

April 12, 2013

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

Re: Electric Earnings Sharing
Case No. PU-10-124

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits an original and two copies of its earnings sharing adjustment pursuant to the Partial Settlement Agreement dated June 16, 2010 and adopted in the Commission's Final Order issued on June 8, 2011 in Case No. PU-10-124 (2010 Settlement Agreement) and the Settlement Agreement adopted in the Commission's Order on Settlement dated December 31, 2012 (2012 Settlement Agreement).

The 2011 Settlement Agreement contained a provision requiring that if the return on equity for North Dakota electric operations exceeded 10.75 percent, Montana-Dakota would share revenues corresponding to 50 percent of the earnings above 10.75 percent. Montana-Dakota's return on equity for the twelve months ending December 31, 2012 was higher than the 10.75 percent threshold established in the 2011 Settlement Agreement. Montana-Dakota has calculated a refund of \$3,019,828 to be returned to customers, which is shown on Exhibit A, page 2 pursuant to the 2011 Settlement Agreement. Exhibit A shows the actual results of operations for 2012 and the adjustments to exclude those items not applicable to the earnings sharing. The sales for resale revenue and fuel expense were eliminated as the net margin from these sales is returned to customers each month as a credit to the Fuel and Purchased Power Adjustment. The reserve for refund, which represents the amount reserved for the earnings sharing in 2012, was also eliminated. Pursuant to the 2012 Settlement Agreement, the Margin Sharing Adjustment amount of \$1,315,065 was included the calculation of the earnings sharing.

In its Order on Settlement dated December 21, 2012, the Commission ordered that the refund of the 2011 earnings sharing amount of \$1,006,240 be implemented coincident with the implementation of the 2012 earnings sharing.

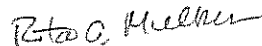
Exhibit A, page 1 summarizes the combined 2011-2012 earnings sharing, including the estimated interest accrued through June 30, 2013, with a total amount of \$4,028,846 to

be returned to customers. Montana-Dakota is proposing to refund this amount to all electric customers on a per Kwh basis effective with service rendered July 1, 2013 to be effective for the months of July and August, with any amounts under or over refunded then placed in the electric supply cost deferred balance. Exhibit A, page 1 shows the calculation of the credit of \$0.01098 per Kwh that will be applied to all customers' bills in June and July 2013 based on the Kwh billed under each rate schedule. The credit will be applied as a separate line item on customer bills. A residential customer using 750 Kwh per month will see a total bill credit over the two month period of \$16.48.

The 2011 Settlement Agreement requires that the shared revenues will be applied as a one-time bill credit to customers as soon as practicable after July 1. Montana-Dakota is requesting that the alternate method described above be used to provide the required bill credits to customers as provided for in the 2012 Settlement Agreement.

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,



Rita A. Mulkern
Director of Regulatory Affairs

Attachments

MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC
2012 EARNINGS SHARING

Earning Sharing Amount to Customers	
2012 Sharing 1/	\$3,019,828
2011 sharing 2/	<u>1,007,103</u>
Subtotal	\$4,026,931
Interest 3/	<u>1,915</u>
Total Refund	<u><u>\$4,028,846</u></u>
Projected Kwh Sales 4/	366,927,000
Refund per Kwh	<u><u>\$0.01098</u></u>
Monthly Typical Residential Bill Credit using 750 Kwh per month	<u><u>\$8.24</u></u>

1/ Page 2.

2/ Includes interest through December 31, 2012 at the 90 day treasury bill rate, page 4.

3/ Estimated interest for the period January-June 2013, page 3.

4/ Projected sales for July-August 2013.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC
2012 EARNINGS SHARING SUMMARY**

