

May 9, 2014

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

Re: Case Nos. PU-14-108 and PU-14-109
Amended Application for an Electric
Generation Resource Recovery Rider
Tariff and Rates

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., herewith files an original and seven (7) copies of an amendment to its Application for approval of an electric Generation Resource Recovery Rider tariff and for rate adjustments under the tariff to recover generation investments for the Heskett Station III. The purpose of this update is to remove the costs of the natural gas pipeline built to supply the turbine from the Company's request and provide other amendments to the Exhibits and Rate Schedule as discussed with Commission Advocacy Staff.

In reviewing future natural gas needs for customers in North Dakota, Montana-Dakota Utilities Co. (Montana-Dakota) finds the natural gas pipeline built to serve Heskett Station III can also provide service to other natural gas customers and provide additional system reliability without hampering service to Heskett Station III. Thus, it is appropriate to move this facility to a natural gas asset at this time. This change lowers the costs to be recovered under the proposed rider from \$7.4 million to \$5.3 million.

The Company will file an agreement between the gas utility and Heskett Station III to provide for recovery of the costs of the pipeline. The provision of service to Heskett Station III generator will then be recovered under the Fuel and Purchased Power Adjustment Rate 58 based on the costs assigned to the Heskett Station III under the agreement.

We have included as part of this filing the following amendments to our original Application:

- Amended Original Sheet Nos. 40 and 40.1 – Generation Resource Recovery Rider Rate 56 from Exhibit 1 of the Application submitted on February 27, 2014;

- 14 PU-14-109 Filed 05/09/2014 Pages: 21
Amended application for generation resource recovery rider – tariff & rates
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
- 12 PU-14-108 Filed 05/09/2014 Pages: 21
Amended application for generation resource recovery rider – tariff & rates
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Tamie Aberle, Director Reg. Affairs

- Supplemental Direct Testimony of Tamie A. Aberle; and
- Amended Exhibits 1 through 3 of the testimony of Tamie A. Aberle which reflect the amended revenue requirement.

The revised monthly increase for a typical residential customer using 894 Kwh per month is \$2.57. The proposed rate adjustments under the Generation Rider, by rate class, reflecting estimated costs for the period July 2014 through June 2015 with an expected Resource Rider effective date of August 1, 2014 are as shown below and set forth on amended Original Sheet No. 40.1 of the proposed Rate Schedule 56.

Residential and Small General	\$0.00288 per Kwh
Large General	\$0.00231 per Kwh
Lighting	\$0.00139 per Kwh

Please refer all inquiries regarding this filing to:

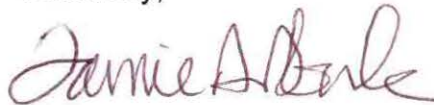
Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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

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
Director of Regulatory Affairs

Attachments
cc: Daniel S. Kuntz



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 40

Generation Resource Recovery Rider Rate 56

Page 1 of 2

1. Applicability:

This rate schedule represents a Generation Resource Recovery Rider (GRRR) and specifies the procedure to be utilized to recover the jurisdictional costs associated with generation resource additions approved by the Commission but not recovered through retail rates. Costs to be recovered may include operation and maintenance expenditures, depreciation, taxes, and a current return on the project costs during construction. Costs being recovered under this tariff are currently not included in the rates established at the time of the Company's last general rate case.

2. Generation Resource Recovery Rider:

- a. An adjustment per Kwh will be calculated using the projected capital costs and related expenses, along with the forecasted Kwh sales, to determine a North Dakota jurisdictional revenue requirement to be recovered through the GRRR. The return component of the revenue requirement calculation will be the authorized rate of return from the Company's most recent general rate case.
- b. The GRRR is applicable to all retail customers for electric energy sold, except those served under special contracts, and are allocated amongst the rate classes based on the an applicable demand factor.
- c. The GRRR will be adjusted annually (or other period authorized by the Commission) to reflect the Company's most recent projected capital costs and related expenses for projects determined to be recoverable under this schedule.
- d. A true-up will reflect any over or under collection of revenue under the GRRR based on actual expenditures from the preceding twelve month recovery period plus carrying charges or credits accrued at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.

