January 3, 2011

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PUBLIC SERVICE COMMISSION

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
600 East Boulevard, Department 408
Bismarck, ND 58505-0480

Re: Montana-Dakota Utilities Co. Application and Notice of Change in Electric Rates NDPSC Case No.: PU-10-124

Dear Secretary Nitschke:

Enclosed please find seven copies of my findings of fact and recommendations.

Respectfully,

James D. Roaché

James D. Roaché

cc: Illona Jeffcoat-Sacco
Scott Skakos
Richard Savelkoul
Daniel Kuntz

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Proposed Findings of Fact and Recommendations

James D. Roache'

Date- January 3, 2011 PU-10-124

Findings of Fact and Recommendations

James D. Roaché

Points of Interest

1. Wind Farms
2. Deferred Generation Costs
3. Salaries
4. Bonuses
5. Return on Equity
6. Base Rate

Wind Farms

There are three reasons why MDU's wind farms should be rejected:

Unreliable

Windmills produce intermittent, variable strength electricity that is of little, if any, use for how we use electricity. Ratepayers need steady, reliable energy and wind power does not produce this. Coal fired plants, and natural gas plants if they're operating, must be kept in full operation to provide reliable power when needed. Intermittent wind power only adds cost and is a duplication of facilities since the coal or gas plants have to stay at full operation to assure needed electricity is available.

Unaffordable

The cost of electricity for MDU is the following:

Produced from coal $20 MWH
Purchased $30 MWH
Produced from natural gas $40 MWH
Wind Farms $96 MWH

At present, all electricity produced by MDU comes from its coal plants. Any additional energy required to meet it's customers needs is purchased wholesale at $30 MWH which is less expensive than producing electricity at it's natural gas facilities for $40 MWH. When the wind blows MDU cuts back it's purchase of $30 MWH energy and replaces the $30 MWH energy with $96 MWH energy. To say that this is not cost effective is obvious and it is certainly not least cost to the ratepayers. To the contrary, it costs the ratepayers more than triple the price for wind power as opposed to the purchase price and nearly five times the cost of coal produced electricity. It is also more than double the cost of electricity that can be provided by MDU's natural gas plants.

Wind Farms built to meet State of Montana mandates

With all of it's defects, wind power would not be considered by utilities unless pressured by outside forces. MDU was compelled by Montana law to produce 10% of its electricity from renewable sources by 2010. This requirement will increase to 15% renewable sources by 2015. MDU complied with Montana law by building Diamond Willow I & II and Cedar Hills. Now MDU is attempting to require North Dakota ratepayers to pay for unreliable and unaffordable wind energy so that MDU can meet Montana's mandates.

Therefore, due to the fact that Diamond Willow I & II and Cedar Hills wind farms are unreliable, unaffordable and have been solely built to meet Montana mandate, it is unfair, unjust and unreasonable to have North Dakota ratepayers pay for these wind farms.

Deferred Generation Costs

MDU requested being compensated for moving a power line from a bridge, modifying sub-stations, and etc during previous years. These are normal, on-going business expenses that are paid for from then current return on equity. During the time that these expenses occurred, MDU's guaranteed return on equity was 11.50%, and at times their actual return on equity was 15.50%. This is more than sufficient to pay for normal business expenses. Adding these expenses to return on capital requirements means the ratepayers will be paying for these expenses twice, once in the past and again in the future.

Therefore, deferred generation expenditures should not be considered for future rate levels.

Salaries

In 2010 MDU gave its non-union employees a 2.5% pay increase and the union members received a 4.5% increase. The average income for workers in the United States has been falling for the last several years and is expected to continue to do so. Social Security retirees received no increase in benefits for 2010 and will receive no increase for 2011. Averaging the wage increases at MDU would make their increase at 3.5%. A 1% increase would be fair, just and reasonable in today's labor market and economy.

Therefore, excessive compensation should be considered when setting rate of return for MDU, thereby lowering that figure.

Bonuses

Bonuses are given to MDU employees for various reasons, the largest of which is improved profitability of MDU. This profit is then divided between shareholders and re-investment opportunities within MDU. Since MDU investors receive a large portion of the benefits from the bonuses given, the investors should pay for a portion of the bonuses.

Therefore, a 50/50 split on paying for MDU's bonus plan between ratepayers and investors would be fair, just and reasonable.

Return on Equity

10.75% ROE is far too high. This figure was reached by using an Otter Tail Power settlement for 2008 covering a time period of 2007 and 2008. Those years were during an extraordinarily expansive economic period and should not be used as a base for today and in the future. Economic conditions have changes dramatically and a much lower ROE should reflect this.

Therefore, a 9% ROE is an appropriate amount during difficult economic times. It is fair, just and reasonable that **both** MDU and the ratepayers share the burden of the national economic recession.

Base Rate

Raising the base rate from $5.50 to $10.64 for residential users is both unfair and proportionally much harder on the low KWH user. Nearly doubling the base rate for residential customers while not doing the same for all other rate payers' classes is unfair. Also, it is the low KWH residential user who is least able to afford any increase in rates, much less doubling his costs.

Space Heating

Space heating is essential for our low-income ratepayers. Retirees and lower wage earners depend on space heating to keep their utility costs manageable. Using space heating to keep two or three rooms livable is the norm for those struggling to make ends meet. Doubling the cost of heating during the winter would be devastating to our most vulnerable North Dakotans.

Present Cost

The average amount paid by the ratepayers is now 20.2% higher than before MDU received a 1.2% increase in 2004. There will be an additional 1.5% - 3% increase when wholesale sales adjustments are made and the ratepayers pay for this. Once wholesale sales losses are included, the amount paid by ratepayers increases to a 23% raise in costs. This is without a rate increase.

When all of the recommendations are instituted, there will be a decrease in rates paid by the ratepayers. This decrease will be offset by the additional costs of Big Stone II and loss of wholesale sales that the ratepayers will be paying for which are not calculated in the cost per KWH.

Therefore, a decrease in rates will balance the other additional costs billed to the ratepayer who has an already 23% higher electric bill. What's fair, just and reasonable needs to be applied to **both** MDU and the ratepayers. If all of the above recommendations are instituted, all parties will have received fair treatment.