



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

November 5, 2010

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: Rebuttal Testimony
Case No. PU-10-124

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits for filing the Rebuttal Testimonies of:

Mr. David L. Goodin (Tab 1)
Ms. Andrea L. Stomberg (Tab 2)
Mr. Darcy J. Neigum (Tab 3)
Mr. Mark A. Del Vecchio (Tab 4)
Ms. Rita A. Mulkern (Tab 5)

This Rebuttal Testimony is filed on the premise that Montana-Dakota and the Commission Advocacy Staff have reached a Settlement in principal on certain portions of Montana-Dakota's application to increase electric rates. Montana-Dakota reserves all rights, including the right to provide supplemental testimony rebutting those issues, in the event a Settlement Agreement is not executed between Advocacy Staff and Montana-Dakota.

The original and seven (7) copies of this letter of transmittal and Rebuttal Testimonies have been provided to the Commission. Montana-Dakota is also providing copies to Mr. Richard Savelkoul, Mr. Jim Roache, Mr. Harvey Christian, and Mr. Scott Skokos (on behalf of the Missouri Valley Resource Council).

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,

Tamie A. Aberle
Pricing & Tariff Manager

Cc: Dan Kuntz
Attachment

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

Before the Public Service Commission of North Dakota

Case No. PU-10-124

Rebuttal Testimony
of
David L. Goodin

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

2 A. Yes. My name is David L. Goodin 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 President and Chief Executive Officer (CEO) of Montana-
6 Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources
7 Group, Inc. and Great Plains Natural Gas Co. (Great Plains), also a
8 Division of MDU Resources Group, Inc. I am also the President and CEO
9 of Cascade Natural Gas Corporation and Intermountain Gas Company;
10 subsidiaries of MDU Resources Group, Inc.

11 Q. **Are you the same David L. Goodin that submitted Direct Testimony
12 in this proceeding?**

13 A. Yes, I am.

14 Q. **What is the purpose of this rebuttal testimony?**

15 A. The purpose of my rebuttal testimony is to address the Settlement
16 Agreement (Settlement) between the Advocacy Staff and Montana-Dakota
17 regarding certain issues in this case. I will also respond to the
18 recommendations of Mr. Mathai, appearing on behalf of Advocacy Staff,

1 to exclude the Company's investment in the Diamond Willow and the
2 Cedar Hills wind facilities and 60 percent of the Company's incentive
3 compensation from consideration in determining the Company's revenue
4 requirement in this proceeding.

5 **Q. Mr. Goodin, do you support the Settlement entered into between**
6 **Montana-Dakota and the Commission Advocacy Staff?**

7 A. Yes, I do.

8 **Q. What is the amount that the Company is requesting as a result of the**
9 **Settlement?**

10 A. Montana-Dakota's request as amended to reflect the Settlement, as
11 well as adjustments to the revenue requirement associated with wind
12 facilities which is to be explained in the rebuttal testimony of Ms. Rita
13 Mulkern, is \$8.7 million as shown below:

<u>In (000s)</u>	<u>Amount</u>	<u>% Increase</u>
Settlement	\$2,900	2.6%
Incentive Compensation	1,147	
Board of Directors expenses	70	
Wind Generation	<u>4,598</u>	
Total Request	<u>\$8,715</u>	<u>7.9%</u>

14
15 **Q. Mr. Goodin, do you agree with Mr. Mathai's recommendation to**
16 **exclude the Company's investment and expense associated with the**
17 **Diamond Willow and Cedar Hills wind facilities from consideration in**
18 **determining the revenue requirement in this case?**

19 A. No, I do not. The Company's decision to invest in the Diamond

1 Willow wind projects and the Cedar Hills wind project was pursued after
2 thoughtful consideration of many alternatives as will be discussed in detail
3 in the rebuttal testimonies of Andrea Stomberg and Darcy Neigum.

4 I believe that the process Montana-Dakota stepped through in the
5 Company's determination to invest in wind generation highlights Montana-
6 Dakota's commitment to providing safe and reliable electric service at
7 affordable rates. Meeting the energy requirements of the Company's
8 customers, diversification of Montana-Dakota's generation portfolio
9 including the availability and price volatility of other generation
10 alternatives, the timing considerations given to the availability of tax
11 benefits and transmission, as well as environmental issues and state
12 energy policy standards and objectives, were all considerations in the
13 Company's decision to invest in the wind generation. Contrary to Mr.
14 Mathai's suggestion, these facilities were not built simply to meet the
15 Montana renewable energy requirement. Montana-Dakota operates an
16 integrated electric system in North Dakota, South Dakota, and Montana
17 and its North Dakota customers, like all of the customers of its integrated
18 system, are receiving the benefits of the Company's decision to invest in
19 wind generation and have been since the commercial operation of
20 Diamond Willow I. The wind facilities provide all integrated customers with
21 protection from future price volatility associated with fossil fuel generation,
22 especially natural gas, and reduce the dependency on MISO energy
23 market purchases, and reduce environmental emissions. While current

1 market prices for natural gas and MISO energy are attractive, this wasn't
2 the case at the time decisions were made to add wind generation to the
3 portfolio and we know from experience the market prices for natural gas
4 and MISO energy are not predicable and will likely rise in the future.

5 The Company's wind generation facilities are used to provide
6 electric service to North Dakota customers and should be included in the
7 Company's revenue requirement in this proceeding.

8 **Q. As president of Montana-Dakota Utilities Co., do you believe**
9 **incentive compensation is an important element of the compensation**
10 **package provided to the Company's employees?**

11 A. Yes, I believe incentive compensation is an important component of
12 an employee's total compensation package as it helps promote the
13 Company's culture of providing safe and reliable service to our customers
14 while helping to control costs and attain earnings.

15 **Q. Would you please explain why incentive compensation is an**
16 **important component of total compensation?**

17 A. Montana-Dakota subscribes to a "Total Compensation" philosophy
18 whereby the Company's compensation programs reflects competitive
19 forces in the market place and are designed to recruit, motivate, reward,
20 and retain highly skilled and high performance employees. The major
21 components of the Company's total compensation package include a mix
22 of base pay, incentive compensation, benefits, employee recognition,
23 rewards, and development.

1 Specifically, Montana-Dakota's incentive compensation programs
2 are designed to further advance the development of a Company culture of
3 safety and customer satisfaction, while controlling costs and attaining
4 earnings through the establishment of goals based on these objectives. I
5 believe the Company's incentive compensation structure helps keep our
6 employees focused on these important objectives when performing their
7 daily responsibilities by providing a direct link between the incentive
8 compensation rewarded and the accomplishment of the objectives. To put
9 it another way, the Company has placed an element of the employee's
10 compensation at risk when objectives are not met, which in turn focuses
11 employee work performance on critical Company objectives.

12 **Q. Do you believe Montana-Dakota's "Total Compensation" philosophy**
13 **in similar to that of other organizations?**

14 A. Yes, I believe Montana-Dakota's "Total Compensation" philosophy
15 is in line with that of other organizations that have base pay and incentive
16 compensation. Montana-Dakota strives to compensate at the median of
17 the competitive labor market for base pay and incentive compensation.
18 Employee incentive plans and payout opportunities are designed to be
19 competitive with peer positions in the industry.

20 Mark Del Vecchio, the Vice-President of Human Resources for
21 MDU Resources Group, Inc. will be presenting rebuttal testimony that will
22 further discuss the Company's response to Mr. Mathai's recommendation
23 regarding incentive compensation and Board of Directors' fees and

1 expenses.

2 **Q. Do you have evidence that incentive compensation has helped**
3 **Montana-Dakota accomplish these objectives?**

4 A. Yes, as I mentioned earlier, Montana-Dakota's incentive
5 compensation programs are designed with these very objectives in mind.
6 I would like to highlight some of the Company's accomplishments in the
7 following areas:

8 Safety

9 Montana-Dakota has adopted a "Committed to Zero" safety goal
10 and, at all times, strongly encourages its employees to contribute to a safe
11 working environment. To encourage and recognize the importance of this
12 objective, the Company has a safety incentive compensation program
13 designed to recognize employee contributions toward meeting this
14 objective.

15 In my opinion, this program has helped the Company achieve
16 positive safety results in the areas of personal injuries and reportable
17 vehicle incidents and correspondingly helped to control costs associated
18 with workers compensation and third party liability claims.

19 Success of the safety training programs, combined with the focus
20 on safety through incentives, can be seen through the following awards
21 and internal statistics:

- 22 • 2010 American Gas Association Leader Accident Prevention Award
- 23 • 2010 Midwest Energy Association Accident Prevention Award

- 1 • 2010 North Dakota Safety Council Occupational Safety Merit Award
- 2 • Devils Lake District - No recordable injuries in 5 year/No attributable
- 3 vehicle crashes in 15 years
- 4 • Lewis & Clark Station - No recordable injuries in last 2 years/No
- 5 attributable vehicle crashes in 2009 and 11 years without a lost time
- 6 injury
- 7 • R.M. Heskett Station - 12 years without a lost time injury
- 8 • Turbines - No recordable injuries in 4 years/No attributable vehicle
- 9 crashes in 17 years
- 10 • Rapid City - No recordable injuries since 2008
- 11 • Wolf Point - No recordable injuries or attributable vehicle crashes
- 12 since 2008

13 Customer Satisfaction Goal

14 A positive customer service experience from our first to our last
15 interaction is another goal the Company always strives to accomplish. To
16 highlight the importance of this objective, the Company has established a
17 Customer Service Satisfaction Survey. Survey results show Montana-
18 Dakota consistently meets or exceeds the Company's customer service
19 goals, averaging 4.65 out of a possible 5 point scale for the past five
20 years. To recognize employees' continued commitment to this Company's
21 objective, employees are awarded for meeting or exceeding the
22 Company's customer satisfaction goal.

23 Operations and Maintenance (O&M) Expense Goal

1 Employees are expected to work together to continuously seek
2 appropriate efficiencies that prudently control costs in areas such as labor,
3 benefits, collections, travel, material, supplies, office, and plant
4 maintenance. To encourage employees to seek out more efficient and
5 prudent practices, the Company established a new goal for 2010 to
6 encourage employees to perform their job functions in a manner that is
7 most efficient and cost effective over the long term.

8 In my opinion, Montana-Dakota's incentive compensation programs
9 have helped the Company achieve these above results.

10 **Q. Are financial benchmarks part of Montana-Dakota's incentive**
11 **compensation programs?**

12 A. Yes. The Company's incentive programs are based on the
13 attainment of first meeting a financial benchmark before any incentive
14 compensation is paid to an employee.

15 **Q. How are these benchmarks beneficial to the Company's customers?**

16 A. The benchmarks all highlight the Company's objectives of providing
17 safe and reliable service while controlling costs and attaining earnings. By
18 linking the Company's objectives to its incentive compensation programs,
19 employees are educated on the influence their daily decisions have on the
20 Company's earnings and its customers. Each and every employee
21 influences the Company's financial results by performing their jobs
22 effectively and efficiently which helps control and reduce the Company's
23 operating expenses. Reduced operating expenses in turn benefit the

1 Company's customers by maintaining affordable rates for electric service
2 in North Dakota.

3 Following are just some of the ways employees can impact the
4 Company's financial goals:

- 5 • Attention to safety reduces lost time from work, worker's
6 compensation claims, and reduction of O&M expenses related to
7 repairs and/or replacement and possible litigation.
- 8 • Increase efficiencies in the methods used to perform daily tasks
9 and eliminate redundant services across department or utility
10 segments.
- 11 • Working effectively and efficiently.
- 12 • Properly maintain equipment to extend its useful life.

13 **Q. Can you provide examples of how employee efficiencies are being**
14 **passed on to customers?**

15 A. Yes. In addition to the specific changes I outlined in my Direct
16 Testimony starting on page 7, Montana-Dakota continues to take an active
17 approach to controlling expenses by reducing the Company's employee
18 numbers through attrition, improved processes and taking advantage of a
19 "shared concept" with MDU Resources. These employee savings have
20 contributed to the Company's ability to keep employee counts lower or flat
21 from previous years.

