

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>(8,582)</u>	<u>950</u>
Subtotal - Hearing Issues	(\$9,799)	\$950
Net Rev. Requirement – Excl. Hearing Issues	<u>\$1,720</u>	<u>(\$1,854)</u>
Settlement Adjustments	(\$1,220)	\$2,354
Revenue Increase - Settlement	<u>\$500</u>	<u>\$500</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, along with the corresponding revenue. The amounts on  
17 Exhibit No.\_\_\_\_(RAM-2), page 3 are different than those shown on Mr.  
18 Mathai's Schedule GM-3-8 for several reasons, primarily the failure to  
19 exclude the fuel savings associated with the wind. When Montana-Dakota  
20 built the Diamond Willow I wind facility in 2008, it was able to displace  
21 other energy sources, primarily purchases from the MISO market, which  
22 reduced fuel and purchased power costs. The Diamond Willow and Cedar  
23 Hills wind generation allowed Montana-Dakota to further reduce its fuel

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

7 Overall, as shown on page 1, the revenue requirement for all wind  
8 generation as included in the Company's filing and reflecting the  
9 Settlement Agreement dated June 16, 2010 on the capital structure,  
10 capital costs and return on equity, is \$8,582,000.

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

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

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

1 the bonus tax depreciation affects Montana-Dakota's tax liability,  
2 Montana-Dakota will not be able to take the full ITC in 2010 but does  
3 anticipate that it will be able to fully utilize the credit in future years.  
4 The ITC is assigned directly to North Dakota because it is a state  
5 income tax, and Montana-Dakota treats state income taxes as  
6 applicable to the state where assessed and/or credited.

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

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

14 A. Exhibit No.\_\_\_\_(RAM-3), page 1 summarizes the revenue  
15 requirement based on the overall rate of return from the Settlement filed  
16 on November 5, 2010, superseding the Agreement dated June 16, 2010.  
17 The total revenue requirement for North Dakota wind generation is  
18 \$7,108,000.

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

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

1

<u>In (000s)</u>	<u>Amount</u>	<u>% Increase</u>
Settlement	\$500	0.4%
Incentive Compensation	1,147	
Board of Directors expenses	70	
Wind Generation	<u>7,108</u>	
Total Request	<u>\$8,825</u>	<u>7.7%</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)	
Revenue		\$2,510	Fuel savings from wind generation
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	4,549	
Interest	(2,151)	(1,850)	rate base and return difference
	6,561	6,399	
Income Taxes	2,569	2,506	
PTC	2,237	2,237	
Income Taxes	4,806	4,743	
Net Income	(396)	(194)	
Revenue Requirement	(\$9,532) 1/	(\$8,582) 2/	\$950

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	\$312,730	(\$22,064)	(\$15,830)	(\$29,604)	(\$67,498)	\$245,232
<b>Additions</b>						
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	14,155	0	0	0	0	14,155
<b>Deductions</b>						
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	50,200	(5,210)	(11)	(23)	(5,244)	44,956
Total Rate Base	\$276,685	(\$16,854)	(\$15,819)	(\$29,581)	(\$62,254)	\$214,431

MONTANA-DAKOTA UTILITIES CO.  
REVENUE REQUIREMENT ON WIND GENERATION  
ELECTRIC UTILITY - NORTH DAKOTA  
PROJECTED 2010  
(000s)

	Filed	19.5 MW Diamond Willow	10.5 MW Diamond Willow	19.5 MW Cedar Hills	Fuel	Total	Net
Operating Revenues							
Sales	\$110,925				\$2,510	2,510	\$108,415
Sales for Resale	0				0	0	0
Other	5,075				0	0	5,075
Total Revenues	116,000	0	0	0	2,510	2,510	113,490
Operating Expenses							
Operation and Maintenance	33,267						
Cost of Fuel & Purchased Power	40,485				2,510	2,510	35,777
Other O&M	73,752	(279)	(63)	(245)		(587)	39,898
Total O&M	18,757	(279)	(63)	(245)	2,510	1,923	75,675
Depreciation and Amortization	4,636	(1,345)	(862)	(1,611)		(3,818)	14,939
Taxes Other Than Income	1,794	(61)	(34)	(49)		(144)	4,492
Income Taxes	98,939	1,737	1,034	1,972	0	4,743	6,537
Total Expenses	\$17,061	52	75	67	2,510	2,704	101,643
Operating Income	\$276,685	(\$52)	(\$75)	(\$67)	\$0	(\$194)	\$11,847
Rate Base	\$11,519	(\$16,854)	(\$15,819)	(\$29,581)		(\$62,254)	\$214,431
Revenue deficiency		(\$2,324)	(\$2,139)	(\$4,119)	\$0	(\$8,582)	\$2,937
Calculation of income taxes							
Before Interest	\$1,685	\$959	\$1,905		\$0	\$4,549	
Interest	(501)	(470)	(879)		0	(1,850)	
Taxes	2,186	1,429	2,784		0	6,399	
PTC	856	560	1,090		0	2,506	
	881	474	882			2,237	
	\$1,737	\$1,034	\$1,972		\$0	\$4,743	

