000	102,492,000
Total	<u>164,200,000</u>	<u>169,111,800</u>
 Production Tax Credit	 (\$0.021)	 (\$0.021)
Total Production Tax Credit	(\$3,448,200)	(\$3,551,348)
Allocated to North Dakota 1/	<u>(\$2,237,491)</u>	<u>(\$2,304,422)</u>
 1/ Allocated on Kwh sales factor.		
Allocation Percentage KWH Sales - Factor 16	64.888666%	

**MONTANA-DAKOTA UTILITIES CO.**  
**RATE BASE**  
**ELECTRIC UTILITY - NORTH DAKOTA**  
**TWELVE MONTHS ENDED DECEMBER 31, 2009**  
**PROJECTED 2010**  
**(000s)**

NDPSC Case No. PU-10-124  
Schedule GM-3-7 (N-1)

	Per Books	Projected Adjustments	Company Projected 2010	Staff Adjustments to Projected 2010	Staff Projected 2010
Electric Plant in Service	\$534,847	\$80,376	\$615,223	1/ (\$74,851)	\$540,372
Accumulated Reserve for Depreciated	288,104	14,389	302,493	(2,658)	299,835
Net Electric Plant in Service	<u>\$246,743</u>	<u>\$65,987</u>	<u>\$312,730</u>	<u>(\$72,193)</u>	<u>\$240,537</u>
CWIP in Service Pending Reclassification	1,477	(1,477)	0	0	0
Total Electric Plant in Service	\$ 248,220	\$ 64,510	\$ 312,730	\$ (72,193)	\$ 240,537
<b>Additions</b>					
Materials and Supplies	\$ 4,782	\$ 295	\$ 5,077	\$ -	\$ 5,077
Fuel Stocks	2,944	11	2,955	0	2,955
Prepayments	102	271	373	0	373
Unamortized Loss on Debt	5,015	(459)	4,556	(4,556)	0
Deferred Generation Costs	0	1,547	1,547	(1,547)	0
Decommission of Retired Plant	0	(353)	(353)	0	(353)
Total Additions	<u>\$ 12,843</u>	<u>\$ 1,312</u>	<u>\$ 14,155</u>	<u>\$ (6,103)</u>	<u>\$ 8,052</u>
Total Before Deductions	\$ 261,063	\$ 65,822	\$ 326,885	\$ (78,296)	\$ 248,589
<b>Deductions</b>					
Accumulated Deferred Income Taxes	\$49,902	\$71	\$49,973	(\$34)	\$49,939
Accumulated Investment Tax Credit	94	(\$94)	0	\$0	\$0
Customer Deposits	0	\$0	0	\$946	\$946
Customer Advances	164	\$63	227	\$0	\$227
Total Deductions	<u>\$ 50,160</u>	<u>\$ 40</u>	<u>\$ 50,200</u>	<u>\$ 912</u>	<u>\$ 51,112</u>
Total Rate Base	<u>\$210,903</u>	<u>\$65,782</u>	<u>\$276,685</u>	<u>(\$79,208)</u>	<u>\$197,477</u>

/1 Includes CWIP in Service by function.

MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE ADJUSTMENTS  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010  
 (000'S)

NDPSC Case No. PU-10-124  
 Schedule GM-3-8  
 Page 1 of 3

Function	Company Projected 2010	RB1	RB1A	RB1B	RB2	RB2A
		Wind Production Diamond Willow	Wind Production Cedar Hills	Accum. Deprec Production	Wind Transmission Diamond Willow	Wind Transmission Cedar Hills
Electric Plant in Service	\$615,223	(\$40,822)	(\$31,116)		(\$1,732)	(\$100)
Accumulated Reserve for Depreciation	302,493			(2,266)		
Net Electric Plant in Service	\$ 312,730	\$ (40,822)	\$ (31,116)	\$ 2,266	\$ (1,732)	\$ (100)
CWIP in Service Pending Reclassification						
Total Electric Plant in Service	\$ 312,730	\$ (40,822)	\$ (31,116)	\$ 2,266	\$ (1,732)	\$ (100)
Additions						
Materials and Supplies	\$ 5,077					
Fuel Stocks	2,955					
Prepayments	373					
Unamortized Loss on Debt	4,556					
Deferred Generation Costs	1,547					
Decommission of Retired Plant	(353)					
Total Additions	\$ 14,155	\$ -	\$ -	\$ -	\$ -	\$ -
Total Before Deductions	\$ 326,885	\$ (40,822)	\$ (31,116)	\$ 2,266	\$ (1,732)	\$ (100)
Deductions						
Accumulated Deferred Income Taxes	\$ 49,973					
Accumulated Investment Tax Credits	-					
Customer Deposits	-					
Customer Advances	227					
Total Deductions	\$ 50,200	\$ -	\$ -	\$ -	\$ -	\$ -
Total Rate Base	\$ 276,685	\$ (40,822)	\$ (31,116)	\$ 2,266	\$ (1,732)	\$ (100)

MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE ADJUSTMENTS  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010  
 (000'S)