22 To summarize my earlier comments regarding a focus on safety,
23 customer satisfaction and controlling costs, all are passed on to customers

1 through reduced costs and operating efficiencies. The Company's intent
2 is to always focus on the most practical and prudent way of conducting
3 ourselves so that it translates to savings or cost containment for Montana-
4 Dakota customers while still recognizing employees and a "Total
5 Compensation" philosophy.

6 **Q. Does this conclude your rebuttal testimony?**

7 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-10-124

Rebuttal Testimony
of
Andrea L. Stomberg

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

2 A. Yes. My name is Andrea L. Stomberg, 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 Vice President of Electric Supply for Montana-Dakota
6 Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. **Are you the same Andrea L. Stomberg that submitted Direct
8 Testimony in this proceeding?**

9 A. Yes, I am.

10 Q. **Have you read the pre-filed Direct Testimony of staff witness Mr.
11 George Mathai?**

12 A. Yes, I have.

13 Q. **Are you familiar with Mr. Mathai's recommended treatment of
14 Montana-Dakota's investment in the Diamond Willow and Cedar Hills
15 wind projects?**

16 A. Yes I am. I understand that Mr. Mathai has recommended that the
17 Diamond Willow wind projects located in Montana be excluded from

1 consideration in determining the Company's revenue requirement
2 because of his belief that they were built to meet Montana's Renewable
3 Portfolio Standard and are more expensive than the Cedar Hills wind
4 project located in North Dakota.

5 Mr. Mathai also recommends that the Cedar Hills project be
6 excluded from consideration because of his belief that Montana-Dakota
7 failed to show a need or usefulness for the project. Mr. Mathai suggests,
8 without a concrete proposal, that to implement his recommendations the
9 Company's other legacy generation resources be reallocated among
10 Montana-Dakota's integrated system customers.

11 **Q. Do you agree with Mr. Mathai's recommendations to disallow**
12 **recovery of Montana-Dakota's investment in wind resources?**

13 A. No, I do not.

14 **Q. Would you please describe generally the factors that have gone into**
15 **Montana-Dakota's decision to add wind generation to its integrated**
16 **system?**

17 A. Montana-Dakota's decision to add wind generation to its system
18 was the result of many considerations.

19 Montana-Dakota has a need for additional generation resources
20 which has been demonstrated in its Integrated Resource Plan (IRP) filings
21 with this Commission, in its filing for an Advanced Determination of
22 Prudence for the Big Stone II Plant and as evidenced by the increased
23 energy purchased from the Midwest Independent System Operator

1 (Midwest ISO) required upon expiration of a long-term baseload contract
2 (AVS-II) and increased customer demand. The energy from Montana-
3 Dakota's wind generation provided an offset to historic high market prices
4 as described in more detail by Mr. Neigum and will serve to minimize
5 volatility associated with the market into the future.

6 In addition, the Midwest ISO currently accredits capacity for
7 intermittent generation at eight percent of installed capacity, based on
8 their Effective Load Carrying Capability studies. The capacity credits for
9 the wind facilities are included in MISO's determination of Montana-
10 Dakota's ability to meet its total projected load within MISO, which
11 includes Montana-Dakota's integrated system.

12 Montana-Dakota seeks to have a diversified generation portfolio,
13 including baseload coal with various boiler types as well as diverse fuel
14 and fuel suppliers, gas peaking plants at several locations, and purchased
15 power. The addition of a small amount (less than ten percent of its system
16 installed capacity) of wind generation assists in further diversification of
17 the Company's electric supply. Including a reasonable amount of no-
18 carbon renewable generation in Montana-Dakota's generation portfolio
19 makes sense given social interest in renewable energy and a very
20 uncertain environmental regulatory situation for fossil fuel generation.

21 Finally, the three states that are served by Montana-Dakota's
22 integrated system each have state renewable energy standards or
23 objectives, enacted by their state legislatures. The passage of these

1 standards and objectives are clear evidence that the states in which the
2 Company provides retail electric service have adopted public policies that
3 electric utilities providing service within their jurisdictions should have
4 some of their electric supply generated by renewable resources.

5 **Q. Were the two wind projects built to meet the Montana renewable**
6 **energy standard?**

7 A. First and foremost, Montana-Dakota built these facilities to help
8 meet the generation needs for its integrated system customers. As a
9 MISO participant, all of Montana-Dakota's generation, including wind, is
10 offered into the MISO market and in essence repurchased from that same
11 market under the MISO's real-time and day-ahead markets for the benefit
12 of Montana-Dakota's entire integrated system. The energy from Montana-
13 Dakota's wind generation cannot be physically segregated to serve any
14 particular state. While Montana-Dakota built the first wind project at
15 Diamond Willow with the intent to utilize the renewable energy certificates
16 (RECs) from Diamond Willow toward the Montana requirement, it was
17 always intended that the energy would be delivered into the MISO system
18 for the benefit of Montana-Dakota's entire integrated system. Moreover,
19 the decision to pursue the Diamond Willow project was made at the time
20 that the North Dakota Legislature was in the process of adopting its
21 renewable energy objective "that ten percent of all electricity sold at retail
22 within the state by the year 2015 be obtained from renewable and
23 recycled energy sources". The energy and renewable energy certificates

1 from Diamond Willow I as well as Diamond Willow II and Cedar Hills will
2 go toward meeting the Montana renewable energy standard as well as the
3 North Dakota and South Dakota renewable energy objectives.

4 **Q. Do you agree with Mr. Mathai that Montana-Dakota did not meet a**
5 **burden of proof as the need or usefulness of the Cedar Hills wind**
6 **facility?**

7 A. No. Montana-Dakota filed an Application with this Commission for
8 a Certificate of Public Convenience and Necessity (CPCN) for the Cedar
9 Hills facility in Case No. PU-08-942. The Commission issued an order
10 granting the certificate which specifically referenced that Montana-
11 Dakota's application indicates the Cedar Hills project is needed to provide
12 reliable and economic renewable energy to its customers. Based on that
13 application and the subsequent informal hearing, the Commission
14 determined in its Order that "public convenience and necessity will be
15 served by the construction and ownership of the facilities". The certificate
16 issued by the Commission states "that public convenience and necessity
17 require" Montana-Dakota to "construct, own and operate" the Cedar Hills
18 project.

19 **Q. Did Montana-Dakota apply for a CPCN for the Diamond Willow**
20 **projects?**

21 A. No. It is my understanding that the requirements for a CPCN
22 applies to facilities built within the State of North Dakota. Diamond Willow
23 is located in Montana and, therefore there was no similar requirement for

1 Montana-Dakota to file a CPCN for that facility.

2 With regard to the usefulness of the Cedar Hills project, it has been
3 generating electricity for the benefit of North Dakota and other customers
4 of Montana-Dakota's integrated system since the project commenced
5 commercial operation June 6, 2010. The electricity from all three wind
6 projects have been included in the Company's fuel adjustment clause
7 filings filed monthly with the Commission.

8 **Q. Why didn't Montana-Dakota apply for an Advanced Determination of**
9 **Prudence (ADP) for the Cedar Hills and Diamond Willow projects?**

10 A. As I understand, the CPCN essentially has the same effect as an
11 ADP for smaller North Dakota projects. The ADP provides the certainty
12 desired for access to capital for larger projects; but that was not a large
13 concern for the small Cedar Hills project. Montana-Dakota further
14 understands that NDAC 49-05-16 (6) bestows a rebuttable presumption
15 that a renewable energy facility located in the state of North Dakota is
16 prudent regardless of whether an ADP application is filed. Certainly, when
17 the Commission granted the CPCN for Cedar Hills, it affirmed its view of
18 the prudence of that investment. While the Company could have pursued
19 an ADP for the Diamond Willow projects, there is no mandate that a utility
20 file for an ADP and given the need for resources as presented in the
21 Company's IRPs, the state's support for renewable energy, as evidenced
22 by the North Dakota renewable objective, and a desire on the part of
23 Montana-Dakota to further diversify its generation portfolio, Montana-

1 Dakota believes the investment was prudent.

2 **Q. Why is available transmission capability particularly important?**

3 A. There are potential wind projects totaling 2,768 MW seeking
4 interconnection to Montana-Dakota's transmission system, including 320
5 MW in the vicinity of Cedar Hills and Diamond Willow. As the
6 transmission system becomes more fully utilized to serve Montana-Dakota
7 load growth, as well as by others who seek to interconnect, system
8 upgrades to accommodate new generation become more expensive. In
9 2008, \$4 million of network upgrades were required for a wind facility
10 interconnection (Tatanka) with Montana-Dakota's transmission line in
11 southeastern North Dakota. The enXco Merricourt wind project
12 interconnection, scheduled for 2011, on that same southeastern North
13 Dakota line is expected to cost more than \$20 million for needed network
14 transmission upgrades.

15 One advantage Montana-Dakota has with its two discrete, smaller
16 wind developments is that the resources fit within the available capacity of
17 the existing transmission system, with virtually no upgrades required. As
18 more and more generators take advantage of open access to Montana-
19 Dakota's transmission, locations where upgrades are not required will
20 become scarcer. By finding niches within the system where transmission
21 capability was available, and by building before others used that same
22 capability, Montana-Dakota was able to avoid costs that would likely apply
23 to projects located elsewhere or later in time that would need to be passed

1 on to customers.

2 **Q. Can you comment on Mr. Mathai's suggestion that other generation**
3 **resources be reallocated among the jurisdictions of Montana-**
4 **Dakota's integrated system?**

5 A. I credit Mr. Mathai for recognizing these generation resources
6 cannot simply be removed from consideration for rate making purposes
7 without considering replacement sources of energy and capacity to serve
8 Montana-Dakota's North Dakota customers. Mr. Mathai's suggestion
9 recognizes that the wind projects are being used to serve North Dakota
10 customers as part of the integrated system. Of course, replacement
11 supply sources have associated costs which will offset and possibly
12 exceed the cost of the wind projects in the long term. However, those
13 costs are not reflected as offsets to Mr. Mathai's recommendations. I
14 certainly don't believe it is appropriate, as suggested by Mr. Mathai, to
15 reallocate a greater share of Montana-Dakota's legacy generation simply
16 because it is currently less expensive than the cost of newer wind
17 generation that is being used to supply North Dakota customers. This
18 could create bad regulatory precedent in which costs for an integrated
19 system would be assigned to the jurisdiction where they were incurred
20 rather than to the customers benefitted by the resource. In actuality, any
21 attempt to allocate between jurisdictions based on generation source,
22 cost, and benefits of energy that is delivered into the MISO market to
23 serve an integrated system is not realistic.

1 Q. **Can you provide any examples of differing state-specific**
2 **requirements that increase costs which are paid for by all of**
3 **Montana-Dakota's customers?**

4 A. Yes. There are many other examples of state-specific
5 requirements that are included in rates charged customers throughout the
6 integrated system.

7 For instance, coal ash disposal requirements in North Dakota are
8 much more stringent than those in Montana, but since power from North
9 Dakota coal plants with ash disposal facilities flows to all states, these
10 costs are collected from all customers. Similarly, pollution control
11 requirements can vary state by state, as they do within Montana-Dakota's
12 system. North Dakota's coal reclamation laws are noteworthy in their
13 stringency, which impacts the cost of lignite fuel from North Dakota mines.
14 All integrated system costs have historically been shared by all customers
15 of the entire integrated system, without regard to the location of the
16 generation source.

17 Q. **Does the North Dakota renewable energy objective require that**
18 **renewable generation be least cost as implied by Mr. Mathai's**
19 **testimony?**

20 A. Montana-Dakota seeks to provide its customers with the best value,
21 given the many parameters that need to be considered when selecting
22 generation. In recognizing these many parameters, NDCC 49-02-32
23 requires an "...economic evaluation to determine if the use of new

1 renewable and recycled energy is cost-effective considering other
2 electricity alternatives” and then goes on to state that after this evaluation
3 is complete, the retail provider “may use the electricity alternative that best
4 meets its resource or customer needs”. Clearly, the intent of the writers
5 was to ensure that both economics as well as other salient factors were
6 considered in a decision to build a renewable source.