3. Time and Manner of the Filing:

Montana-Dakota shall file the GRRR at least 60 days prior to the proposed effective date. The filing by Montana-Dakota shall be made by means of a revised GRRR tariff sheet identifying the amounts of the adjustment, the derivation of the GRRR and the resulting GRRR by class.

Date Filed: May 9, 2014

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 40.1

Generation Resource Recovery Rider Rate 56

Page 2 of 2

4. Generation Resource Recovery Rider:

Residential and Small General	0.288¢ per Kwh
Large General	0.231¢ per Kwh
Lighting	0.139¢ per Kwh

Date Filed: May 9, 2014

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.:

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

Before the Public Service Commission of North Dakota
Case Nos. PU-14-108 and PU-14-109

Supplemental Direct Testimony
of
Tamie A. Aberle

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

2 A. Yes. My name is Tamie A. Aberle, 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 Director of Regulatory Affairs for Montana-Dakota Utilities
6 Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 **Q. Are you the same Tamie A. Aberle who filed direct testimony in this
8 proceeding?**

9 A. Yes, I am.

10 **Q. What is the purpose of this testimony?**

11 A. The purpose of this testimony is to present the amended results of
12 the Heskett Station III revenue requirement Montana-Dakota is proposing
13 to recover through the Generation Resource Recovery Rider (Generation
14 Rider) due to the Company's decision to move the pipeline from electrical
15 operations to gas operations.

16 I also discuss wording changes to the proposed Generation Rider
17 Rate Schedule and a change in other operation and maintenance
18 expenses discovered when responding to Advocacy Staff's Data

1 Requests.

2 **Q. What amended statements and exhibits are you sponsoring in this**
3 **proceeding?**

4 A. I am sponsoring the following amended Exhibits:

- 5 • Pages 7 and 8 of 9 of Exhibit No. __ (TAA-1)
- 6 • Pages 1 through 3 of Exhibit No. ____ (TAA-2)
- 7 • Exhibit No. ____ (TAA-3)
- 8 • Amended Original Sheet Nos. 40 and 40.1 – Generation Resource
- 9 Recovery Rider Rate 56 from Exhibit 1 of the Application submitted
- 10 on February 27, 2014.

11 I am including the Exhibits in their entirety.

12 **Q. What is the amended North Dakota revenue requirement for Heskett**
13 **Station III?**

14 A. The amended revenue requirement for Heskett Station III is
15 provided on page 1 of Amended Exhibit No. ____ (TAA-2). As shown, the
16 annual amended revenue requirement associated with Heskett Station III
17 without the pipeline equates to \$5,270,008 as allocated to North Dakota
18 electric operations.

19 **Q. What effect does the amended revenue requirement have on the**
20 **Projected 2014 return?**

21 A. As shown on Exhibit No. ____ (TAA-1), page 7, the return on average
22 rate base, including annual revenues collected under the Generation
23 Tracker, would increase to 7.84 percent or 9.92 percent return on equity

1 for the projected 2014 period, still below the currently approved returns.

2 **Q. Please describe the changes to Other Operation and Maintenance**
3 **shown on Revised Exhibit No. ____ (TAA-2).**

4 A. In the data response process, the Company found that property
5 taxes were incorrectly included in the projected Operation and
6 Maintenance costs and should not have been as property taxes were also
7 included in the Taxes Other than Income value. This change coupled with
8 the removal of the pipeline resulted in a reduction of \$246,816 in total
9 Operation and Maintenance costs.