NDPSC Case No. PU-10-124  
 Schedule GM-3-8  
 Page 2 of 3

Function	RB2B	RB3	RB3A	RB4	RB5	RB6	RB7
	Accum. Deprec Transmission	Aircraft Equipment Account 392.3	Accum. Deprec Account 392.3	Level of Def. Gen. Costs Excluding Big Stone II	Unamortized Loss on Debt	Level of Wind Farm ADIT	Customer Deposits
Electric Plant in Service		(\$1,081)					
Accumulated Reserve for Depreciation	(86)		(306)				
Net Electric Plant in Service	\$ 86	\$ (1,081)	\$ 306	\$ -	\$ -	\$ -	\$ -
CWIP in Service Pending Reclassification							
Total Electric Plant in Service	\$ 86	\$ (1,081)	\$ 306	\$ -	\$ -	\$ -	\$ -
Additions							
Materials and Supplies							
Fuel Stocks							
Prepayments							
Unamortized Loss on Debt					(4,556)		
Deferred Generation Costs				(1,547)			
Decommission of Retired Plant							
Total Additions	\$ -	\$ -	\$ -	\$ (1,547)	\$ (4,556)	\$ -	\$ -
Total Before Deductions	\$ 86	\$ (1,081)	\$ 306	\$ (1,547)	\$ (4,556)	\$ -	\$ -
Deductions							
Accumulated Deferred Income Taxes						(34)	
Accumulated Investment Tax Credits							
Customer Deposits							946
Customer Advances							
Total Deductions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (34)	\$ 946
Total Rate Base	\$ 86	\$ (1,081)	\$ 306	\$ (1,547)	\$ (4,556)	\$ 34	\$ (946)

MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE ADJUSTMENTS  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010  
 (000'S)

NDPSC Case No. PU-10-124  
 Schedule GM-3-8  
 Page 3 of 3

Function	Level of Wind Farm ADIT	M&S	Fuel Stocks	Prepayments	Adjustment Totals	Advocacy Staff Projected 2010
Electric Plant in Service					\$74,851	\$540,372
Accumulated Reserve for Depreciation					2,658	299,835
Net Electric Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ 72,193	\$ 240,537
CWIP in Service Pending Reclassification					\$0	
Total Electric Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ 72,193	\$ 240,537
Additions						
Materials and Supplies					\$ -	\$ 5,077
Fuel Stocks					-	2,955
Prepayments					-	373
Unamortized Loss on Debt					4,556	-
Deferred Generation Costs					1,547	-
Decommission of Retired Plant					-	(353)
Total Additions	\$ -	\$ -	\$ -	\$ -	\$ 6,103	\$ 8,052
Total Before Deductions	\$ -	\$ -	\$ -	\$ -	\$ 78,296	\$ 248,589
Deductions						
Accumulated Deferred Income Taxes					\$ 34	\$ 49,939
Accumulated Investment Tax Credits					-	-
Customer Deposits					(946)	946
Customer Advances					-	227
Total Deductions	\$ -	\$ -	\$ -	\$ -	\$ (912)	\$ 51,112
	3,241					
Total Rate Base	\$ -	\$ -	\$ -	\$ -	\$ 79,208	\$ 197,477

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**ADJUSTMENTS TO PLANT**

	<u>Amount</u>	<u>REF</u>	
Total wind production (DW & CH) Plant in Service - North Dakota	\$ (71,938,130)	Stmt N p.11 of 23	RB1/RB1A
Total wind transmission (DW &CH) Plant in Service - North Dakota	\$ (1,830,862)	Stmt N p.11 of 23	RB2/RB2A
Proposed Adjustment to remove wind related Plant in Service by Advocacy Staff	\$ (73,768,992)	Note 1	
Level of aircraft equipment included in jurisdictional plant in service Account 392.3	\$ 1,080,835		
Proposed Adjustment Amount by Advocacy Staff	\$ (1,080,835)	Stmt. C p. 5 of 6 Note 2	RB3

Note 1

The Advocacy Staff believes that wind related energy is an optional source of energy for North Dakota customers. We suggest that the wind energy related investments and expenses included in this rate case filing be bifurcated and treated separately. See detailed explanation in Advocacy Staff Testimony Exhibit - October 16, 2010

Note 2

Aircraft equipment is not required to provide utility services. It is for the convenience of the top management and the Board of Directors. Commercial air transportation is more efficient from a cost standpoint in providing services based on fair, just, and reasonable basis. If the utility management feels that the private aircraft is necessary, then stockholders should bear the cost.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**ADJUSTMENTS TO DEPRECIATION**

**Removal of aircraft from cost of service depreciation expense**

				REF			
				Response NO.			
Annual depreciation expense for aircraft	3.56%	\$ 1,080,835	\$ 38,478	Statement I, p. 2 of 3	Attachment A, Page 1 of 3	DR 077, Attachment A, p. 6 of 7	IS 3

See Note 2 in RB Adjustment No. RB1/RB1A/RB2/RB2A/RB3

**Depreciation Expense for projected 2010 (Other Production/Wind)**

				REF			Diamond Willow Cedar Hills	
Diamond Willow (19.5 + 10.5 MW)	5.00%	\$ 40,822,130	\$ 2,041,107	DR No. 052, Attachment A, p. 1 of 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3	\$ 2,041,106.5	\$ -
Cedar Hills (19.5 MW)	5.00%	\$ 31,116,000	\$ 1,555,800	DR No. 052, Attachment B, p. 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3	\$ 555,109	\$ 1,000,691
		IS 2	\$ 3,596,907	DR No. 052, Attachment C, p. 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3		

See Note 1 in RB Adjustment No. RB1/RB1A/RB2/RB2A/RB3

**Depreciation Expense for projected 2010 (Transmission/Wind)**

				REF				
Diamond Willow (19.5 + 10.5 MW)	5.00%	\$ 1,731,862	\$ 86,593	DR No. 052, Attachment A, p. 1 of 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3	\$ 86,593	\$ -
Cedar Hills (19.5 MW)	5.00%	\$ 99,000	\$ 4,950	DR No. 052, Attachment B, p. 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3	\$ 1,766	\$ 3,184
		IS 1	\$ 91,543	DR No. 052, Attachment C, p. 1	DR No. 075, Attachment A, p. 1 of 1	Conf. DR. 09/7/10 No. 3		