7 **Q. In your opinion, is it appropriate for Montana-Dakota to consider a**
8 **resource that is not the least cost source of power to be a**
9 **reasonable addition to its resource portfolio?**

10 A. Certainly. As Montana-Dakota states in its 2009 IRP, and as noted
11 by Mr. Mathai on page 13, in seeking the overall best choice for meeting
12 the long-term energy requirements of its customers, Montana-Dakota may
13 consider resources which may not be least cost competitive, but which
14 have other perceived social or regulatory attributes. Further, decisions are
15 made at a point in time, based on the best information available at that
16 time. This can include reasonable analysis about future social and
17 regulatory environments.

18 And Montana-Dakota has shown that the cost of the generation for
19 which we seek recovery is reasonable. The capital costs are well within
20 the costs of other new generation resources available to us, and the
21 energy costs are much lower. Mr. Darcy Neigum will step through the
22 Company's decision process in his rebuttal testimony.

23 **Q. Do other investor owned utilities have wind generation in their North**

1 **Dakota rates?**

2 A. Absolutely. This Commission has approved rate recovery for wind
3 resources for both Otter Tail Power Company and Xcel Energy. My
4 understanding of the reasons for the development of wind resources by
5 each of these electric utilities is similar to Montana-Dakota's reasons and
6 in fact both companies currently have a higher percentage of wind as part
7 of the resource portfolios than Montana-Dakota based on my review of
8 recent integrated resource plans for each company.

9 Mr. Mathai's recommendations are arbitrary and inconsistent with
10 the regulatory precedent in North Dakota for treatment of other utilities and
11 wind generation resources.

12 **Q. Do you have any comment on Mr. Mathai's suggestion that any rate**
13 **recovery of wind generation costs be handled through a renewable**
14 **rider?**

15 A. Montana-Dakota has no objection to that recommendation.

16 **Q. Does this conclude your rebuttal testimony?**

17 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-10-124

Rebuttal Testimony
of
Darcy J. Neigum

1 Q. **Please state your name and business address.**

2 A. My name is Darcy J. Neigum 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 System Operations and Planning Manager of Montana-
6 Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources
7 Group, Inc.

8 Q. **Are you the same Darcy J. Neigum that submitted Direct Testimony**
9 **in this proceeding?**

10 A. Yes, I am.

11 Q. **What is the purpose of this rebuttal testimony?**

12 A. The purposes of my rebuttal testimony is to discuss the background
13 and process that Montana-Dakota went through in its decision to invest in
14 wind generation.

15 Q. **Describe the background and process that Montana-Dakota went**
16 **through in it decision to pursue the construction and ownership of**
17 **the Diamond Willow I wind project?**

1 A. In September 2006, Montana-Dakota issued a request for proposal
2 (RFP) of renewable energy resources up to 33 MW in size either through
3 long-term power purchase agreement(s), a design-build-future transfer
4 arrangement, or Montana-Dakota ownership upon full development. The
5 purpose of this RFP was to provide additional electric generation
6 resources for Montana-Dakota's integrated system customers in North
7 Dakota, South Dakota, and Montana that would also qualify to meet the
8 Montana Renewable Power Production and Rural Economic Development
9 Act (MT RPS).

10 **Q. What response did Montana-Dakota receive from its RFP?**

11 A. Montana-Dakota received a total of six responses to the RFP. Two
12 responses were for projects on the western electric grid in Montana and
13 therefore not deliverable to Montana-Dakota's integrated system. Three
14 proposals, including Diamond Willow, were on the eastern grid in
15 Montana. The final proposal was located in southeast North Dakota.

16 The results of the RFP process concluded that the Diamond Willow
17 I wind project was both the least cost and best alternative presented.

18 **Q. Did Montana-Dakota require that in order for projects to be
19 considered in the 2006 RFP the resources must be located in
20 Montana?**

21 A. No. The RFP requested MISO deliverability at a location within
22 Montana-Dakota's integrated electric service territory.

23 **Q. What was Montana-Dakota's need for electric generation resources
24 on its integrated system at that time?**

1 A. With the expiration of the AVS II Power Purchase Agreement in
2 2006, Montana-Dakota was deficit in both capacity and energy needed to
3 serve its integrated customer load. In 2007, Montana-Dakota was
4 forecasting a capacity deficit of 85 MW which was increasing at 5 MW per
5 year. In addition at that time, Montana-Dakota also purchased 307,914
6 MWh or 12 percent of its customers' electric needs from the Midwest ISO
7 energy market.

8 **Q. What portion of that need would be met by Diamond Willow I?**

9 A. Diamond Willow I was forecasted to supply 4 MW of capacity and
10 66,619 MWh or 2.5 percent of the annual energy supply requirements for
11 Montana-Dakota's integrated customers.

12 **Q. What was the estimated completed cost of Diamond Willow I at that
13 time?**

14 A. Diamond Willow I was estimated to cost \$36.6 million with a 20
15 year levelized cost of \$55 per MWh.

16 **Q. How did that compare with the cost of other available renewable and
17 non-renewable resources?**

18 A. Other renewable alternatives ranged from \$45.52 to \$60.45 per
19 MWh. These projects offered as part of the MT RFP were either
20 connected to the western electric grid, connected to the WAPA
21 transmission system, offered as part of a larger project to be built to serve
22 other customers as well as Montana-Dakota, or included price escalators
23 which would have made them more expensive than Diamond Willow I over
24 the life of their power purchase agreements.

1 Q. **When did Montana-Dakota decide to pursue the Diamond Willow I**
2 **project?**

3 A. Montana-Dakota made the decision to pursue the purchase and
4 self-build of Diamond Willow I in February of 2007.

5 Q. **What was the status of the North Dakota and South Dakota**
6 **renewable energy objectives at that time?**

7 A. The North Dakota renewable objective was being considered and
8 was consequently passed during the 2007 legislative session while the
9 South Dakota renewable objective was passed during the 2008 legislative
10 session.

11 Q. **What made the Diamond Willow I the best response alternative for**
12 **Montana-Dakota?**

13 A. There were a number of features that drew attention to the
14 Diamond Willow I proposal.

- 15 • The developer for the Diamond Willow I project had two years of
16 meteorological data for the proposed site which showed it was an
17 excellent wind resource location.
- 18 • The proposed site was located near a Montana-Dakota 57 kV
19 transmission line southeast of Baker, MT.
- 20 • The developer had secured options for the needed wind leases.
- 21 • The proposed site location had room for future expansion.

22 Q. **What role did Montana-Dakota take in the development of Diamond**
23 **Willow I?**

1 A. The Diamond Willow proposal contained an option to allow
2 Montana-Dakota to purchase the development rights and self-build the
3 project. Montana-Dakota purchased the development rights for the project
4 which contained a proposed site large enough for 30 MW's of wind
5 turbines, options to wind leases, and two years of on-site meteorological
6 data.

7 In the development of the Diamond Willow I project, Montana-
8 Dakota completed the negotiations of the wind leases, purchased the wind
9 turbines, submitted the transmission interconnection request, negotiated a
10 general construction contract for the construction of the wind turbines, built
11 the substation and interconnect facilities, and provided the overall
12 management and administration for the project.

13 Wind turbine equipment was scarce in 2007, but Montana-Dakota
14 was able to negotiate with General Electric to purchase 19.5 MW's of
15 available wind turbines in March of 2007.

16 **Q. When did the Diamond Willow I project come on-line?**

17 A. The Diamond Willow I project was placed into commercial
18 operation in February of 2008.

19 **Q. Has it been used to supply electricity for Montana-Dakota's
20 integrated electric system since that time?**

21 A. Yes, the capacity and energy from Diamond Willow has been used
22 to supply the electric needs of all Montana-Dakota's integrated system
23 customers.

1 **Q. How has the Diamond Willow facility been used to provide electric**
2 **energy and capacity for Montana-Dakota's integrated electric**
3 **system?**

4 A. Montana-Dakota offers all of its generation, including wind, into the
5 Midwest ISO Energy Market. Montana-Dakota then buys all of its
6 customers' electric supply needs from the Midwest ISO Energy Market. If
7 Montana-Dakota is a net seller of energy into the Midwest ISO Energy
8 Market than it creates wholesale sales for the excess generation supplied.
9 If Montana-Dakota is a net purchaser of energy from the Midwest ISO
10 Energy Market than it buys MWh's, equal to the amount it did not self-
11 supply, to satisfy its integrated system customer needs. Because wind
12 generation has a zero dollar marginal cost it is always used to serve
13 integrated customer load before thermal generators and system
14 purchases. All of Montana-Dakota's integrated customers receive the
15 benefit of the zero dollar marginal cost of wind generation.

16 **Q. Have all of Montana-Dakota's integrated system electric customers**
17 **received the benefit of the electric energy and capacity provided by**
18 **Diamond Willow I?**

19 A. Yes. Montana-Dakota's integrated system customers have all
20 benefited from Diamond Willow I. The capacity from Diamond Willow has
21 been used to meet the peak load reserve obligations for all Montana-
22 Dakota system integrated customers since 2008. The wind generation
23 from Diamond Willow I has a zero dollar marginal cost of generation which
24 has reduced the fuel consumed or system purchases that would otherwise

1 have been needed to serve the Company's integrated system customer
2 load.

3 **Q. How has Diamond Willow's actual performance compared to**
4 **Montana-Dakota's projected performance?**

5 A. The annual capacity from Diamond Willow I since it was placed in
6 commercial service has been 39 percent; or the same as forecasted using
7 the available site meteorological data.

8 **Q. Has Montana-Dakota received any additional benefits from its**
9 **ownership and operation of Diamond Willow I beyond its capacity**
10 **and energy supply?**

11 A. Yes. Diamond Willow I provides all integrated customers with
12 protection from future price volatility associated with fossil fuel generation,
13 especially natural gas, and it reduces the dependency on MISO energy
14 market purchases. In 2007, Montana-Dakota's average price for MISO
15 energy purchases to serve its integrated customer load was \$50 per MWh.
16 This amount increased to \$55 per MWh for all purchases in 2008 as
17 compared to the 20 year levelized cost of \$57 per MWh for Diamond
18 Willow I. The ownership of Diamond Willow I also allowed for the creation
19 of opportunities through synergies, to develop additional cost effective
20 wind projects in the vicinity of the Diamond Willow site.

21 **Q. Describe the background and process that Montana-Dakota went**
22 **through in decision to pursue the development of the Diamond**
23 **Willow II and Cedar Hills?**

1 A. Many factors go into the consideration and timing for generation
2 addition projects including the need for a new resource, public policy
3 objectives, resource planning activities, equipment availability, equipment
4 pricing, available incentives, alternative opportunities, site availability,
5 need for transmission upgrades, fuel pricing forecasts, and others.

6 The MT RPS and North Dakota and South Dakota renewable
7 objectives would have Montana-Dakota acquire a total of 80 MW of wind
8 generation, based on 2008 annual customer sales, through either
9 ownership or contract agreements by 2015 to serve the needs of its
10 integrated system customers.

11 The production tax credit (PTC's) incentive for new wind generation
12 projects was set to expire on December 31, 2008. PTC's for wind in 2008
13 provided a \$20 per MWh production tax credit. On a pre-tax basis the
14 PTC is worth \$33 per MWh. Without PTC's the cost of wind generation is
15 significantly more expensive than other alternative sources of electric
16 generation. The expiration of the PTC in prior years saw a halt in the wind
17 development in this country. Historically when the PTC's were extended
18 the price of turbine equipment increased overnight due to increased
19 demand.

20 Both presidential candidates in 2008 promoted alternative sources
21 of generation in this country and advocated either a national renewable
22 portfolio standard or a national carbon tax to incentivize the development
23 of renewable sources of generation.

1 In the beginning of 2008, turbine equipment was scarce and wind
2 developers were betting that Congress would extend the PTC at least one
3 more time through the end of 2010. With this in mind, turbine equipment
4 was reported to be sold out through the end of 2010.