10 **Q. How is the Company proposing to recover costs of the amended**
11 **revenue requirement from customers?**

12 A. As shown on Exhibit No.____(TAA-3), the revenue requirement of
13 \$5,270,008 has been allocated to the rate classes in the same way the
14 Transmission Cost Adjustment and Environmental Cost Recovery Rider
15 expenses are allocated based on the class demand factor. The 12 CP
16 demand factor for the classes based on projected 2014 requirements has
17 been used to allocate cost responsibility among the customer classes. As
18 with the other two referenced adjustment mechanisms, the Generation
19 Rider will be shown as a separate line item on customer bills and applied
20 to the energy used in each billing period. The resulting charge and
21 average increase for each customer class is shown below:

		\$/KWh	Avg. Use	Monthly Increase
Res & Small General	(Rates 10, 13, 20 & 25)	\$0.00288	894	\$2.57
Large General	(Rates 30, 31, 32, 38, 40, 48)	0.00231	20,827	\$48.11
Lighting	(Rates 41 & 52)	0.00139	617	\$0.86

1

2 **Q. Has the Company amended the Generation Resource Recovery Rider**
3 **rate schedule?**

4 A. Yes. The Generation Resource Recovery Rider Original Sheet No.
5 40 has been amended to reflect language changes agreed to in response
6 to Advocacy Staff's Data Requests and Original Sheet No. 40.1 is
7 amended to reflect the revised cents per KWh adjustment amounts shown
8 above.

9 **Q. Please describe the changes to Original Sheet No. 40 discussed in**
10 **responding to Advocacy Staff's data requests.**

11 A. In the Applicability section, the language was modified to state that
12 the cost recovery includes Operation and Maintenance Costs. In the Time
13 and Manner of the Filing section, the language was revised to allow for a
14 60 day Commission review period.

15 **Q. Does this conclude your supplemental direct testimony?**

16 A. Yes, it does.

**MONTANA-DAKOTA UTILITIES CO.
 ANNUAL REPORT
 TO THE
 NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2013 Total Company	2013 North Dakota	ND % (B/A)	2012 North Dakota	Variance (B-D/D)
<u>Rate Base:</u>						
1	Plant in Service	\$1,123,669,686	\$716,524,936	63.77%	\$656,641,879	9.12%
2	Less: Accumulated Depreciation	522,747,529	334,553,830	64.00%	319,880,355	4.59%
3	Add: Construct. Work in Prog. 1/	0	0	0.00%	3,639,920	-100.00%
4	Net Plant in Service	\$600,922,157	\$381,971,106	63.56%	\$340,401,444	12.21%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$15,461,429	\$11,233,513	72.66%	\$10,445,893	7.54%
6	Fuel Stocks 2/	4,633,675	3,072,273	66.30%	3,426,542	-10.34%
7	Prepayments 2/	655,623	422,042	64.37%	395,319	6.76%
8	Unamortized Loss on Debt	5,822,303	3,582,093	61.52%	3,883,269	-7.76%
9	Decommissioning of Retired Plants	(495,560)	(317,074)	63.98%	(356,299)	-11.01%
10	Total Additions	\$26,077,470	\$17,992,847	69.00%	\$17,794,724	1.11%
<u>Deductions:</u>						
11	Accum. Deferred Income Taxes	\$155,344,704	\$100,252,531	64.54%	\$87,658,598	14.37%
12	Accumulated Deferred ITCs	790,584	790,584	100.00%	839,254	-5.80%
13	Cust. Advances for Construct. 2/	5,972,015	2,735,081	45.80%	1,253,781	118.15%
14	Total Deductions	\$162,107,303	\$103,778,196	64.02%	\$89,751,633	15.63%
15	Average Rate Base	<u>\$464,892,324</u>	<u>\$296,185,757</u>	63.71%	<u>\$268,444,535</u>	10.33%
16	Rate of Return on Avg. Rate Base	8.762%	8.989%		8.916%	
17	Less: Weighted Cost of Debt	2.509%	2.509%		2.832%	
18	Weighted Cost of Pref. Stock	0.088%	0.088%		0.102%	
19	Weighted Return on Equity	6.165%	6.392%		5.982%	
20	% of Equity to Capital Structure	50.566%	50.566%		53.382%	
21	Return on Equity	<u>12.192%</u>	<u>12.641%</u>		<u>11.206%</u>	

1/ Completed construction at December 31, 2013 not yet classified.
 2/ Thirteen month average.