See Note 1 in RB Adjustment No. RB1/RB1A/RB2/RB2A/RB3

Total Wind O&M \$ 3,688,450

\$ 2,684,575 \$ 1,003,874

**MONTANA-DAKOTA UTILITIES CO.  
RATE BASE  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010**

**LEVEL OF WIND FARM INVESTMENTS - PLANT IN SERVICE**

Total Wind Farm Investments included in jurisdictional plant in service

<u>Other Production-Wind</u>	<u>Account No.</u>	<u>REF</u>	<u>Total Company</u>	<u>North Dakota</u>	
Diamond Willow 10.5 MW wind	344	Stmt N p.11 of 23	\$ 25,357,000	\$ 16,680,000	
Diamond Willow 19.5 MW wind	344	Conf. DR 9/7/10 No.	\$ 36,700,959	\$ 24,142,130	
Total Diamond Willow			\$ 62,057,959	\$ 40,822,130	RB1
Cedar Hills 19.5 MW wind	344	Stmt N p.11 of 23	\$ 47,302,000	\$ 31,116,000	RB1A
Total production-wind			\$ 109,359,959	\$ 71,938,130	
<u>Transmission-Wind</u>					
Diamond Willow Line Interconnect 10.5 MW	355	Stmt N p.11 of 23	\$ 18,000	\$ 12,000	
Diamond Willow 19.5 MW wind	355	Conf. DR 9/7/10 No.	\$ 2,579,793	\$ 1,719,862	
Total Diamond Willow			\$ 2,597,793	\$ 1,731,862	RB2
Cedar Hills Line Interconnect	355	Stmt N p.11 of 23	\$ 143,000	\$ 99,000	RB2A
Total transmission-wind			\$ 5,338,586	\$ 1,830,862	
<b>Total-Wind Investment</b>			<b>\$ 114,698,545</b>	<b>\$ 73,768,992</b>	
<u>REF</u>					
Total wind production (DW & CH) Plant in Service - North Dakota		Stmt N p.11 of 23	\$ 71,938,130		
Total wind transmission (DW & CH) Plant in Service - North Dakota		Stmt N p.11 of 23	\$ 1,830,862		
Total Investment			\$ 73,768,992		
Accumulated Reserve for Depreciation (DW)		Stmt N p.12 of 23	\$ 2,266,000		
Advocacy Staff Proposed Amount of Wind Production and Transmission in the Rate Base			\$0.00		
Proposed Adjustment to remove Plant in Service-Wind by advocacy staff			\$ (73,768,992)	\$ 71,502,992	



Depreciation Expense for projected 2010 (Transmission)

					REF
Diamond Willow (19.5 MW)	5.00%	\$ 1,719,862	\$ 85,993	DR No. 052, Attachment A, p. 1 of 1	DR No. 075, Attachment A, p. 1 of 1 Conf. DR. 09/7/10 No. 3
Diamond Willow (10.5 MW)	5.00%	\$ 12,000	\$ 600	DR No. 052, Attachment B, p. 1	DR No. 075, Attachment A, p. 1 of 1 Conf. DR. 09/7/10 No. 3
Cedar Hills (19.5 MW)	5.00%	\$ 99,000	\$ 4,950	DR No. 052, Attachment C, p. 1	DR No. 075, Attachment A, p. 1 of 1 Conf. DR. 09/7/10 No. 3
			<u>\$ 91,543</u>		

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE/INCOME STATEMENT  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**ADJUSTMENT TO AIRCRAFT EQUIPMENT (392.3)**

Level of aircraft equipment included in jurisdictional plant in service Account 392.3 Common plant - Electric plant in service		\$	1,080,835	
Advocacy Staff Proposed Amount		\$	-	
Proposed Adjustment Amount by Advocacy Staff to Plant In Service		\$	(1,080,835)	REF NDPSC-DR 010, Attachment A, Page 3 RB3
Removal of aircraft from cost of service depreciation expense				Note 1 Response NO. NDPSC 12, Attachment A, Page 1 of 3
Annual depreciation expense for aircraft	3.56%	\$	1,080,835	\$38,478 Statement I, p. 2 of 3 IS 3 Note 1
Level of accumulated depreciation included in jurisdictional plant in service Account 392.3 Common plant - Electric plant in service		\$	305,817	Note 1
Advocacy Staff Proposed Amount		\$	-	
Proposed Adjustment Amount by Advocacy Staff to Rate Base		\$	305,817	NDPSC-DR 010, Attachment B, Page 3 of 4 RB3A Note1
Corporate Aircraft O&M (subsection A&G) account 921		\$	16,693	WP Statement H, p. 3 IS 6

Note 1

This expense is not reasonable for the ratepayers. It is simply for the convenience of MDU's Senior level executives. It is not necessary for the purpose of providing fair, just, and reasonable service. A reasonable level of commercial air travel is already reflected in the cost of service.

**MONTANA-DAKOTA UTILITIES CO.  
ACCUMULATED DEPRECIATION  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010**

**ADJUSTMENTS TO ACCUMULATED DEPRECIATION**

**Rate Base Adjustment No. 1B (Other Production/Wind)**

Accumulated depreciation as of 12/31/2009 for 19.5 MW (DW)	\$ 2,266,000	RB 1B	\$ 2,266,000
Additional Accumulated depreciation for 30 MW for projected 2010 (DW)	\$ 2,041,107		\$ 2,041,107
Additional Accumulated depreciation for projected 2010 for 19.5 MW (CH)	\$ 1,555,800		\$ 555,109
	<u>\$ 5,862,907</u>		<u>\$ 4,862,216</u>

**Rate Base Adjustment No. 2B (Transmission/Wind)**

Accumulated depreciation as of 12/31/2009 for 19.5 MW (DW)	\$ 85,993	RB 2B	\$ 85,993
Additional Accumulated depreciation for 30 MW for projected 2010 (DW)	\$ 86,593		\$ 86,593
Additional Accumulated depreciation for projected 2010 for 19.5 MW (CH)	\$ 4,950		\$ 1,766
	<u>\$ 177,536</u>		<u>\$ 174,352</u>
Total Wind Accum Depr	<u>\$ 6,040,443</u>	Diamond Willow	<u>\$ 5,036,568</u>

**Rate Base Adjustment No. 3A (Aircraft)**

Level of Accumulated Depreciation included in Jurisdictional Plant In Service (Account 392.3)	\$ 305,817	RB 3A	<u>\$ 1,003,874</u>
---	------------	-------	---------------------

MONTANA-DAKOTA UTILITIES CO.