5 In 2007, the price of Montana-Dakota's average Midwest ISO
6 energy purchases was approximately \$50 per MWh. In 2008, prices had
7 increased to \$55 per MWh which was comparable with the energy price
8 for new wind generation projects.

9 Montana-Dakota was capacity deficit and was in need of future
10 capacity resources. In 2008, the Midwest ISO was assigning 20 percent
11 capacity accreditation for wind generation projects.

12 Montana-Dakota's experience with Diamond Willow demonstrated
13 that small wind projects could be cost effective if transmission costs and
14 project overhead and development fees could be held to a minimum.
15 The original interconnection request for the Diamond Willow project was
16 for 30 MW. The Midwest ISO's generator interconnection process allowed
17 the first generator in the queue to utilize available transmission capacity.
18 Subsequent generators would be responsible for network upgrades if
19 available transmission capacity was not available. Montana-Dakota had
20 over 2,700 MW's of interconnection requests on its system with over 300
21 MW's in the vicinity of Baker, MT. If Montana-Dakota would not have built
22 the Diamond Willow II or Cedar Hills projects there was a potential that
23 another wind developer could have built a project in the vicinity of Baker
24 and been able to utilize the available transmission. This transmission was

1 built for and paid for by Montana-Dakota customers and could have been
2 used to serve someone else's load without having to provide
3 compensation to Montana-Dakota or its customers.

4 Therefore, Montana-Dakota looked for additional wind generation
5 sites in the vicinity of Diamond Willow as development of a new wind
6 project site near Diamond Willow would allow synergies with existing
7 operational personnel and further utilize the strong wind resource which
8 the Diamond Willow I project had demonstrated.

9 Montana-Dakota was able to find a suitable site west of Rhame,
10 ND. It was close to two Montana-Dakota transmission lines and it was
11 within 25 miles of the Diamond Willow site. Montana-Dakota secured wind
12 options for two sections of land.

13 Montana-Dakota's modeling efforts regarding the Big Stone II
14 certificate of need process in Minnesota and prudence determination in
15 North Dakota showed that a wind and gas combination could be
16 comparable with a base load coal-fired generating unit on a least cost
17 basis as seen in Montana-Dakota's 2009 Integrated Resource Plan.

18 During mid 2008, another turbine purchase opportunity developed
19 with General Electric.

20 Montana-Dakota issued a request for proposals (2008 RFP) the
21 end of 2008 for capacity and energy resources to supply Montana-
22 Dakota's customers at the end of the NSP capacity and energy purchase
23 agreement after 2011. The 2008 RFP produced only one wind generation
24 proposal at \$54 per MWh in Year 1 and \$65 MWh in Year 2, escalated by

1 2 percent per year thereafter. The forecasted 20 year levelized costs of
2 Diamond Willow II at \$57 per MWh and Cedar Hills at \$55 per MWh were
3 cheaper than the bid from the 2008 RFP and were comparable with the
4 Diamond Willow I project.

5 **Q. What filings did Montana-Dakota make with the North Dakota Public**
6 **Service Commission which included the development of Diamond**
7 **Willow I, Diamond Willow II, and Cedar Hills projects?**

8 A. The 2007 Integrated Resource Plan (IRP) included the Diamond
9 Willow I project. The 2009 IRP included the Diamond Willow II and Cedar
10 Hills projects. Montana-Dakota also filed for and received a certificate of
11 public convenience and necessity for the Cedar Hills project.

12 **Q. What information was included in the application for a Certificate of**
13 **Public Convenience and Necessity (CPCN) application for the Cedar**
14 **Hills project?**

15 A. A copy of the Company's Application for a Certificate of Public
16 Convenience and Necessity for a 19.5 MW Wind Project located in North
17 Dakota is included as Exhibit No. ____ (DJN-1). The application includes
18 information regarding the size of the project of 19.5 MW as well as the
19 estimated levelized cost and assumed capacity factors for the project.

20 **Q. Was a CPCN issued for the Cedar Hills project?**

21 A. Yes. A copy of the Commission's Order Granting Certificate dated
22 March 25, 2009 and the accompanying Certificate of Public Convenience
23 and Necessity is included as Exhibit No. ____ (DJN-2).

24 **Q. Did Montana-Dakota seek a CPCN for the Diamond Willow II project?**

1 A. No. It is my understanding the requirement for a CPCN applies to
2 projects built within the State of North Dakota.

3 **Q. Would the information contained in the application regarding the**
4 **estimated levelized cost and assumed capacity factors for the Cedar**
5 **Hills project been equally applicable to the Diamond Willow II**
6 **project?**

7 A. Yes, both projects were assumed to have similar capacity factors
8 based on the meteorological data and operating history at Diamond Willow
9 I. The forecasted 20 year levelized cost of Diamond Willow II was \$57 per
10 MWh and for Cedar Hills was \$55 per MWh.

11 **Q. When did the Diamond Willow II and Cedar Hills projects come on-**
12 **line?**

13 A. The Diamond Willow II and Cedar Hills projects came on-line in
14 June of 2010.

15 **Q. Have both projects been used to supply electricity for Montana-**
16 **Dakota's integrated electric system since that time?**

17 A. Yes. Both projects have been used to supply the electric needs for
18 Montana-Dakota's integrated system customers since they were placed in
19 commercial operation. The energy and capacity from Diamond Willow II
20 and Cedar Hills have been used in the same manner as the Diamond
21 Willow I project.

22 **Q. Have all of Montana-Dakota's integrated system customers received**
23 **the benefit of the electric energy and capacity provided by Diamond**
24 **Willow II and Cedar Hills?**

1 A. Yes. The energy and capacity from Diamond Willow II and Cedar Hills
2 have been used to supply all of Montana-Dakota's interconnected
3 customers and all of Montana-Dakota's interconnected system customers
4 have received the same benefit from the capacity and energy from the
5 Diamond Willow II and Cedar Hills projects.

6 **Q. How did Diamond Willow II's and Cedar Hills' completed costs**
7 **compare to Montana-Dakota's estimated costs as contained in**
8 **Montana-Dakota's CPCN application for Cedar Hills?**

9 A. The certificate of public convenience and necessity forecasted an
10 installed cost of Cedar Hills at \$45 million. The actual cost of Cedar Hills
11 was \$47 million.

12 The initial forecasted cost of Diamond Willow II was \$24 million as
13 compared to an actual installed cost of \$25 million.

14 **Q. How has Diamond Willow II's and Cedar Hills; actual performance**
15 **compared to Montana-Dakota's projected performance?**

16 A. The Diamond Willow II and Cedar Hills projects have only been in
17 service for four months. During that time they have performed very similar
18 to the Diamond Willow I project. This is a good indication that the projects
19 will have annual capacity factors similar to Montana-Dakota's experience
20 with Diamond Willow I.

21 **Q. Has Montana-Dakota received any benefits from its ownership and**
22 **operation of Diamond Willow II and Cedar Hills that were not**
23 **included in its initial analysis or its CPCN application?**

1 A. Yes. Both Cedar Hills and Diamond Willow II provide all integrated
2 customers with protection from future price volatility associated with fossil
3 fuel generation, especially natural gas. Cedar Hills and Diamond Willow II
4 reduces the dependency on Midwest ISO energy market purchases to
5 serve Montana-Dakota interconnected customer load as previously noted.
6 In 2007, Montana-Dakota's average price for Midwest ISO energy
7 purchases to serve its integrated customer load was \$50 per MWh. This
8 amount increased to \$55 per MWh for all purchases in 2008. The
9 construction of Cedar Hills and Diamond Willow II allowed Montana-
10 Dakota to qualify for the federal tax incentives available for wind
11 generation. The current federal tax incentive for wind is set to expire at
12 the end of 2012. These federal incentives may not be available at some
13 point in the future which will significantly increase the cost of wind without
14 incentives. If a national renewable portfolio standard is adopted or
15 Montana, North Dakota or South Dakota further revises its renewable
16 policy, than Montana-Dakota will be better positioned to meet the electric
17 supply needs of its customers based on its diversified generation portfolio
18 which includes 49.5 MW of wind and 5.3 MW of heat recovery generation.

19 **Q. If the wind projects would be removed from the generation mix in**
20 **servicing Montana-Dakota's electric customers, how would Montana-**
21 **Dakota meet the energy and capacity requirements of those**
22 **customers?**

23 A. Over the short term, Montana-Dakota would purchase additional
24 generation from the Midwest ISO energy market. Long-term, Montana-

1 Dakota would look to utilize other available generation facilities including
2 higher cost natural gas units and wind generating units.

3 **Q. What risks would removal of the wind generation and reliance on**
4 **other sources of energy and capacity pose to Montana-Dakota's**
5 **customers?**

6 A. Diamond Willow and Cedar Hills provide a cost effective renewable
7 source of generation to service Montana-Dakota's integrated system.
8 Without these resources, Montana-Dakota's North Dakota customers are
9 at risk in meeting future national or North Dakota renewal mandates with
10 more expensive future renewable resources.

11 Without Diamond Willow or Cedar Hills, Montana-Dakota's North
12 Dakota customers are also more reliant on commodity prices like natural
13 gas and future energy market prices.

14 Also, without a balanced generation portfolio, more generation is
15 subjected to future environmental compliance costs for fossil based fuels.

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, it does.



400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

December 17, 2008

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: Case No. PU-08-942
Application for a Certificate of Public
Convenience & Necessity for a 19.5 MW
Wind Project located in North Dakota

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., herewith files an original and seven (7) copies of an Application for a Certificate of Public Convenience and Necessity to construct, own and operate a 19.5 MW Wind facility to be located near Rhame, North Dakota. The Wind facility is expected to be in commercial operation by October 2009.

Please refer all inquiries regarding this filing to:

Tamie A. Aberle
Pricing & Tariff Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

Also, please send copies of all written inquiries, correspondence and pleadings to:

Daniel S. Kuntz
Associate General Counsel
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58506-5650

Montana-Dakota has previously submitted a check to cover the \$50.00 filing fee required for filings, in accordance with North Dakota Century Code Section 49-05-05.

MONTANA-DAKOTA UTILITIES CO.

Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

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,



Tamie A. Aberle
Pricing & Tariff Manager

Attachments

cc: Daniel S. Kuntz

**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 a Certificate of Public Convenience) Case No. PU-08-_____
and Necessity for a 19.5 MW Wind)
Project located near Rhame, North)
Dakota)

**APPLICATION FOR A CERTIFICATE
OF PUBLIC CONVENIENCE AND NECESSITY**

COMES NOW, Montana-Dakota Utilities Co. (Montana-Dakota or Applicant), a Division of MDU Resources Group, Inc., the Applicant in the above-entitled proceeding, and makes application pursuant to Chapter 49-03.1, NDCC, for a Certificate of Public Convenience and Necessity to own and operate a 19.5 MW Wind Project facility, to be located approximately five miles west of Rhame, North Dakota.

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

II.

That Applicant is a Division of MDU Resources Group, Inc., a Delaware corporation duly authorized to do business in the State of North Dakota as a foreign corporation, and that it is doing business in the State of North Dakota as a public utility subject to the jurisdiction of and regulation by the North Dakota Public Service Commission (Commission) under Title 49, NDCC, as amended.

III.

That Applicant's Certificate of Incorporation and amendments thereto have been previously filed with the Commission under Case No. PU-08-710 and such Certificate and Amendments are hereby incorporated by reference as though fully set forth herein.

IV.

That this Application is being made pursuant to the provisions of Chapter 49-03.1 of the North Dakota Century Code, and the rules and regulations promulgated by the Public Service Commission of the State of North Dakota.

V.

That Applicant seeks authorization to own and operate a 19.5 MW wind project and associated facilities necessary to interconnect with Montana-Dakota's existing electric system. Montana-Dakota is not extending service to any new retail customers as a part of this project. Montana-Dakota's transmission facilities in the area of the new wind generators are sufficient for interconnecting the wind units and will not require incremental investment to upgrade the 57 KV transmission facilities. A 57/34.5 KV step up substation will be constructed to interconnect with the existing transmission facilities. Attached as Exhibit A is a map depicting the location of the wind turbines and the substation.