**MONTANA-DAKOTA UTILITIES CO.
 ANNUAL REPORT
 TO THE
 NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2013 Total Company	2013 North Dakota	ND % (B/A)	2012 North Dakota	Variance (B-D/D)
<u>Operating Revenues:</u>						
1	Residential	\$99,366,177	\$62,210,540	62.61%	\$56,643,322	9.83%
2	Small General	30,163,594	12,033,642	39.89%	10,803,157	11.39%
3	Large General 1/	105,927,005	72,299,300	68.25%	67,447,484	7.19%
4	Lighting Service	3,453,060	2,115,268	61.26%	2,089,765	1.22%
5	Municipal Pumping Service	2,770,634	2,220,959	80.16%	2,153,976	3.11%
6	Sales for Resale	569,325	377,803	66.36%	193,589	95.16%
7	Margin Sharing Adjustment	64,855	0	0.00%	0	0.00%
8	Other Operating Revenues	10,701,537	6,925,701	64.72%	6,287,535	10.15%
9	Unbilled Revenue	2,510,700	1,693,948	67.47%	2,256,937	-24.94%
10	Reserve for Refunds	335,789	335,789	100.00%	(3,724,439)	-109.02%
11	Total Operating Revenues	\$255,862,676	\$160,212,949	62.62%	\$144,151,326	11.14%
<u>Operating Expenses:</u>						
12	Production Expense	\$109,781,939	\$66,445,447	60.52%	\$58,997,751	12.62%
13	Transmission Expense	11,237,634	7,992,967	71.13%	6,155,382	29.85%
14	Distribution Expense	15,581,110	9,739,521	62.51%	8,211,688	18.61%
15	Customer Accounts Expense	3,900,460	2,320,980	59.51%	1,997,917	16.17%
16	Customer Service & Info. Exp.	255,046	169,910	66.62%	152,516	11.40%
17	Sales Expense	139,376	95,970	68.86%	123,398	-22.23%
18	Administration & General Exp.	20,292,935	13,039,009	64.25%	11,875,764	9.80%
19	Depreciation Expense	32,586,492	21,147,489	64.90%	21,480,091	-1.55%
20	Taxes Other than Income	10,159,529	5,281,771	51.99%	5,265,257	0.31%
21	Total Operating Expenses	\$203,934,521	\$126,233,064	61.90%	\$114,259,764	10.48%
23	Net Operating Income					
24	before Income Taxes	\$51,928,155	\$33,979,885	65.44%	\$29,891,562	13.68%
<u>Income Tax Expense:</u>						
25	Investment Tax Credits					
26	Deferred Income Taxes	\$19,604,645	\$12,458,191	63.55%	\$9,787,339	27.29%
27	Income Taxes	(8,411,184)	(5,101,996)	60.66%	(3,829,477)	33.23%
28	Total Income Tax Expense	\$11,193,461	\$7,356,195	65.72%	\$5,957,862	23.47%
29	Net Regulated Earnings	\$40,734,694	\$26,623,690	65.36%	\$23,933,700	11.24%

1/ The North Dakota contract revenue delta associated with this class is shown below. The contract revenue delta is the difference between the revenue collected under all contract rates and the revenue that would have been collected had these loads been charged the standard rate.