**RATE BASE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**LEVEL OF DEFERRED GENERATION COSTS EXCLUDING THE BIG STONE II COSTS**

Deferred generation costs included by company in rate base	\$	1,547,000		
Advocacy Staff Proposed Amount		\$0.00		
			<u>REF</u>	
			Statement N, Page 19	RB 4
Proposed Adjustment Amount	\$	(1,547,000)	of 23	

**Note 1**

These costs were incurred between 2006 and 2009. The company had sufficient earnings during this period to write these amounts off as expenses. Additionally, the company did not come and seek prior authorization to book this as a regulatory asset until June 2009. The company waited until June 2009 to submit a letter to the Commission staff and later decided not to follow through as they filed this rate case. When the utilities incur substantial expenses which they plan to recover in future rates, they obtain prior approval from the respective Commission. The company did not follow this practice. The current request represents a retroactive ratemaking by the company. It is not a normal regulatory practice allowed by the Commissions across the country.

Company made management decisions to enter into several generation related contracts and to withdraw from those contracts based on their assessments and decisions. The Commission nor the customers should be responsible for every decision made by the management. These were expenses that could have been written off the year when they made the decision not to proceed further. Since the company did not set up an authorized regulatory asset for this purpose, the company should have and would have expensed these items for financial and accounting purposes, when incurred. Unless, the company had the authorization from the Commission there was no FERC precedence or rules to set it up as a regulatory asset.

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

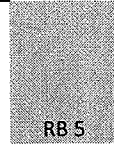
**UNAMORTIZED LOSS ON DEBT ALLOCATED TO NORTH DAKOTA**

Unamortized loss on debt included in North Dakota Rate Base	\$ 5,015,081
Removed from Rate Base for inclusion as part of capital structure	
Less Amount Included in Income Statement for Annual Amortization	\$ (459,510)
Net amount in Rate Base	\$ 4,555,571
Advocacy Staff Proposed Amount	\$ -

REF

Proposed Adjustment Amount by Advocacy Staff to Rate Base (Jurisdictional Amount)	\$ (4,555,571)
---	----------------

NDPSC-074-Response  
 Attachment A, page1  
 Statement N, page 18  
 of 23  
 Note 1



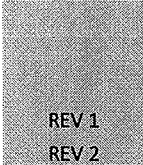
**Note 1**

The unamortized loss on debt of \$4,555,571 should appropriately be part of cost of debt, rather than being considered as a separate cost of service item in the rate base and in the income statement. Including it in the rate base to earn a return and in the income statement as an expense would make the customers pay a full return for a debt cost. Therefore, it is appropriate to consider this unamortized loss on bond redemption as a cost of debt financing. Therefore, the advocacy staff is also removing \$459,510 as included by the company as part of a ten year amortization in the income statement. Instead now the company is allowed to recover this as a part of the total cost of capital.

**MONTANA-DAKOTA UTILITIES CO.  
 SALE FOR RESALE AND MARGIN SHARING REVENUE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**ADJUSTMENT TO REVENUES**

		<u>REF</u>
		Statement M, Statement M, Page 6 Page 10 of 44
1. Sale for Resales	\$ 1,456,520	of 44 (Fuel Revenue) (Fuel Costs)
2. Margin Sharing Adjustment	\$ 604,256	
Company Proposed Sale for Resale and Margin Sharing	\$ -	
Advocacy Staff Proposed Amount	\$ 1,456,520	Note 1
	\$ 604,256	Note 1
Proposed Adjustment by Advocacy Staff		
Sale for Resale	\$ 1,456,520	REV 1
Margin Sharing Adjustment	\$ 604,256	REV 2



**Note 1**

Company proposed to remove all sales for resale revenues and margin sharing adjustment from the projected 2010 Electric revenues. Advocacy staff proposes that a minimum level of \$1,456,520, as reflected in 2009 per books numbers, should be reflected in projected 2010 sale for resale, and \$604,256 for margin sharing adjustment should be reflected for projected 2010 margin sharing adjustment. Any amount above the 2009 level per book numbers should be flowed through the fuel adjustment clause to the benefit of the ratepayers, with 90% going back to the customers and 10% retained by the stockholders.

The fuel cost of \$1,063,438 related to the above Sales for Resales revenue is embedded in the overall fuel cost for the year 2009. See Adjustment #157.

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE/INCOME STATEMENT  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**CUSTOMER DEPOSITS**

**North Dakota**

Jul-09	940,897		
Aug-09	944,638		
Sep-09	944,108		
Oct-09	961,897		
Nov-09	970,103		
Dec-09	964,796		
Jan-10	962,109		
Feb-10	962,333		
Mar-10	952,881		
Apr-10	944,273		
May-10	938,937		
Jun-10	915,440		
Jul-10	898,435		
Customer Deposit 13 month average		\$946,219	
Annual Interest Expense	\$946,219 * 0.85%	\$8,043	
Proposed Adjustment Amount		(946,219)	RB7
Proposed Adjustment Amount		\$8,043	IS 15

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE/INCOME STATEMENT  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**CUSTOMER DEPOSITS**

<b>North Dakota</b>				
Jul-09	940,897			
Aug-09	944,638			
Sep-09	944,108			
Oct-09	961,897			
Nov-09	970,103			
Dec-09	964,796			
Jan-10	962,109			
Feb-10	962,333			
Mar-10	952,881			
Apr-10	944,273			
May-10	938,937			
Jun-10	915,440			
Jul-10	898,435			
Customer Deposit 13 month average				\$946,219
Annual Interest Expense	\$946,219 *	0.85%		\$8,043
Proposed Adjustment Amount				(946,219) RB7
Proposed Adjustment Amount				\$8,043 IS 15