VI.

That the project referred to as the Cedar Hills project will consist of thirteen 1.5 MW General Electric turbines. The project site is comprised of approximately 640 acres located within Sections 23 and 24, Township 132N, Range 105W in Bowman County. The required easements have been obtained and the Bowman County Commission has been apprised of the project. Montana-Dakota has utilized the wind data used in developing the Diamond Willow project to estimate the wind resource at the Cedar Hills project due to the close proximity of the two projects. Montana-Dakota has commissioned Western Plains Consulting Inc. to conduct a fall and spring avian survey.

The fall survey was completed in November of 2008. Montana-Dakota is awaiting the final report but preliminary results of the fall survey have shown that the proposed project area poses no threat to endangered species. The spring survey is to be conducted during the spring migration.

VII.

That this renewable resource is a cost effective addition to Montana-Dakota's portfolio of resources necessary to provide reliable and economic energy to its customers. The estimated levelized cost per Mwh is expected to be \$54.50 based on an assumed capacity factor of 40 percent and a revenue requirement based on an investment of approximately \$45 million, plus associated operating expenses, depreciation and taxes offset by a production tax credit of \$.02 per Kwh for the first 10 years. The capacity factor and operating expenses were estimated based on Montana-Dakota's experience at its Diamond Willow wind facility that has been fully on-line since February 2008, located approximately 20 miles west of this new wind facility.

VIII.

That there is a rebuttal presumption this renewable energy facility which is to be located in the state of North Dakota is deemed prudent pursuant to 49-05-16.

IX.

That no other public utility will be affected by the ownership and operation of the proposed facility and associated interconnection facilities.

X.

That Applicant is fit, willing and able to own and operate the proposed facilities.

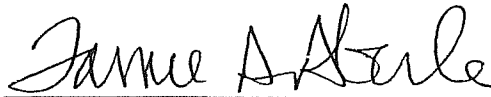
XI.

That Applicant believes it is in the public interest that Applicant be granted a Certificate of Public Convenience and Necessity for the authority it requests herein.

WHEREFORE, Applicant respectfully requests that the Commission:

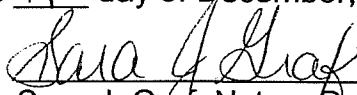
1. Give Notice of Opportunity to request a hearing to interested parties and, if no hearing is requested within twenty days, to waive the hearing in accordance with §49-03.1-05, NDCC;
2. Enter an Order and issue a Certificate of Public Convenience and Necessity authorizing the Applicant to construct, own and operate a 19.5 MW wind power facility in southwestern North Dakota.
3. Grant such other relief as the Commission shall deem appropriate.

Dated this 17th day of December, 2008.

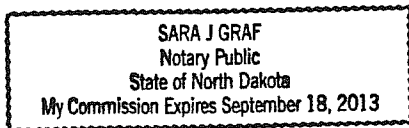


Tamie A. Aberle

Subscribed and sworn to before me this 17th day of December, 2008.



Sara J. Graf, Notary Public
Burleigh County, North Dakota
My Commission Expires: 09/18/2013

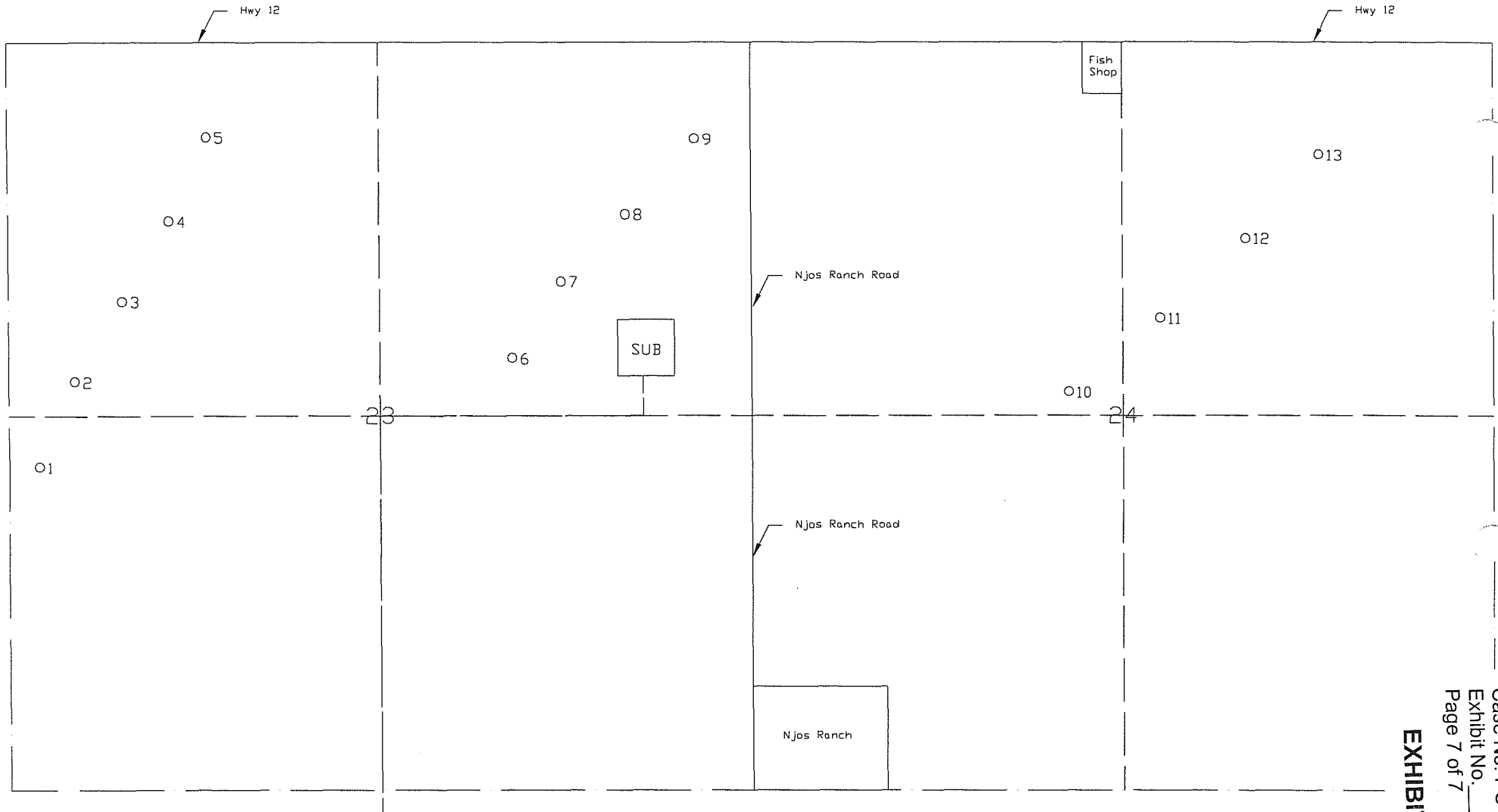


Of Counsel:

Daniel S. Kuntz
Associate General Counsel
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58506-5650

CEDAR HILLS WIND PROJECT TURBINE LAYOUT

Bowman County ND T132N R105W Sections 23 and 24



**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co., a Division of MDU
Resources Group, Inc.
19.5 MW Wind Facility – Rhame, ND
Public Convenience & Necessity**

Case No. PU-08-942

ORDER GRANTING CERTIFICATE

March 25, 2009

On December 18, 2008, Montana-Dakota Utilities Co. (MDU) filed an application for a Certificate of Public Convenience and Necessity to construct, own, and operate a 19.5 MW wind energy facility. The proposed project, referred to as the Cedar Hills project, consists of thirteen 1.5 MW GE turbines and associated facilities to be located on 640 acres in Sections 23 & 24, Township 132 N, Range 105 W, approximately five miles west of the city of Rhame in Bowman County, North Dakota.

On January 14, 2009 the Commission issued a Notice of Opportunity for Hearing. The notice provided until February 20, 2009 for receiving written comments or hearing requests. Written comments were received from the State Historical Society of North Dakota on January 23, 2009. No requests for hearing were received. The notice identified the following issues to be considered:

1. Whether public convenience and necessity will be served by construction and ownership of the facilities.
2. Whether Montana-Dakota Utilities Co., is fit, willing and able to provide service.

On March 11, 2009 the Commission discussed this matter with representatives from MDU and Commission staff at an informal hearing.

Montana-Dakota Utilities Co. is a Division of MDU Resources Group, Inc., which is a Delaware Corporation authorized to do business in North Dakota as a foreign corporation, and is doing business in North Dakota as a public utility subject to the jurisdiction of and regulation by this Commission.

Montana-Dakota Utilities Co. generates, transmits, and distributes electricity in Montana, North Dakota, South Dakota, and Wyoming. It is an experienced electric generation, transmission and distribution utility that currently serves over 120,000 retail electric customers in the northern great plains. Montana-Dakota Utilities Co. has the experience and resources to construct, own, and operate the Cedar Hills project.

Montana-Dakota's application indicates that the Cedar Hills project is needed to provide reliable and economic renewable energy to its customers.

The Commission finds public convenience and necessity will be served by construction and ownership of the facilities.

The Commission finds that Montana-Dakota Utilities Co. is fit, willing and able to provide service.

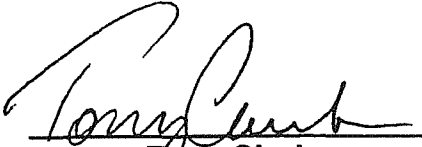
Order

The Commission Orders:

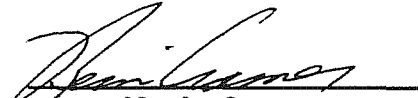
1. The application of Montana-Dakota Utilities Co. for a certificate of public convenience and necessity to construct, own, and operate the Cedar Hills project is GRANTED.

2. Certificate of Public Convenience and Necessity No. 5392 is issued to Montana-Dakota Utilities Co. to construct, own, and operate the Cedar Hills 19.5 MW wind energy facility in Bowman County, North Dakota.

PUBLIC SERVICE COMMISSION



Tony Clark
Commissioner



Kevin Cramer
President



Brian P. Kalk
Commissioner

**PUBLIC SERVICE COMMISSION
STATE OF NORTH DAKOTA**

**Certificate of Public Convenience and Necessity
Certificate Number 5392**

This is to certify that public convenience and necessity require, and permission is granted for Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., to construct, own and operate a 19.5 MW wind energy facility known as the Cedar Hills project in Sections 23 and 24, Township 132N, Range 105W, Bowman County, North Dakota.

This certificate is issued in accordance with the Order of this Commission dated March 25, 2009 in Case No. PU-08-942, and is subject to the conditions and limitations noted in the Order.


This certificate is conditioned upon Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. securing the franchise or other authority of the proper municipal or other public authority for the exercise of these rights and privileges.

Bismarck, North Dakota, March 25, 2009.

ATTEST:

PUBLIC SERVICE COMMISSION


Executive Secretary


Commissioner

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

Before the Public Service Commission of North Dakota

Case No. PU-10-124

Rebuttal Testimony
of
Mark A. Del Vecchio

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

2 A. Yes. My name is Mark A. Del Vecchio and my business address is
3 1200 West Century Avenue, Bismarck, North Dakota 58503.

4 **Q. Who are you employed by and what is your position?**

5 A. I am employed by MDU Resources Group, Inc. (MDU Resources)
6 as Vice President – Human Resources.

7 **Q. Describe your education and work experience.**

8 A. I have a Bachelor of Arts degree in Psychology from the College of
9 St. Thomas and a Master of Arts degree in Industrial Relations from the
10 University of Minnesota. I also hold a Juris Doctor degree from William
11 Mitchell College of Law.

12 My work experience includes 15 years in various human resource
13 positions both at the field and corporate level with large, multi-national
14 companies and seven years consulting on compensation, benefits, and
15 executive compensation for client companies. In 2003, I joined MDU
16 Resources as the Director of Compensation and Benefits where I was
17 responsible for program design, funding, compliance, and administration
18 of base pay, variable pay, long-term incentive, health, welfare, and
19 retirement programs. I also led the SEC compliance effort regarding proxy
20 statement preparation. In 2007, I assumed my current position of Vice

1 President – Human Resources. In my current position, I maintain
2 responsibility for many of the duties I was assigned as Director of
3 Compensation and Benefits; but I am also now responsible for strategy
4 development, Board interface, and assisting MDU Resources’ Business
5 Units on their human resource initiatives.