	2013	2012
Large General	\$621,790	\$600,617

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
ELECTRIC UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2013

	Total Company	North Dakota	Others
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$99,366,177	\$62,210,540	\$37,155,637
Small General	30,163,594	12,033,642	18,129,952
Large General	105,927,005	72,299,300	33,627,705
Lighting Service	3,453,060	2,115,268	1,337,792
Municipal Pumping Service	2,770,634	2,220,959	549,675
Sales for Resale	569,325	377,803	191,522
Margin Sharing Adjustment	64,855	0	64,855
Unbilled Revenue	2,510,700	1,693,948	816,752
Reserve for Refunds	335,789	335,789	0
Total Sales Revenues	245,161,139	153,287,248	91,873,891
Other Operating Revenues	10,701,537	6,925,701	3,775,836
Total Operating Revenues	\$255,862,676	\$160,212,949	\$95,649,727
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	\$83,527,776	\$49,647,554	\$33,880,222
Production	26,254,163	16,797,893	9,456,270
Transmission	11,237,634	7,992,967	3,244,667
Distribution	15,581,110	9,739,521	5,841,589
Customer Accounts	3,900,460	2,320,980	1,579,480
Customer Service & Information	255,046	169,910	85,136
Sales	139,376	95,970	43,406
Administrative & General	20,292,935	13,039,009	7,253,926
Total O&M Expenses	161,188,500	99,803,804	61,384,696
Depreciation			
Production	16,562,770	10,444,668	6,118,102
Transmission	3,397,043	2,519,728	877,315
Distribution	7,956,921	4,985,874	2,971,047
General	715,728	470,249	245,479
Common	1,262,123	810,118	452,005
Amort. of Intangible Plant - General	312,631	196,663	115,968
Amort. of Intangible Plant - Common	995,699	627,457	368,242
Amort. of Acquisition Adjustment	228,242	162,640	65,602
Amort. of Retired Power Plants	(56,210)	(39,226)	(16,984)
Amort. of Unrecovered Plant - Electric	1,211,546	969,318	242,228
Total Depreciation Expense	32,586,493	21,147,489	11,439,004

MONTANA-DAKOTA UTILITIES CO.
 INCOME STATEMENT
 ELECTRIC UTILITY
 TWELVE MONTHS ENDED DECEMBER 31, 2013

	Total Company	North Dakota	Others
<u>Operating Expenses Con't.</u>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Production	1,715,619	1,150,260	565,359
Transmission	1,296,605	701,649	594,956
Distribution	2,893,933	902,032	1,991,901
General	236,902	73,737	163,165
Common	295,853	138,426	157,427
Intangible	52,098	32,895	19,203
Total Ad Valorem Taxes	6,491,010	2,998,999	3,492,011
Other Taxes	3,668,519	2,282,772	1,385,747
Total Taxes Other Than Income Taxes	10,159,529	5,281,771	4,877,758
Current Income Taxes	(8,411,184)	(5,101,996)	(3,309,188)
Deferred Income Taxes	19,604,645	12,458,191	7,146,454
Total Operating Expenses	\$215,127,983	\$133,589,259	\$81,538,724
Operating Income	\$40,734,693	\$26,623,690	\$14,111,003
Year End Rate Base	\$482,219,201	\$312,549,994	\$169,669,207
Rate of Return	8.45%	8.52%	8.32%