**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**

Generation	Kwh		Amount		Per Mwh	
	Filed	No Wind	with wind	no Wind	with wind	no Wind
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	0		
Cedar Hills	64,700,000	0	0	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	(\$2,510)				(\$2,510)
Sales for Resale	0				
Other	0				
Total Revenues	<u>(2,510)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,510)</u>
Operating Expenses					
Operation and Maintenance					
Cost of Fuel & Purchase Power	(\$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>(4,562)</u>	<u>(1,717)</u>	<u>(978)</u>	<u>(1,867)</u>	<u>0</u>
Total Expenses	<u>(2,661)</u>	<u>(89)</u>	<u>(47)</u>	<u>(15)</u>	<u>(2,510)</u>
Operating Income	<u>\$151</u>	<u>\$89</u>	<u>\$47</u>	<u>\$15</u>	<u>\$0</u>
Rate Base	<u>\$51,449</u>	<u>\$17,012</u>	<u>\$12,100</u>	<u>\$22,337</u>	
Revenue Requirement	<u>\$7,108</u>	<u>\$2,286</u>	<u>\$1,653</u>	<u>\$3,169</u>	<u>\$0</u>

**MONTANA-DAKOTA UTILITIES CO.  
 RATE BASE  
 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>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.  
 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>	<u>ND Tax</u>
Investment in Generation	\$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>Diamond Willow</u>	<u>10.5 MW</u>	<u>19.5 MW</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>
<b>Operating Revenues</b>	(\$2,510)				(\$2,510)
<b>Operating Expenses</b>					
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)
<b>Gross Adjustments to Operating In</b>	(4,411)	(1,628)	(931)	(1,852)	
<b>Deductions and Adjustments to Book Income:</b>					
Interest	1,527	505	359	663	
Total Adjustments to Taxable Inc.	1,527	505	359	663	
<b>Taxable Income</b>	(5,938)	(2,133)	(1,290)	(2,515)	
<b>Federal &amp; State Income Taxes</b>	(2,325)	(835)	(505)	(985)	
<b>Production Tax Credit</b>	(2,237)	(882)	(473)	(882)	
<b>Total Income Taxes</b>	<u>(\$4,562)</u>	<u>(\$1,717)</u>	<u>(\$978)</u>	<u>(\$1,867)</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.  
UTILITY CAPITAL STRUCTURE  
PROJECTED 2010 SETTLEMENT**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
<b><u>Settlement</u></b>				
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>	<u>10.750%</u>	<u>5.734%</u>
Total	<u>\$651,264,907</u>	<u>100.000%</u>		<u>8.736%</u>

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

	Plant	Bonus Tax Depr.	Tax Depr.	Total Tax Depr.	Book Depr. Rate	Book Depr.	Book/Tax Difference	Deferred Inc. Tax
<b>Bonus Tax</b>								
Diamond Willow								
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	16,692	8,346	\$1,668	10,014		417	9,597	\$3,758
<b>Cedar Hills</b>								
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	31,215	15,608	\$3,114	18,722		779	17,943	\$7,027
	\$47,907	\$23,954	\$4,782	\$28,736		\$1,196	\$27,540	\$10,785

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

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)

Year	20 Yr. Amort.	2010	2011	2012	2013	2014	Carry-over 2015	Balance	Monthly Amortization	
	19.5 Yr. Amort.	18.5 Yr. Amort.	17.5 Yr. Amort.	16.5 Yr. Amort.	15.5 Yr. Amort.		TOTAL	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	\$ 1,300,000.00	\$ 6,500,000.00			