Note 1

**Note 1**

Customer deposits are provided by customers, not by investors. Also, customers are paid an interest while the company holds and uses this fund. Therefore, the proper way of treating in generally accepted regulatory practices is by treating customer deposits as a non investor supplied capital and allowing the interest expense to be recovered by the company. Therefore, the Advocacy Staff proposes to include the 13-month average balance of customer deposits as a reduction to the rate base and the company to recover the interest paid to the customers as an interest expense.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**LEVEL OF DEFERRED GENERATION COSTS EXCLUDING THE BIG STONE II COSTS**

Deferred generation costs included by company in rate base \$ 172,000

Advocacy Staff Proposed Amount \$0.00 <sup>Note 1</sup> REF

Proposed Adjustment Amount by Advocacy Staff \$ (172,000) <sup>Note 1</sup> IS 5  
 Statement N, Page 19 of 23  
 NDPSC - 074 Response No. 74,  
 Attachment B, Page 1 of 3  
 Note 1

**Note 1**

These costs were incurred between 2006 and 2009. The company had sufficient earnings during this period to write these amounts off as expenses. Additionally, the company did not come and seek prior authorization to book this as a regulatory asset until June 2009. The company waited until June 2009 to submit a letter to the Commission Staff and later decided not to follow through as they filed this rate case. When the utilities incur substantial expenses which meet the used and useful criteria and where the current revenue is not sufficient to cover such expenses, and when the company plans to recover in future rates, they obtain prior approval from the respective Commission. The company did not follow this practice. The current request represents a retroactive ratemaking by the company. It is not a normal regulatory practice allowed by the Commissions across the country. Company made management decisions to enter into several generation related contracts and to withdraw from those contracts based on their assessments and decisions. The Commission nor the customers should be responsible for every decision made by the management. These were expenses that could have been written off the year when they made the decision not to proceed further. Since the company did not set up an authorized regulatory asset for this purpose, the company should have and would have expensed these items for financial and accounting purposes, when incurred. Unless, the company had the authorization from the Commission there was no FERC precedence or rules to set it up as a regulatory asset.

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**LEVEL OF WIND FARM ADIT**

Total Wind Farm ADIT included in jurisdictional rate base by company \$34,000

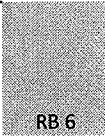
Total Proposed Wind Generation (2010) ADIT \$3,275,000

Advocacy Staff Proposed Adjustment \$3,241,000

REF

---

NDPSC-075 Response  
 No. 75, Attachment A,  
 Page 1 of 1  
 Note 1



**Note 1**

Accumulated deferred income taxes as filed by company	\$49,973,000
Wind generation (2010) related ADIT included in the filing	\$34,000
Based upon advocacy staff's inquiry of DR-075 response	
Wind generation (2010) related ADIT	\$3,275,000
Additional ADIT proposed by advocacy staff	\$3,241,000

**MONTANA-DAKOTA UTILITIES CO.  
 UTILITY CAPITAL STRUCTURE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**Capital Structure with Company's Original ROE Request**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$280,502,591	45.662%	6.845%	3.126%
Short Term Debt 1/	1,880,548	0.306%	11.590%	0.035%
Preferred Stock	15,600,000	2.540%	4.594%	0.117%
Common Equity	316,314,714	51.492%	11.500%	5.922%
Total	<u>\$614,297,853</u>	<u>100.000%</u>		<u>9.200%</u>

**Projected 2010 ROE Agreed by Parties**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$280,502,591	42.232%	6.845%	2.891%
Short Term Debt 1/	20,829,409	3.136%	2.535%	0.079%
Preferred Stock	15,500,000	2.333%	4.590%	0.107%
Common Equity	347,368,141	52.299%	10.750%	5.622%
Total	<u>\$664,200,141</u>	<u>100.000%</u>		<u>8.699%</u>

**Projected 2010 ROR including Bond Redemption Loss**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
Long Term Debt	\$280,502,591	41.756%	6.845%	2.858%
Unamortized Loss on Bond Redemption**	\$7,561,148	1.126%	6.845%	0.077%
Short Term Debt 1/	20,829,409	3.101%	2.535%	0.079%
Preferred Stock	15,500,000	2.306%	4.590%	0.106%
Common Equity	347,368,141	51.710%	10.750%	5.559%
Total	<u>\$671,761,289</u>	<u>100.00%</u>		<u>8.679%</u>

1/ Reflects average monthly balance.

\*\*

The unamortized loss on debt of \$4,555,571 should appropriately be part of cost of debt, rather than being considered as a separate cost of service item in the rate base and in the income statement. Including it in the rate base to earn a return and in the income statement as an expense would make the customers pay a full return for a debt cost. Therefore, it is appropriate to consider this unamortized loss on bond redemption as a cost of debt financing. Therefore, the advocacy staff is also removing \$459,510 as included by the company as part of a ten year amortization in the income statement. Instead now the company is allowed to recover this as a part of the total cost of

**MONTANA-DAKOTA UTILITIES CO.  
OPERATION & MAINTENANCE EXPENSE  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010**

**COST OF FUEL FOR RESALE**

		<u>REF</u>
Cost of fuel and purchased power for Sales for Resale	\$ 1,063,438	WP M-1
Advocacy Staff Proposed Amount	\$0.00	
Proposed Adjustment Amount	\$ 1,063,438	Note 1

**Note 1**

This adjustment is to reflect the matching cost of fuel used to generate Sale for Resale revenues.