MONTANA-DAKOTA UTILITIES CO.
YEAR END RATE BASE
ELECTRIC UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2013

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Plant in Service</u>			
Electric Plant in Service			
Steam Production	\$402,716,934	\$240,889,670	\$161,827,264
Other Production	153,769,656	105,468,063	48,301,593
Total Production	556,486,590	346,357,733	210,128,857
Transmission	196,822,845	140,947,259	55,875,586
Distribution	308,162,308	192,942,582	115,219,726
General	25,590,390	15,849,718	9,740,672
Common	35,082,487	23,181,360	11,901,127
Intangible Plant - General	9,141,165	6,236,075	2,905,090
Intangible Plant - Common	24,500,530	15,450,869	9,049,661
Acquisition Adjustment	10,387,642	7,401,921	2,985,721
Total Electric Plant in Service	1,166,173,957	748,367,517	417,806,440
Accumulated Reserve for Depreciation			
Steam Production	221,603,422	146,203,040	75,400,382
Other Production	36,709,312	25,326,060	11,383,252
Total Production	258,312,734	171,529,100	86,783,634
Transmission	91,945,096	60,723,712	31,221,384
Distribution	130,676,177	74,041,213	56,634,964
General	10,990,489	6,654,082	4,336,407
Common	15,603,195	10,279,539	5,323,656
Intangible Plant - General	6,774,890	4,742,909	2,031,981
Intangible Plant - Common	12,169,449	7,689,692	4,479,757
Acquisition Adjustment	10,375,809	7,393,489	2,982,320
Total Accum. Reserve for Depreciation	536,847,839	343,053,736	193,794,103
Net Electric Plant in Service	629,326,118	405,313,781	224,012,337
CWIP in Service Pending Reclas.	0	0	0
Total Electric Plant in Service	\$629,326,118	\$405,313,781	\$224,012,337
<u>Additions</u>			
Materials and Supplies	14,944,377	10,869,960	4,074,417
Fuel Stocks	4,697,770	3,117,435	1,580,335
Prepayments	172,731	108,928	63,803
Unamortized Loss on Debt	5,498,793	3,444,063	2,054,730
Decommissioning of Retired Plants	(467,455)	(297,461)	(169,994)
Total Additions	24,846,216	17,242,925	7,603,291
Total Before Deductions	\$654,172,334	\$422,556,706	\$231,615,628
<u>Deductions</u>			
Accumulated Deferred Income Taxes	164,850,280	106,049,371	58,800,909
Accumulated Investment Tax Credits	767,331	767,331	0
Customer Advances	6,335,522	3,190,010	3,145,512
Total Deductions	171,953,133	110,006,712	61,946,421

MONTANA-DAKOTA UTILITIES CO.
 ANNUAL REPORT
 TO THE
 NORTH DAKOTA PUBLIC SERVICE COMMISSION

Line #	Description	(A) 2013 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$317,977	39.834%	6.149%	2.449%
2	Short Term Debt 2/	61,280	7.677%	0.788%	0.060%
3	Preferred Equity	15,347	1.923%	4.583%	0.088%
4	Common Equity	<u>403,646</u>	<u>50.566%</u>	3/	<u>3/</u>
5	Total	<u>\$798,250</u>	<u>100.000%</u>		<u>3/</u>

- 1/ Includes additional other long term debt.
- 2/ Reflects monthly average short term debt.
- 3/ Return on equity is calculated in Section I, page 2 of 2

**MONTANA-DAKOTA UTILITIES CO.
 NORTH DAKOTA ELECTRIC RETURNS
 NORTH DAKOTA
 2013 AND PROJECTED 2014**

	2013	Projected 2014 1/	Projected 2014 Incl. GRRR
Operating Revenues			
Sales	\$152,910	\$162,166	\$167,436
Sales for Resale	378	0	0
Other	6,925	5,995	5,995
Total Revenues	<u>160,213</u>	<u>168,161</u>	<u>173,431</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	49,648	53,416	53,416
Other O&M	50,156	50,807	50,807
Total O&M	<u>99,804</u>	<u>104,223</u>	<u>104,223</u>
Depreciation	21,147	25,425	25,425
Taxes Other Than Income	5,282	5,798	5,798
Current Income Taxes	(5,102)	5,781	7,828
Deferred Income Taxes	12,458	0	0
Total Expenses	<u>133,589</u>	<u>141,227</u>	<u>143,274</u>
Operating Income	\$26,624	\$26,934	\$30,157
Average Rate Base 2/	\$296,185	\$384,569	\$384,569
Return on Rate Base	8.99%	7.00%	7.84%
Return on Equity	12.64%	8.25%	9.92%

1/ Includes the Heskett CT investment and expenses. No incremental revenue included.

2/ Exhibit No. _____ (TAA-1), page 8.