	<u>2012</u>	<u>Adjustments 1/</u>	<u>2012 Adjusted</u>
Revenue			
Sales	\$141,394,641	\$0	\$141,394,641
Sales for Resale	193,589	(193,589)	0
Reserve for Refunds	(3,724,439)	5,039,504	1,315,065
Other	6,287,535	0	6,287,535
Total	<u>144,151,326</u>	<u>4,845,915</u>	<u>\$148,997,241</u>
Expenses			
Cost of Fuel & PP	41,514,708	0	41,514,708
Fuel - SFR	187,645	(187,645)	0
O&M	45,812,063	0	45,812,063
Total	<u>87,514,416</u>	<u>(187,645)</u>	<u>87,326,771</u>
Depreciation	21,480,091	0	21,480,091
Taxes Other	5,265,257	0	5,265,257
Current Income Taxes	(3,829,477)	1,930,245	(1,899,232)
Deferred Income Taxes	9,787,339	0	9,787,339
Expenses	<u>120,217,626</u>	<u>1,742,600</u>	<u>121,960,226</u>
Net Income	\$23,933,700	\$3,103,315	\$27,037,015
Rate Base	\$268,800,834		\$268,800,834
Rate of Return	8.904%		10.058%
Return on Equity	<u>11.184%</u>		13.345%
Authorized Return			10.750%
Difference in Return			2.595%
Revenue to Share			\$6,039,655
Share 50 percent			<u><u>\$3,019,828</u></u>

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC
2012 EARNINGS SHARING**

	2012	Adjustments		Total Adjustments	Adjusted 2012
		Reserve 1/	Sales for Resale (SFR) 2/		
Revenue					
Sales	\$141,394,641			\$0	\$141,394,641
Sales for Resale	193,589		(\$193,589)	(193,589)	0
Reserve for Refunds	(3,724,439)	\$5,039,504		5,039,504	1,315,065
Other	6,287,535			0	6,287,535
Total	144,151,326	5,039,504	(193,589)	4,845,915	148,997,241
Expenses					
Cost of Fuel & PP	41,514,708			0	41,514,708
Fuel - SFR	187,645		(187,645)	(187,645)	0
O&M	45,812,063			0	45,812,063
Total	87,514,416	0	(187,645)	(187,645)	87,326,771
Depreciation	21,480,091			0	21,480,091
Taxes Other	5,265,257			0	5,265,257
Current Income Taxes 3/	(3,829,477)	1,932,524	(2,279)	1,930,245	(1,899,232)
Deferred Income Taxes	9,787,339			0	9,787,339
Expenses	120,217,626	1,932,524	(189,924)	1,742,600	121,960,226
Net Income	\$23,933,700	\$3,106,980	(\$3,665)	\$3,103,315	\$27,037,015
Rate Base	\$268,800,834				\$268,800,834
Rate of Return	8.904%				10.058%
Return on Equity	11.184%				13.345%

1/ Eliminates the reserve for the earnings sharing mechanism and retains the MSA revenue from the 2011 Settlement.

2/ Eliminates the sales for resale as the margin is reflected in the Fuel and Purchased Power Adjustment.

3/ Tax Calculation

	Reserve	SFR	Adjustments
Change in Rev. & Expense	\$5,039,504	(\$5,944)	\$5,033,560
Change in Tax Deductions			0
Net change in taxable income	5,039,504	(5,944)	5,033,560
Income Taxes @ 38.3475%	1,932,524	(2,279)	1,930,245

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC
2012 EARNINGS SHARING WITH INTEREST**

Earnings Sharing - 2011	1/	\$1,006,240		
		<u>Beginning Balance</u>	<u>Interest 3/</u>	<u>Ending Balance</u>
December				\$1,006,240
January		\$1,006,240	\$25	1,006,265
February		1,006,265	75	1,006,340
March		1,006,340	67	1,006,407
April		1,006,407	67	1,006,474
May		1,006,474	75	1,006,549
June		1,006,549	75	1,006,624
July		1,006,624	84	1,006,708
August		1,006,708	84	1,006,792
September		1,006,792	92	1,006,884
October		1,006,884	84	1,006,968
November		1,006,968	76	1,007,044
December		1,007,044	59	1,007,103
			<u>\$863</u>	
Earnings Sharing - 2012	2/	\$4,026,931		
January		\$4,026,931	\$235	4,027,166
February		4,027,166	336	4,027,502
March - est.		4,027,502	336	4,027,838
April - est.		4,027,838	336	4,028,174
May - est.		4,028,174	336	4,028,510
June - est.		4,028,510	336	4,028,846
			<u>\$1,915</u>	

1/ Order on Settlement dated December 21, 2012 in Case No. PU-10-124.

2/ 2011 and 2012 combined earnings sharing.

3/ Interest at 90 day treasury bill rate.