**MONTANA-DAKOTA UTILITIES CO.  
 LABOR EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**BONUSES, COMMISSIONS, AND INCENTIVE COMPENSATIONS**

				<u>REF</u>
<b>Labor Expense:</b>				
Bonuses and Commissions				
				Response to 09/07/10
Amount included in test year for Bonuses and Commissions	1.0032	\$ 864,645	\$ 867,412	Conference Req, No. 6
	(864,465 + .32% increase)			
Staff Proposed Amount			\$ 346,965	IS 8
Advocacy Staff Proposed Adjustment	60%	\$ 867,412	\$520,447	Note 1
Incentive Compensations				
				Response to 09/07/10
Amount included in test year for Incentive Compensations	1.0032	\$ 1,041,756	\$ 1,045,090	Conference Req, No. 6
	(864,465 + .32% increase)			
Staff Proposed Amount			\$ 418,036	IS 8A
Advocacy Staff Proposed Adjustment	60%	\$ 1,045,090	\$627,054	Note 1

**Note 1**

These changes were recommended by Advocacy Staff to be shared 60% by stockholders and 40% by ratepayers. The Company wrote off in 2009, for tax purposes, but want to defer (amortize) over 3 years. Incentive pays are more to the advantage of stockholders and helps more the financial condition of the stockholders. There are certain benefits to ratepayers from a better performing company. Therefore the ratepayers should share in the costs. We recommend 60/40 split between shareholders and ratepayers respectively.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**LABOR EXPENSE ANNUALIZATION**

		REF	
		Conf. DR Response No.	
		13, Attachment A, p. 1	
Straight time labor annualization/For the twelve months ending July 2010	\$ 13,243,000	of 2	Adv. Staff Recomm
Premium time labor annualization/For the twelve months ending July 2010	\$ 1,065,000		
Bonuses & Commissions**	\$ 346,965		
Incentive Compensation**	\$ 418,036		\$ 15,136,001
Meals annualized for twelve months ending July 2010	\$ 33,000		\$ 16,555,000
Vacation annualized for twelve months ending July 2010	<u>\$ 30,000</u>		\$ (1,418,999)
Advocacy Staff Proposed Annualized Labor 2010	\$ 15,136,001		271,499
			\$ (1,147,500)
Total labor included by company in projected test year 2010	\$ 16,555,000		
Adjustments IS 8 & 8A for Bonuses & Incentives	\$ (1,147,501)		
Advocacy Staff Proposed Labor Adjustment	\$ (271,499)	Note 1 (IS9)	

Labor Expense:				
Bonuses and Commissions				
Amount included in test year for Bonuses and C	1.0032	\$	864,645	\$ 867,412
Advocacy Staff Proposed Amount	60%	\$	867,412	\$520,447
Staff Proposed Adjustment Amount			\$ 346,965	**
				\$1,147,501
				\$ 1,418,999
				\$ 271,498
Incentive Compensations				
Amount included in test year for Incentive Com	1.0032	\$	1,041,756	\$ 1,045,090
Advocacy Staff Proposed Amount	60%	\$	1,045,090	\$627,054
Staff Proposed Adjustment Amount			\$ 418,036	**

**Note 1**

It is the opinion of the advocacy staff that the performance based incentives are beneficial to both stockholders and ratepayers. Also, Staff believes that the savings from the performance enhancements should pay for the related incentive payments itself. However, recognizing the benefits in better performance by employees to the company as a whole and its customers, we propose the Commission should allow 40% of the cost in Cost of Service.

\*\*Based on 40% actual included by company in projected test year 2010

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**CORPORATE ALLOCATIONS TO NORTH DAKOTA ELECTRIC**

		<u>REF</u>
		DR 076 response, attachment A, p.
Investor Relations 7224/Investor relations subcontract	\$ 3,403	1 of 3
Active Director Fee 7231/Active Director Fee	\$ 70,131	
Retired Director Fee 7232/Retired Director Fee	\$ 2,486	
7233 Directors Meal and Entertainment	\$ 1,637	
Utility Discount	\$ 2,449	statement IV, p. 13; UK /b, Attachment A p. 1 of 3, DR 72 On-
Insurance Amortization*	\$ 59,248	site No. 20 Sept 7, OS 20
*For injuries and damages for Directors and Officers, First Layer A	50% \$ 139,354	
Advocacy Staff Proposed Amount	\$69,677	
Advocacy Staff proposed Adjustment Amount	(\$69,677)	IS 10

Note 1

These are common expenses that benefits ratepayers and stockholders, therefore it should be borne by both ratepayers and stockholders, and should be shared on a 50/50 basis. Therefore advocacy staff recommends removal of \$77,881.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**WESTERN AREA POWER ADMINISTRATION (WAPA)  
 ADDITIONAL 2009 TRANSMISSION**

REF

Montana Dakota Charges Book	750,000	DR 14, Repsonse No. 19
2010 Projected Amount needed as revised estimate	250,000	
Proposed Advocacy Staff Adjustment Amount	500,000	
North Dakota Jurisdictional	65%	NOTE 1
Transmission Expense	(325,000)	<b>IS 11</b>

**NOTE 1**

Montana Dakota accrued \$750,000 at the end of 2009 for Western Area Power Administration (WAPA) additional transmission charges, based on its transmission service agreement effective January 1, 2009. In January through May the company accrued a monthly expense of \$67,000 for a total of \$325,000, based on an updated estimate received in June 2010, the annual estimate for 2009 was revised to \$100,000 and estimated \$250,000 for 2010. In June 2010, Montana Dakota recorded an adjustment to two of the 2009 accrual to \$100,000 from \$750,000 and reduced the monthly accrual for 2009 from \$67,000 to \$20,833 for a total adjustment of \$880,000 (\$650,000 + \$230,000). For 2009 alone, which is included in the test period the advocacy staff proposes \$500,000 total company with \$325,000 (65% jurisdictional) charge to North Dakota. There could be additional adjustments proposed by the advocacy staff for the 2010 accrual if it is included in the current rate filing.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**COYOTE GENERATION MAINTENANCE**

Coyote		<u>REF</u>
Total Generation Expense for 2007 - 2009	4,642,051	Sept on-site visit #1 Response No. 52
(3 year) Average per year	1,547,350	
Test Year	<u>2,000,799</u>	Note 1
Advocacy Staff proposed Adjustment Amount	(453,449)	<b>IS 12</b>

Note 1

The average Coyote generation maintenance expense for 2007 through 2009 was \$1,547,350. The test year amount was \$2,000,799, which was high due to special, periodically scheduled, maintenance. Therefore, in order to normalize the test year expense the Advocacy Staff proposes a reduction of \$453,449 from the projected test year expenses.