**MONTANA-DAKOTA UTILITIES CO.
 NORTH DAKOTA ELECTRIC RETURNS
 NORTH DAKOTA
 2013 AND PROJECTED 2014**

	2013	Projected 2014 1/	Projected 2014 Incl. GRRR
<u>Average Rate Base</u>			
Electric Plant in Service	\$716,525	\$829,613	\$829,613
Accumulated Reserve	334,554	351,597	351,597
Net Electric Plant in Service	<u>381,971</u>	<u>478,016</u>	<u>478,016</u>
Additions			
Materials and Supplies	11,233	11,302	11,302
Fuel Stocks	3,072	3,571	3,571
Prepayments	422	504	504
Unamortized Loss on Debt	3,582	3,277	3,277
Decommission of Retired Plant	(317)	(278)	(278)
Total Additions	<u>17,992</u>	<u>18,376</u>	<u>18,376</u>
Deductions			
Accumulated DITs	100,252	107,436	107,436
Accumulated ITCs	791	1,361	1,361
Customer Advances	2,735	3,026	3,026
Total Deductions	<u>103,778</u>	<u>111,823</u>	<u>111,823</u>
Total Average Rate Base	<u><u>\$296,185</u></u>	<u><u>\$384,569</u></u>	<u><u>\$384,569</u></u>

1/ Includes the Heskett CT investment and expenses. No incremental revenue included.

MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC RETURNS
NORTH DAKOTA
PROJECTED AVERAGE 2014

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	44.257%	6.136%	2.715%
Short Term Debt	3.806%	1.616%	0.061%
Preferred Stock	1.663%	4.578%	0.076%
Common Equity	50.274%	10.750%	5.404%
Total	<u>100.000%</u>		<u>8.256%</u>

**MONTANA-DAKOTA UTILITIES CO.
REVENUE REQUIREMENT - HESKETT TURBINE
NORTH DAKOTA
JULY 1, 2014-JUNE 30, 2015**

<u>Revenue Requirement 1/</u>	
O&M	\$284,988
Depreciation	843,710
Taxes Other than Income	219,624
Return 2/	2,755,668
Income Taxes 2/	1,166,018
Total	<u><u>\$5,270,008</u></u>

Average Rate Base 1/ \$34,062,647

1/ Exhibit No. _____ (TAA-2), page 2.

2/ Exhibit No. _____ (TAA-2), page 3.

**MONTANA-DAKOTA UTILITIES CO.
REVENUE REQUIREMENT - HESKETT TURBINE
NORTH DAKOTA
JULY 1, 2014-JUNE 30, 2015**

	July-14	August-14	September-14	October-14	November-14	December-14	January-15	February-15	March-15	April-15	May-15	June-15	Average
Plant in Service	\$39,492,161	\$39,551,815	\$39,554,818	\$39,557,821	\$39,572,838	\$39,587,855	\$39,587,855	\$39,587,855	\$39,587,855	\$39,587,855	\$39,587,855	\$39,587,855	\$39,570,370
Accumulated Reserve	0	76,651	153,308	229,971	306,663	383,384	460,105	536,826	613,547	690,268	766,989	843,710	421,785
Net Plant	\$39,492,161	\$39,475,164	\$39,401,510	\$39,327,850	\$39,266,175	\$39,204,471	\$39,127,750	\$39,051,029	\$38,974,308	\$38,897,587	\$38,820,866	\$38,744,145	\$39,148,585
Accumulated DITs	0	1,338,001	2,676,002	4,014,003	5,352,004	6,690,005	6,729,110	6,768,215	6,807,320	6,846,425	6,885,530	6,924,635	5,085,938
Net Rate Base	\$39,492,161	\$38,137,163	\$36,725,508	\$35,313,847	\$33,914,171	\$32,514,466	\$32,398,640	\$32,282,814	\$32,166,988	\$32,051,162	\$31,935,336	\$31,819,510	\$34,062,647