6 **Q. Have you reviewed the testimony of Mr. George Mathai in this**
7 **proceeding?**

8 A. Yes, I have.

9 **Q. Do you agree with Mr. Mathai’s recommendation to exclude 60**
10 **percent of the incentive compensation paid to employees of**
11 **Montana-Dakota from consideration in establishing retail electric**
12 **rates for Montana-Dakota?**

13 A. No. Incentive compensation is a well recognized component of
14 employee compensation and is a legitimate business expense in providing
15 utility services to the Company’s customers.

16 **Q. Describe the general components and objectives of an employee**
17 **compensation package for MDU Resources of which Montana-**
18 **Dakota is a subsidiary of.**

19 A. Employee compensation packages generally consist of three
20 components: (a) base salary; (b) benefits; and (c) incentive compensation.
21 Base salary targets, employee benefit levels, and incentive opportunity
22 targets are established to ensure the ability to attract and retain the talent
23 necessary to run the MDU Resources’ various business lines. The
24 Company’s ability to maintain a competitive total remuneration package
25 helps avoid employee turnover. High employee turnover could impede the
26 safe and reliable delivery of low-cost service.

1 **Q. Is incentive compensation unusual as a component of employee**
2 **compensation for investor owned public utilities?**

3 A. No, it is not unusual; it is the norm. For example, Mercer
4 Consulting, a large compensation, benefits, and actuarial consulting firm,
5 reported in their 2008 / 2009 U.S. Compensation Planning Survey, that
6 over 80% of companies in the energy industry provides annual incentives
7 for their employees.

8 **Q. Why does MDU Resources and Montana-Dakota include incentive**
9 **compensation as a component of employee compensation?**

10 A. Incentive compensation aligns a portion of the employee's
11 compensation for the performance of his/her duties and responsibilities
12 with specific goals and objectives of the Company. It places that portion
13 of the employee's compensation at risk if these goals and objectives are
14 not achieved.

15 **Q. Do you agree with Mr. Mathai's observation that performance**
16 **incentives are beneficial to both shareholders and customers?**

17 A. Incentive compensation, like base salary and benefits, is paid to the
18 employee for performance of the assigned job duties and responsibilities.
19 The performance of these duties and responsibilities, in furtherance of the
20 Company's utility business is of course beneficial to both the owners of the
21 business as well as the customers of the business. This is no different
22 than compensation paid to employees of any business – performance of
23 the employees' duties benefit both the owners and customers of the
24 business.

25 **Q. Does this apply even when one of the considerations of the incentive**

1 **compensation is financial performance of the Company?**

2 A. Yes. To achieve sufficient earnings quality means, among other
3 things, operations and maintenance costs are controlled, the electric
4 system is running efficiently, and assets are utilized to their fullest extent.
5 These are achieved through successful performance of employees' job
6 duties. Achieving earnings quality and operational goals means the
7 Company has efficiently utilized its assets and avoided unanticipated
8 costs. This, in turn, promotes the longevity of the utility system and
9 reduces the need for price increases.

10 **Q. Why do you disagree with Mr. Mathai's recommendation that a**
11 **portion of incentive compensation should be excluded from**
12 **consideration in determining the Company's revenue requirement for**
13 **setting rates?**

14 A. Employee compensation, including incentive compensation, is a
15 prudent and legitimate business expense. While prudent and legitimate
16 expenses incurred in furtherance of the Company's business certainly
17 benefit both owners and customers, recovery of a Company's prudent and
18 legitimate business expense through its prices is necessary to the long
19 term sustainability of the business. If a portion of the Company's prudent
20 and legitimate business expenses are excluded from recovery in setting
21 the Company's rates, the Company is denied a fair opportunity to earn the
22 required return on its invested capital.

23 **Q. Do MDU Resources and Montana-Dakota review their employee**

1 **compensation packages to assure they are both competitive and**
2 **reasonable?**

3 A. Each year MDU Resources' major business units, including
4 Montana-Dakota, review the base salary structure of approximately one-
5 third of the jobs in their general compensation plans. MDU Resources
6 uses two major salary survey sources – Salary.com and WM Mercer to
7 price positions (i.e., determine a competitive salary). Montana-Dakota
8 uses Towers Perrin, Watson Wyatt, Salary.com and American Gas
9 Association for benchmarking studies regarding salary.

10 Positions are grouped together according to their current salary
11 class. Data points from the salary survey sources are averaged and
12 compared to the midpoint of the salary class for each position. For the
13 majority of positions the Company is usually competitive (i.e., the salary
14 class midpoint is close to the average of the surveys); however, from time
15 to time there are aberrations. These positions are generally watched for a
16 couple of years and then a decision is made as to whether the position is
17 slotted in the correct salary class. Also, the aggregate average of the data
18 points is compared to the midpoint of each salary class, which indicates
19 whether or not our structure is aligned with the market. In our most recent
20 review, the midpoint of the vast majority of the MDU Resources and
21 Montana-Dakota salary classes were less than five percent above or
22 below the survey averages.

23 From an incentive compensation standpoint, the analytical

1 framework is identical to the above mentioned approach on base salaries;
2 we compare a position's target incentive percentage to the target incentive
3 percentage noted in the various salary surveys. We conduct this analysis
4 every three or four years, and the most recent analysis, which was two
5 years ago, was not retained. In general, however, MDU Resources' target
6 incentives were slightly above the market survey incentives while
7 Montana-Dakota's were roughly aligned with the market survey.

8 Finally, benefit packages of our major business units are
9 periodically reviewed to assure they are competitive, reasonable and
10 consistent with those offered by other employers in similar industries. In
11 recent years the employee benefit plans at MDU Resources and Montana-
12 Dakota have been revised significantly. For example, as discussed in the
13 direct testimony of Mr. David Goodin, the defined benefit pension plan was
14 frozen and the defined contribution plan increased, the utility discount for
15 active employees was eliminated, and the retiree medical plan was
16 substantially revamped.

17 **Q. Did you review Mr. Mathai's recommendation to exclude 50 percent**
18 **of the fees and expenses incurred for the Company's Board of**
19 **Directors?**

20 A. Yes, I did.

21 **Q. Do you agree with Mr. Mathai's recommendation?**

22 A. No, I do not.

23 **Q. Please explain why you do not agree with the recommendation.**

1 A. Like employee compensation, fees and expenses incurred for the
2 Company's Board of Directors are prudent and legitimate business
3 expenses. Recent statutory and regulatory requirements imposed on
4 publicly traded companies such as the Sarbanes-Oxley Act of 2002 have
5 necessitated a heightened involvement by an independent board of
6 directors on the oversight of the Company's business activities. The fees
7 and expenses incurred for an independent board of directors is essential
8 to the Company's ability to raise capital at competitive rates to fund its
9 ongoing operational needs. Mr. Mathai recognizes that these expenses
10 benefit both the Company's customers and shareholders, but then
11 arbitrarily recommends exclusion of 50 percent of these legitimate
12 expenses. Like all legitimate business expenses, the director fees and
13 expenses are incurred in furtherance of the Company's business which
14 must be recovered in its prices. The fact that oversight of the Company's
15 business provides benefits to both shareholders and customers is not a
16 basis for exclusion in setting rates.

17 **Q. Does this conclude your rebuttal testimony?**

18 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-10-124

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
8 this proceeding?**

9 A. Yes, I am.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to quantify the overall
12 effect of the Settlement Agreement (Settlement) between the Advocacy
13 Staff and Montana-Dakota in this case as well as the revenue
14 requirements related to the issues not reflected in the Settlement. I am
15 sponsoring Exhibit No. ____ (RAM- 2) and Exhibit No. ____ (RAM- 3)

16 **Q. What does the Settlement cover?**

17 A. The Settlement applies to all items raised by Staff witness George
18 Mathai excluding the wind generation (19.5 MW Diamond Willow, 10.5
19 MW Diamond Willow expansion and 19.5 MW Cedar Hills), incentive

1 compensation and MDU Resources Group, Inc. Board of Directors (Board)
2 expenses.

3 **Q. What are the additional revenue requirement adjustments associated**
4 **with the Settlement and how were they derived?**

5 A. First, the expenses and rate base amounts for all wind generation
6 were removed from Montana-Dakota's projected cost of service, as well
7 as the incentive compensation and Board expenses identified by Mr.
8 Mathai in his testimony.

9 The amounts for the incentive compensation and Board expenses
10 are from Mr. Mathai's testimony and summarized on Schedule GM-3-A.
11 The amounts for the wind generation are different than those used by Mr.
12 Mathai as the Company's calculations represent a more detailed analysis
13 of the amounts associated with all wind generation. Exhibit No. ____ (RAM-
14 2) shows the exclusion of all wind generation affecting the rate base and
15 income statement.

16 The Company and the Staff then negotiated the remaining issues in
17 developing the revenue increase specified in the Settlement Agreement.

18 The table below summarizes the effects of removing the wind
19 generation, incentive compensation and Board of Directors expenses from
20 the respective revenue requirement positions, along with the resulting
21 effect of the Settlement increase:

1

<u>In (000s)</u>	<u>Montana- Dakota</u>	<u>Staff</u>
Initial Revenue Increase 1/	\$11,519	(\$2,804)
<u>Reserve for Hearing – Revenue Requirement</u>		
Incentive Compensation	(1,147)	
Board of Directors	(70)	
Wind Generation	<u>(6,072)</u>	<u>3,460</u>
Subtotal - Hearing Issues	(\$7,289)	\$3,460
Net Rev. Requirement – Excl. Hearing Issues	<u>\$4,230</u>	<u>\$656</u>
Settlement Adjustments	(\$1,330)	2,244
Revenue Increase - Settlement	<u>\$2,900</u>	<u>\$2,900</u>

1/ As amended in Partial Settlement dated June 16, 2010.

2

3 **Q. Would you describe the adjustments to exclude the wind**
4 **generation?**

5 A. Yes. Page 2 of Exhibit No. ____ (RAM-2) is the projected 2010 rate
6 base as filed by the Company, with each of the wind projects identified
7 with the corresponding amounts for plant in service, accumulated reserve
8 for depreciation and accumulated deferred income taxes listed. Montana-
9 Dakota does not track all cost of service items separately by location and
10 did not have readily available all rate base and income statement items
11 specifically for the Diamond Willow generation that began operating in
12 2008, just as it does not track all cost of service items for the other
13 generation stations or other facilities. The Staff has proposed that if the
14 recovery of wind generation is authorized, it should be recovered through

1 a rider. If the Staff position is accepted by the Commission, Montana-
2 Dakota will make the necessary changes to identify and track all costs
3 associated with the wind generation.

4 The amounts on Exhibit No.____(RAM-2), page 2 are different than
5 those shown on Mr. Mathai's Schedule GM-3-8 because the Staff's
6 deductions for the 19.5 MW Diamond Willow investment reflected the
7 2009 accumulated reserve for depreciation instead of the 2010 level
8 included in the Company's projected 2010 rate base, and did not exclude
9 the accumulated deferred income taxes associated with the 19.5 MW
10 Diamond Willow I facility. In addition, the depreciation rates used for the
11 wind generation did not reflect the rates used in Montana-Dakota's filing.
12 In total, removing all wind generation from the North Dakota rate base
13 reduces rate base by \$62,254,000.