**MONTANA-DAKOTA UTILITIES CO.  
OPERATION & MAINTENANCE EXPENSE  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010**

**BIG STONE GENERATION MAINTENANCE**

<b>Big Stone</b>		<u>REF</u>
Total Generation Expense for 2007 - 2009	2,813,872	Sept on-site visit #1 Response No. 52
(3 year) Average per year	937,957	
Test Year	780,094	
Advocacy Staff proposed Adjustment Amount	157,863	<b>IS 13</b>

**Note 1**

The average Big Stone generation maintenance expense for 2007 through 2009 was \$937,957. The test year amount was \$780,094, which was lower. Therefore, in order to normalize the test year expense the Advocacy Staff proposes an increase of \$157,863 from the projected test year expenses

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**STORM COSTS OF 2010**

Cost as of December 2009  
 Dickinson 2009 Storm Damage

Expense	Work Order Description	Bus Unit	SubLedger
50,985.93	DKN Storm Damage Ele Dist Exp	150	165844
<u>5,729.18</u>	DKN Storm Damage Ele TL Expens	TL408-1	165846
<b>Total Expense</b>			
<b>56,715.11</b>			
<u>REF</u>			
Per DR Response No. 39	ND Amort Expenses Only		
56,715 * 65%	\$ 36,865	Already in rates	
January 2010 Storm			
Per DR Response No. 92			
457,074	\$ 160,140	DR Response No. 92	
April 2010 Storm			
Per DR Response No. 92			
ND Distribution	\$ 111,063	\$ 111,063	DR Response No. 92
ND Transmission	<u>\$ 292,876</u>	<u>\$ 190,364</u>	DR Response No. 92
Subtotal 04/2010	\$ 403,939	\$ 301,427	DR Response No. 92
ND Total Storm Expense 2009/2010	\$ 498,432		
3 year proposed			
amortization period			
by Advocacy Staff	<u>\$ 3</u>		
Annual Amortization	\$ 166,144		
Amount Included in Test Year (2009)	<u>\$ 36,865</u>		
<b>Advocacy Staff Proposed IS Adj</b>	<b>\$ 129,279</b>	<b>IS14</b>	

Note 1

The Company does not have a habit of separately accounting for storm costs as an extraordinary event expenses. However, advocacy staff believes that these are unusual and overly burdensome expenses caused by nature which is beyond the control of the company. FERC requires utilities to identify and account for these expenses separately. We believe that in 2010, the company had two storm expenses in January and April. Advocacy Staff segregated these expenses and asking the company to recover it over a three year amortization. The company did not request for any special recovery treatment even though it happened in 2010. Advocacy Staff proposed an increase in O&M expenses of \$129,279 to cover such expenses.

**MONTANA-DAKOTA UTILITIES CO.  
 OPERATION & MAINTENANCE EXPENSE  
 ADVOCACY STAFF POSITION  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

**ADJUSTMENTS TO O&M**

		REF		Diamond Willow	Cedar Hills
Diamond Willow 19.5 MW (subsection other production)	\$ 279,000	Response DR No. 91		\$ 279,000	\$ -
Diamond Willow 10.5 MW wind (subsection other production)	\$ 63,149	DR No. 52, Attachment B, p. 1	Statement M, p. 14	\$ 63,149	\$ -
Cedar Hills 19.5 MW wind (subsection other production)	\$ 244,702	DR No. 52, Attachment C, p. 1	Statement M, p. 14	\$ 87,310	\$ 157,392
	<u>\$ 586,850</u>	IS 4		<u>\$ 429,458</u>	<u>\$ 157,392</u>
		Note 1			
Corporate Aircraft O&M (subsection A&G) account 921	\$ 16,693	WP Statement H, p. 3			
7512 Corporate Aircraft	\$ 4,536	**			
**This amount is from the corporate allocation amount for corporate aircraft	<u>\$ 21,229</u>	IS 6			
		Note 1			
Cedar Hills Ad Valorem Taxes	\$ 48,450	WP Statement M, p. 138		\$ 17,287	\$ 31,163
Diamond Willow 10.5 MW wind Ad Valorem Taxes	\$ 34,000	WP Statement M, p. 138		\$ 34,000	\$ -
Diamond Willow 19.5 MW Ad Valorem Taxes	\$ 52,000	Statement M, p. 39	DR. Response No. 91	\$ 52,000	\$ -
	<u>\$ 134,450</u>	IS 16		<u>\$ 103,287</u>	<u>\$ 31,163</u>
		Note 1			
<b>Total</b>	<u><b>\$ 721,300</b></u>		<b>Total</b>	<u><b>\$ 532,745</b></u>	<u><b>\$ 188,555</b></u>

**LEVEL OF DEFERRED GENERATION COSTS EXCLUDING THE BIG STONE II COSTS**

Proposed Adjustment Amount <sup>Note 1</sup>	\$ (172,000)	Statement N, Page 19 of 23	IS 5
		NDPSC - 074 Response No. 74,	
		Attachment B, Page 1 of 3	