	July-14	August-14	September-14	October-14	November-14	December-14	January-15	February-15	March-15	April-15	May-15	June-15	Total
Operating Expenses													
O&M													
Labor	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570	\$114,840
Benefits	4,307	4,307	4,307	4,307	4,307	4,307	4,307	4,307	4,307	4,307	4,307	4,307	51,684
Other fixed costs	8,942	8,942	8,942	8,942	8,942	8,942	8,942	8,942	8,942	8,942	8,942	8,942	107,304
Variable costs	930	930	930	930	930	930	930	930	930	930	930	930	11,160
Pipeline expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Total O&M	23,749	23,749	23,749	23,749	23,749	23,749	23,749	23,749	23,749	23,749	23,749	23,749	284,988
Depreciation Expense		76,651	76,657	76,663	76,692	76,721	76,721	76,721	76,721	76,721	76,721	76,721	843,710
Taxes Other Than Income													
Ad Valorem Taxes	17,636	17,636	17,636	17,636	17,636	17,636	17,636	17,636	17,636	17,636	17,636	17,636	211,632
Payroll Taxes	666	666	666	666	666	666	666	666	666	666	666	666	7,992
Total Taxes Other	18,302	18,302	18,302	18,302	18,302	18,302	18,302	18,302	18,302	18,302	18,302	18,302	219,624

**MONTANA-DAKOTA UTILITIES CO.
 REVENUE REQUIREMENT - HESKETT TURBINE
 NORTH DAKOTA
 JULY 1, 2014-JUNE 30, 2015**

Average 2015 Capital Structure

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	40.260%	6.093%	2.453%
Short Term Debt	7.671%	1.653%	0.127%
Preferred Stock	1.418%	4.574%	0.065%
Common Equity	50.651%	10.750%	5.445%
Total	<u>100.000%</u>		<u>8.090%</u>

Income Taxes

Return	\$2,755,668
Interest	(878,816)
Equity AFUDC	30,085
Net	<u>1,906,937</u>
 Tax component	 61.1461%
 Income Taxes	 <u>\$1,166,018</u>

**Montana-Dakota Utilities Co.
 Electric Utility - North Dakota
 Generation Resource Recover Rider
 Heskett III - without Pipeline**

		Embedded Class COS Study Factor No. 2 1/	North Dakota Projected 2014 Generation Costs 2/	Projected KWh 3/	\$/KWh
Res & Small General	(Rates 10, 13, 20 & 25)	51.689993%	\$2,724,067	944,402,255	\$0.00288
Large General	(Rates 30, 31, 32, 38, 40, 48)	47.532750%	2,504,980	1,085,422,143	0.00231
Lighting	(Rates 41 & 52)	0.777257%	40,962	29,462,064	0.00139
		100.000000%	\$5,270,009	2,059,286,462	

1/ Projected 2014 Class demand allocation based on 12 CP.

2/ Exhibit No. TAA-2 page 1. Total Revenue Requirement \$5,270,008

3/ August 2014 -July 2015 projected sales (KWh) excluding contract sales.

	12-CP Factor 2 Projected 2014	
Residential Rate 10	165,090	44.554615%
Small General Rate 20	26,360	7.114057%
Irrigation Rate 25	79	0.021321%
Large General Primary Rate 30	24,401	6.585361%
Large General Secondary Rate 30	129,517	34.954147%
TOD Large General Rate 31	1,689	0.455829%
Space Heating Rate 32	8,682	2.343105%
Small Municipal Rate 40	701	0.189186%
Municipal Lighting Primary Rate 41	202	0.054516%
Municipal Lighting Secondary Rate 41	1,786	0.482007%
Municipal Pumping Secondary Rate 48	3,620	0.976968%
Municipal Pumping Primary Rate 48	1,760	0.474990%
Outdoor Lighting Rate 52	892	0.240734%
Interruptible Power Rate 39	0	0.000000%
Interruptible Demand Response Rate 38	5,755	1.553164%
	<u>370,534</u>	100.000000%