14 With respect to the income statement items, Exhibit No.____(RAM-
15 2), page 3 shows the exclusion of expenses associated with the wind
16 generation. The amounts on Exhibit No.____(RAM-2), page 3 are different
17 than those shown on Mr. Mathai's Schedule GM-3-8 for several reasons,
18 primarily the failure to exclude the fuel savings associated with the wind.
19 When Montana-Dakota built the Diamond Willow I wind facility in 2008, it
20 was able to displace other energy sources, primarily purchases from the
21 MISO market, which reduced fuel and purchased power costs. The
22 Diamond Willow and Cedar Hills wind generation allowed Montana-Dakota
23 to further reduce its fuel and purchased power expenses. The fuel and

1 purchased power included in the Company's filing reflects the lower fuel
2 and purchased power costs. If the investment and expense associated
3 with the wind generation is removed from determining the Company's
4 revenue requirement, the corresponding savings in fuel and purchased
5 power costs must also be removed.

6 Overall, as shown on page 1, the revenue requirement for all wind
7 generation as included in the Company's filing and reflecting the
8 Settlement Agreement dated June 16, 2010 on the capital structure,
9 capital costs and return on equity, is \$6,072,000.

10 **Q. Since the wind generation is not part of the settlement, is the**
11 **revenue requirement the Company is seeking the same as excluded**
12 **from the settlement agreement?**

13 A. There have been several changes that have occurred since the
14 filing that affect the overall cost of wind generation:

- 15 • On September 27, 2010, President Obama signed into law the Small
16 Business Jobs Act, which contains a 50 percent bonus depreciation for
17 2010 (retroactive to the beginning of the year) and will apply to the
18 2010 wind generation additions at Cedar Hills and the Diamond Willow
19 II expansion and is included as a rate base deduction.
- 20 • The North Dakota state investment tax credit of 3 percent over five
21 years will apply to the Cedar Hills wind generation and is included as a
22 rate base deduction and amortized over the life of the facility. Because
23 the bonus tax depreciation affects Montana-Dakota's tax liability,

1 Montana-Dakota will not be able to take the full ITC in 2010 but does
2 anticipate that it will be able to fully utilize the credit in future years.

3 The ITC is assigned directly to North Dakota because it is a state
4 income tax, and Montana-Dakota treats state income taxes as
5 applicable to the state where assessed and/or credited.

- 6 • The depreciation rate on wind generation for the Diamond Willow II
7 expansion and Cedar Hills has changed as a 5.17 percent depreciation
8 rate was reflected in the filing and the Company is now using a 5.0
9 percent depreciation rate for the new facilities. The depreciation rate
10 for the 19.5 MW Diamond Willow I will remain at 5.17 percent.

11 **Q. What is the revenue requirement of the total wind generation for**
12 **North Dakota electric operations?**

13 A. Exhibit No.____(RAM-3), page 1 summarizes the revenue
14 requirement based on the overall rate of return from the Settlement filed
15 on November 5, 2010, superseding the Agreement dated June 16, 2010.
16 The total revenue requirement for North Dakota wind generation is
17 \$4,598,000.

18 **Q. What is Montana-Dakota's total request based on the Settlement and**
19 **other issues?**

20 A. The table below summarizes the effects of the Settlement along
21 with the remaining outstanding issues on Montana-Dakota's request for an
22 increase in revenues.

1

<u>In (000s)</u>	<u>Amount</u>	<u>% Increase</u>
Settlement	\$2,900	2.6%
Incentive Compensation	1,147	
Board of Directors expenses	70	
Wind Generation	<u>4,598</u>	
Total Request	<u>\$8,715</u>	<u>7.9%</u>

2

3 **Q. Does this complete your rebuttal testimony?**

4 **A. Yes, it does.**

**MONTANA-DAKOTA UTILITIES CO.
 ELECTRIC UTILITY - NORTH DAKOTA
 RECONCILIATION OF ADJUSTMENTS TO EXCLUDE WIND GENERATION
 PROJECTED 2010
 (000s)**

	Staff	Company	Differences
Wind Plant Reserve	(\$73,770)	(\$73,616)	Use of projected test year
	(2,354)	(6,118)	Staff does not include 2010 reserve on Diamond Willow and used different depreciation rates than used in filing.
DITs	(34)	(5,244)	ADITs on Diamond Willow I
Net Plant	(\$71,382)	(\$62,254)	
O&M	(587)	(587)	
Depr	(3,689)	(3,818)	Different depreciation rates used by Staff
Taxes Other	(134)	(144)	Ad valorem on transmission
Fuel	0	2,510	fuel savings from wind generation
	(4,410)	(2,039)	
Income before taxes	4,410	2,039	
Interest	(2,151)	(1,849)	rate base and return difference
	6,561	3,888	
Income Taxes	2,569	1,523	
PTC	2,237	2,237	
Income Taxes	4,806	3,760	
Net Income	(396)	(1,721)	
Revenue Requirement	(\$9,532) 1/	(\$6,072) 2/	\$3,460

1/ Staff proposed return of 8.679 percent.

2/ Based on 8.699 percent ROR pursuant to Settlement Agreement.

**MONTANA-DAKOTA UTILITIES CO.
RATE BASE EXCLUDING WIND GENERATION
ELECTRIC UTILITY - NORTH DAKOTA
PROJECTED 2010
(000s)**

	Projected 2010	19.5 MW Diamond Willow	10.5 MW Diamond Willow	19.5 MW Cedar Hills	Total	Net
Electric Plant in Service	\$615,223	(\$25,709)	(\$16,692)	(\$31,215)	(\$73,616)	\$541,607
Accumulated Reserve for Depreciation	302,493	(3,645)	(862)	(1,611)	(6,118)	296,375
Net Electric Plant in Service	<u>\$312,730</u>	<u>(\$22,064)</u>	<u>(\$15,830)</u>	<u>(\$29,604)</u>	<u>(\$67,498)</u>	<u>\$245,232</u>
Additions						
Materials and Supplies	5,077					5,077
Fuel Stocks	2,955					2,955
Prepayments	373					373
Unamortized Loss on Debt	4,556					4,556
Deferred Generation Costs	1,547					1,547
Decommission of Retired Plant	(353)					(353)
Total Additions	<u>14,155</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,155</u>
Deductions						
Accumulated Deferred Income Taxes	\$49,973	(\$5,210)	(\$11)	(\$23)	(\$5,244)	44,729
Accumulated Investment Tax Credits	0					0
Customer Advances	227					227
Total Deductions	<u>50,200</u>	<u>(5,210)</u>	<u>(11)</u>	<u>(23)</u>	<u>(5,244)</u>	<u>44,956</u>
Total Rate Base	<u><u>\$276,685</u></u>	<u><u>(\$16,854)</u></u>	<u><u>(\$15,819)</u></u>	<u><u>(\$29,581)</u></u>	<u><u>(\$62,254)</u></u>	<u><u>\$214,431</u></u>

**MONTANA-DAKOTA UTILITIES CO.
FUEL AND PURCHASED POWER
ELECTRIC UTILITY - NORTH DAKOTA
PROJECTED 2010
(000s)**

	Filed - With Wind		With No Wind	
	Total	North Dakota	Total	North Dakota
Fuel Expense				
Acct. 501	\$45,053	\$29,234	\$46,147	\$29,944
Acct. 547	1,069	694	1,196	776
Total Fuel Expense	<u>46,122</u>	<u>29,928</u>	<u>47,343</u>	<u>30,720</u>
Purchased Power-Acct. 555				
Energy	\$5,816	\$3,774	\$5,965	\$3,871
Demand	2,075	1,438	2,075	1,438
Market Administration	508	330	508	330
Total Purchased Power	<u>8,399</u>	<u>5,542</u>	<u>8,548</u>	<u>5,639</u>
Total	<u>\$54,521</u>	<u>\$35,470</u>	<u>\$55,891</u>	<u>\$36,359</u>
Fuel & Purchased Power - Sale	<u>4,095</u>	<u>2,657</u>	<u>1,596</u>	<u>1,036</u>
Net Fuel & Purchased Power	<u>\$50,426</u>	<u>\$32,813</u>	<u>\$54,295</u>	<u>\$35,323</u>
Difference				\$2,510

**MONTANA-DAKOTA UTILITIES CO.
COMPARISON OF PER BOOKS TO PRO FORMA
FUEL AND PURCHASED POWER**

	Kwh		Amount		Per Mwh	
	Filed	No Wind	with wind	no Wind	with wind	no Wind
<u>Generation</u>						
Coyote	793,800,000	794,000,000	\$11,888,000	\$11,890,000	\$14.98	\$14.97
Big Stone	725,000,000	730,800,000	14,804,000	14,906,000	20.42	20.40
Heskett 1	118,600,000	122,100,000	3,049,000	3,132,000	25.71	25.65
Heskett 2	452,200,000	460,200,000	10,608,000	10,778,000	23.46	23.42
Lewis & Clark	258,200,000	300,100,000	4,704,000	5,441,000	18.22	18.13
Total steam generation	2,347,800,000	2,407,200,000	45,053,000	46,147,000	19.19	19.17
Glendive 1	2,500,000	2,900,000	287,000	326,000	114.80	112.41
Glendive 2	4,900,000	5,900,000	408,000	492,000	83.27	83.39
Miles City	1,300,000	1,400,000	163,000	172,000	125.38	122.86
Williston	0	0	6,000	1,000		
Ormat	30,600,000	30,600,000	205,000	205,000	6.70	6.70
Diamond Willow	99,500,000	0	0			
Cedar Hills	64,700,000		0			
Total other generation	203,500,000	40,800,000	1,069,000	1,196,000	5.25	29.31
Subtotal	2,551,300,000	2,448,000,000	46,122,000	47,343,000	18.08	19.34
<u>Purchases</u>						
WAPA Ft. Peck	14,300,000	14,300,000	476,000	476,000	33.29	33.29
MISO	232,300,000	238,200,000	5,816,000	5,965,000	25.04	25.04
Total purchases	246,600,000	252,500,000	6,292,000	6,441,000	25.52	25.51
Sales for Resale	164,700,000	66,700,000	4,095,000	1,596,000	24.86	23.93
Total Generation/Purchases	2,633,200,000	2,633,800,000	48,319,000	52,188,000	\$18.35	\$19.81

Montana-Dakota Utilities Co.
Diamond Willow Wind Farm 856000 Location
DIT Calculation
Estimated Through 12/31/10

Year	Tax Additions	1st Year Tax Rate	2nd Year Tax Rate	3rd Year Tax Rate	4th Year Tax Rate	1st Year Tax Depr.	2nd Year Tax Depr.	3rd Year Tax Depr.	4th Year Tax Depr.	Total Tax Depr.	Book Depr.	M-1	Fed. Tax Rate	DIT
2007	\$ 2,607,576	20.00%	32.00%	19.20%	3.75%	\$ 521,515	\$ 834,424	\$ 500,655	\$ 97,784	\$ 1,954,378				
2008	\$ 35,083,965	20.00%	32.00%	19.20%		\$ 7,016,793	\$ 11,226,869	\$ 6,736,121		\$ 24,979,783				
2009	\$ (245,942)	20.00%	32.00%			\$ (49,188)	\$ (78,701)			\$ (127,890)				
	\$ 37,445,599					\$ 7,489,120	\$ 11,982,592	\$ 7,236,776		\$ 26,806,271	\$ 5,341,286	\$ 21,464,985	35%	\$ 7,512,745

Allocate to North Dakota

\$5,210,208

**MONTANA-DAKOTA UTILITIES CO.
 INCOME STATEMENT AND REVENUE REQUIREMENT- WIND GENERATION
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2010**

	<u>Wind Generation</u>	<u>19.5 MW Diamond Willow</u>	<u>10.5 MW Diamond Willow</u>	<u>19.5 MW Cedar Hills</u>	<u>Fuel</u>
Operating Revenues					
Sales					
Sales for Resale	\$0				
Other	0				
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Operating Expenses					
Operation and Maintenance					
Cost of Fuel & Purchase Powe	(\$2,510)				(\$2,510)
Other O&M	587	279	63	245	
Total O&M	<u>(1,923)</u>	<u>279</u>	<u>63</u>	<u>245</u>	<u>(2,510)</u>
Depreciation and Amortization	3,682	1,290	834	1,558	0
Taxes Other Than Income	142	59	34	49	0
Income Taxes	<u>(3,579)</u>	<u>(1,717)</u>	<u>(978)</u>	<u>(1,867)</u>	<u>983</u>
Total Expenses	<u>(1,678)</u>	<u>(89)</u>	<u>(47)</u>	<u>(15)</u>	<u>(1,527)</u>
Operating Income	<u>\$1,678</u>	<u>\$89</u>	<u>\$47</u>	<u>\$15</u>	<u>\$1,527</u>
Rate Base	<u>\$51,449</u>	<u>\$17,012</u>	<u>\$12,100</u>	<u>\$22,337</u>	
Revenue Requirement	<u>\$4,598</u>	<u>\$2,286</u>	<u>\$1,653</u>	<u>\$3,169</u>	<u>(\$2,510)</u>