**Note 1 --Deferred Generation Costs (IS-5)**

These costs were incurred between 2006 and 2009. The company had sufficient earnings during this period to write these amounts off as expenses. Additionally, the company did not come and seek prior authorization to book this as a regulatory asset until June 2009. The company waited until June 2009 to submit a letter to the Commission Staff and later decided not to follow through as they filed this rate case. When the utilities incur substantial expenses which meet the used and useful criteria and where the current revenue is not sufficient to cover such expenses, and when the company plans to recover in future rates, they obtain prior approval from the respective Commission. The company did not follow this practice. The current request represents a retroactive ratemaking by the company. It is not a normal regulatory practice allowed by the Commissions across the country. Company made management decisions to enter into several generation related contracts and to withdraw from those contracts based on their assessments and decisions. The Commission nor the customers should be responsible for every decision made by the management. These were expenses that could have been written off the year when they made the decision not to proceed further. Since the company did not set up an authorized regulatory asset for this purpose, the company should have and would have expensed these items for financial and accounting purposes, when incurred. Unless, the company had the authorization from the Commission there was no FERC precedence or rules to set it up as a regulatory asset. Therefore, we recommend the Commission to disallow this expense.

**MONTANA-DAKOTA UTILITIES CO.  
 PRODUCTION TAX CREDIT  
 ELECTRIC UTILITY - NORTH DAKOTA  
 PROJECTED 2010**

NDPSC Case No. PU-10-124  
 Schedule GM-4-20  
 GM PRODUCTION TAX CREDIT--WIND

**Scenario 1**

	Projected 2010	Advocacy Staff 2010	Diamond Willow	Cedar Hills
<u>Generation - Kwh</u>				
Cedar Hills	64,700,000	66,619,800	\$ 499,169	\$ 899,847
Diamond Willow	99,500,000	102,492,000	\$ 2,152,332	\$ -
Total	164,200,000	169,111,800	\$ 2,651,501	\$ 899,847
Production Tax Credit	(\$0.021)	(\$0.021)		
Total Production Tax Credit	(\$3,448,200)	(\$3,551,348)		
Allocated to North Dakota 1/	(\$2,237,491)	(\$2,304,422)		\$ 0.3778890

1/ Allocated on Kwh sales factor.

Allocation Percentage KWH Sales - Factor 16 64.888666%

**Montana-Dakota Utilities Co.  
 Case No. PU-10-124  
 Wind Farm Allocation Scenarios**

Description	Diamond Willow	Cedar Hills	Total
Diamond Willow Wind Farm (MW's)	30.0	-	30.0
Cedar Hills Wind Farm (MW's)	-	19.5	19.5
Total Wind (MW's)	30.0	19.5	49.5
Capacity Factor	39%	39%	39%
Days in a Year	365	365	365
Hours in a Day	24	24	24
Estimated Energy from Wind Farms (mWh's)	102,492.0	66,619.8	169,111.8
Estimated Energy from Wind Farms (kWh's)	102,492,000.0	66,619,800.0	169,111,800.0

	North Dakota	Montana - 10%	Montana - 15%
MDU Energy Sales (kWh's)	1,577,853,225	700,394,000	700,394,000
Renewable Objective / Standard	10%	10%	15%
Renewable Energy Goal / Mandate (kWh's)	157,785,323	70,039,400	105,059,100

## GM-PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

**MONTANA-DAKOTA UTILITIES CO.**  
**PLANT IN SERVICE AND ACCUMULATED DEPRECIATION**  
**ADVOCACY STAFF POSITION**  
**ELECTRIC UTILITY - NORTH DAKOTA**  
**PROJECTED 2010**  
**(000s)**

	Plant in Service Per Books Plant	Accumulated Depr Per Books North Dakota	Plant in Service Projected 2010	Accumulated Depr Projected 2010
<u>Plant in Service</u>				
Steam Production	\$202,968,849	\$129,748,842	\$206,498	\$134,092
Other Production	58,847,038	10,776,668	105,704	15,380
Total Production	<u>\$261,815,887</u>	<u>\$140,525,510</u>	<u>\$312,202</u>	<u>\$149,472</u>
Transmission	92,482,990	51,624,661	109,050	53,529
Distribution	131,372,493	64,644,951	143,227	67,264
General	12,625,103	6,192,571	13,528	6,382
Intangible Plant - General	4,022,989	3,313,779	4,023	3,625
Common	16,489,655	9,070,745	16,995	8,876
Intangible Plant - Common	8,875,787	6,206,367	9,036	6,662
Subtotal	<u>527,684,904</u>	<u>281,578,584</u>	<u>608,061</u>	<u>295,810</u>
Acquisition Adjustment	7,161,943	6,525,036	7,162	6,683
Total Plant in Service	<u><u>\$534,846,847</u></u>	<u><u>\$288,103,620</u></u>	<u><u>\$615,223</u></u>	<u><u>\$302,493</u></u>

(Difference between \$534,847,000 - \$536,324,000 is \$1,477,000 CWIP)

MONTANA-DAKOTA UTILITIES CO.  
EMPLOYEE BENEFITS EXPENSE  
ADVOCACY STAFF POSITION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010

**BENEFIT EXPENSE ANNUALIZATION**

	<b>MDU Filing</b>	<b>REF</b>
		<u>Conf. DR Response No. 13,</u>
		Attachment A, p. 1 of 2
Medical/Dental-For the twelve months ending July 2010	\$ 1,636,000	
Pension Expense/For the twelve months ending July 2010	\$ 577,000	
Post Retirement	\$ 344,000	
401K	\$ 1,176,000	
Worker's Compensation	<u>\$ 53,000</u>	
Advocacy Staff Proposed Annualized Benefit Expense 2010	\$ 3,786,000	

Total Benefits expense included by company in projected test year 2010

Advocacy Staff Proposed Amount

**NO ADJUSTMENT**