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

	Total	19.5 MW Diamond Willow	10.5 MW Diamond Willow	19.5 MW Cedar Hills
<u>Plant in Service</u>				
Production	\$71,938	\$24,142	\$16,680	\$31,116
Transmission	1,831	1,720	12	99
Total	<u>73,769</u>	<u>25,862</u>	<u>16,692</u>	<u>31,215</u>
<u>Acc. Reserve</u>				
Production	5,904	3,514	834	1,556
Transmission	128	126	0	2
Total	<u>6,032</u>	<u>3,640</u>	<u>834</u>	<u>1,558</u>
Net Plant	67,737	22,222	15,858	29,657
Acc. Deferred Income Taxes	15,995	5,210	3,758	7,027
Investment Tax Credits	293			293
	<u>16,288</u>	<u>5,210</u>	<u>3,758</u>	<u>7,320</u>
Rate Base	<u><u>\$51,449</u></u>	<u><u>\$17,012</u></u>	<u><u>\$12,100</u></u>	<u><u>\$22,337</u></u>

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

	<u>Projected 2010</u>	<u>19.5 MW Diamond Willow</u>	<u>10.5 MW Diamond Willow</u>	<u>19.5 MW Cedar Hills</u>
Rate Base	\$51,449	\$17,012	\$12,100	\$22,337
Weighted Cost of Debt		2.970%	2.970%	2.970%
Interest Expense	<u>\$1,527</u>	<u>\$505</u>	<u>\$359</u>	<u>\$663</u>

**MONTANA-DAKOTA UTILITIES CO.
 PRODUCTION TAX CREDIT
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2010
 (000s)**

	<u>Projected 2010</u>	<u>19.5 MW Diamond Willow</u>	<u>10.5 MW Diamond Willow</u>	<u>19.5 MW Cedar Hills</u>
Production Tax Credit	(\$0.021)			
Kwh	164,200,000	64,700,000	34,800,000	64,700,000
Tax (000s)	(\$3,449)	(\$1,359)	(\$731)	(\$1,359)
Allocation to North Dakota	(\$2,237)	(\$882)	(\$473)	(\$882)

**MONTANA-DAKOTA UTILITIES CO.
 DEPRECIATION AND OTHER TAXES
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2010
 (000s)**

	<u>Total</u>	<u>19.5 MW Diamond Willow</u>	<u>10.5 MW Diamond Willow</u>	<u>19.5 MW Cedar Hills</u>
<u>Depreciation Rate</u>				
Production		5.17%	5.00%	5.00%
Transmission		2.45%	2.45%	2.45%
<u>Depreciation Expense</u>				
Production	\$3,638	\$1,248	\$834	\$1,556
Transmission	44	42	0	2
Total Depreciation	<u>\$3,682</u>	<u>\$1,290</u>	<u>\$834</u>	<u>\$1,558</u>

<u>Ad Valorem Tax Rate</u>				
Production				
Transmission (composite transmission rate)		0.59590%	0.59590%	0.59590%

<u>Ad Valorem Taxes</u>				
Production	\$131	\$49	\$34	\$48
Transmission	11	10	0	1
Ad valorem	<u>\$142</u>	<u>\$59</u>	<u>\$34</u>	<u>\$49</u>

<u>Cedar Hills</u>	
Investment in Generation	<u>ND Tax</u> \$31,116
Assessed Factor	0.50
Tax with reduction	\$15,558
Ad Valorem Tax Class Rate	1.5%
Mill Levy	207.610
Tax	\$48,450

	<u>10.5 MW</u>	<u>19.5 MW</u>
<u>Diamond Willow</u>		
Additional 10.5 Megawatts	\$16,680	\$24,142
Cost to Market Rate	0.38215	0.38215
Cost to Market	\$6,374	\$9,226
Ad Valorem Tax Rate	3%	3%
Taxable Value	\$191	\$277
Assessed Factor	0.50	0.50
Reduction	\$96	\$139
Mill Levy	351.83	351.83
Tax	33,776	48,904

**MONTANA-DAKOTA UTILITIES CO.
 ELECTRIC UTILITY - NORTH DAKOTA
 CALCULATION INCOME TAXES
 PROJECTED 2010**

	<u>Wind Generation</u>	<u>19.5 MW Diamond Willow</u>	<u>10.5 MW Diamond Willow</u>	<u>19.5 MW Cedar Hills</u>	<u>Fuel</u>
Operating Revenues					
Operating Expenses					
Operation and Maintenance					
Cost of Fuel & Purchased Power	(2,510)				(2,510)
Other O&M	587	279	63	245	
Total O&M	(1,923)	279	63	245	(2,510)
Depreciation and Amortization Exp.	3,682	1,290	834	1,558	
Taxes other Than Income	142	59	34	49	
Total Operating Expenses	1,901	1,628	931	1,852	(2,510)
Gross Adjustments to Operating In	(1,901)	(1,628)	(931)	(1,852)	2,510
Deductions and Adjustments to Book Income:					
Interest	1,527	505	359	663	
Total Adjustments to Taxable Inc.	1,527	505	359	663	
Taxable Income	(3,428)	(2,133)	(1,290)	(2,515)	2,510
Federal & State Income Taxes	(1,342)	(835)	(505)	(985)	983
Production Tax Credit	(2,237)	(882)	(473)	(882)	
Total Income Taxes	<u>(\$3,579)</u>	<u>(\$1,717)</u>	<u>(\$978)</u>	<u>(\$1,867)</u>	<u>\$983</u>

**MONTANA-DAKOTA UTILITIES CO.
 UTILITY CAPITAL STRUCTURE
 PROJECTED 2010 SETTLEMENT**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
<u>Settlement</u>				
Long Term Debt	\$267,567,357	41.084%	6.845%	2.812%
Short Term Debt	20,829,409	3.199%	2.535%	0.081%
Preferred Stock	15,500,000	2.380%	4.590%	0.109%
Common Equity	<u>347,368,141</u>	<u>53.337%</u>	10.750%	<u>5.734%</u>
Total	<u><u>\$651,264,907</u></u>	<u><u>100.000%</u></u>		<u><u>8.736%</u></u>

**MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED DEFERRED INCOME TAXES
REFLECTING BONUS TAX DEPRECIATION
ELECTRIC UTILITY - NORTH DAKOTA
PROJECTED 2010
(000s)**

Bonus Tax	Plant	Bonus Tax Depr.	Tax Depr.	Total Tax Depr.	Book Depr. Rate	Book Depr.	Book/Tax Difference	Deferred Inc. Tax
<u>Diamond Willow</u>								
Wind Generation	\$16,680	\$8,340	\$1,668	\$10,008	5.00%	\$417	\$9,591	\$3,756
Transmission	12	6	0	6	2.45%	0	6	2
Total	<u>16,692</u>	<u>8,346</u>	<u>\$1,668</u>	<u>10,014</u>		<u>417</u>	<u>9,597</u>	<u>\$3,758</u>
<u>Cedar Hills</u>								
Wind Generation	\$31,116	\$15,558	\$3,112	18,670	5.00%	778	17,892	\$7,007
Transmission	99	50	2	52	2.45%	1	51	20
Total	<u>31,215</u>	<u>15,608</u>	<u>\$3,114</u>	<u>18,722</u>		<u>779</u>	<u>17,943</u>	<u>\$7,027</u>
	<u>\$47,907</u>	<u>\$23,954</u>	<u>\$4,782</u>	<u>\$28,736</u>		<u>\$1,196</u>	<u>\$27,540</u>	<u>\$10,785</u>

Bonus tax depreciation	50.00%
Tax depreciation	
Production	20.00%
Transmission	5.00%

**MONTANA-DAKOTA UTILITIES CO.
INVESTMENT TAX CREDIT
- NORTH DAKOTA -**

CEDAR HILLS WIND FARM

ESTIMATED PLANT INVESTMENT

Plant Investment \$ 43,333,333.33 Asset # 201838 Estimate as of 10/31/10

ITC @ 3% \$ 1,300,000.00 ND ITC = 3% per year for 5 years after qualifying plant is in-service

Estimated 2010 ND \$ 300,000.00

Assumed placed in service: July 1, 2010 (mid-year)

Monthly Amortization

Year	2010	2011	2012	2013	2014	Carry-over 2015	TOTAL	Balance	Monthly Amortization	
	<u>20 Yr. Amort.</u>	<u>19.5 Yr. Amort.</u>	<u>18.5 Yr. Amort.</u>	<u>17.5 Yr. Amort.</u>	<u>16.5 Yr. Amort.</u>	<u>15.5 Yr. Amort.</u>			Jan-Nov	Dec
2010	7,500.00						7,500.00	292,500.00	625.00	625.00
2011	15,000.00	66,667.00					81,667.00	1,510,833.00	6,806.00	6,801.00
2012	15,000.00	66,667.00	70,270.00				151,937.00	2,658,896.00	12,661.00	12,666.00
2013	15,000.00	66,667.00	70,270.00	74,286.00			226,223.00	\$ 3,732,673.00	18,852.00	18,851.00
2014	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00		305,011.00	\$ 4,727,662.00	25,418.00	25,413.00
2015	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	5,358,135.00	30,794.00	30,793.00
2016	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	4,988,608.00	30,794.00	30,793.00
2017	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	4,619,081.00	30,794.00	30,793.00
2018	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	4,249,554.00	30,794.00	30,793.00
2019	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	3,880,027.00	30,794.00	30,793.00
2020	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	3,510,500.00	30,794.00	30,793.00
2021	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	3,140,973.00	30,794.00	30,793.00
2022	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	2,771,446.00	30,794.00	30,793.00
2023	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	2,401,919.00	30,794.00	30,793.00
2024	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	2,032,392.00	30,794.00	30,793.00
2025	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	1,662,865.00	30,794.00	30,793.00
2026	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	1,293,338.00	30,794.00	30,793.00
2027	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	923,811.00	30,794.00	30,793.00
2028	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	554,284.00	30,794.00	30,793.00
2029	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	184,757.00	30,794.00	30,793.00
2030	7,500.00	33,327.00	35,140.00	37,138.00	39,392.00	32,260.00	184,757.00	-	15,396.00	15,401.00
Total	\$ 300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,000,000.00	\$ 6,500,000.00			

**MONTANA-DAKOTA UTILITIES CO.
INVESTMENT TAX CREDIT
- NORTH DAKOTA -**

CEDAR HILLS WIND FARM

ESTIMATED PLANT INVESTMENT

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ITC @ 3% \$ 1,300,000.00 ND ITC = 3% per year for 5 years after qualifying plant is in-service

Estimated 2010 ND \$ 300,000.00

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Year	Carry-over						TOTAL	Balance	Monthly Amortization	
	2010	2011	2012	2013	2014	2015			Jan-Nov	Dec
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2010	7,500.00						7,500.00	292,500.00	625.00	625.00
2011	15,000.00	66,667.00					81,667.00	1,510,833.00	6,806.00	6,801.00
2012	15,000.00	66,667.00	70,270.00				151,937.00	2,658,896.00	12,661.00	12,666.00
2013	15,000.00	66,667.00	70,270.00	74,286.00			226,223.00	\$ 3,732,673.00	18,852.00	18,851.00
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2018	15,000.00	66,667.00	70,270.00	74,286.00	78,788.00	64,516.00	369,527.00	4,249,554.00	30,794.00	30,793.00
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Total	\$ 300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,300,000.00	\$ 1,000,000.00	\$ 6,500,000.00			