

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

Before the Public Service Commission of North Dakota
Case No. PU-14-____

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. **What are your responsibilities as the Director of Regulatory Affairs?**

8 A. I am responsible for the development and implementation of
9 company objectives and policies with respect to rate structure, pricing
10 policies, cost of service studies, fuel cost adjustments, purchased gas cost
11 adjustments, and gas tracking adjustments in each of the jurisdictions in
12 which Montana-Dakota operates.

13 Q. **Would you please outline your educational and professional
14 background?**

15 A. I graduated from Moorhead State University, Moorhead, Minnesota
16 in 1982 with a Bachelor of Science degree in Accounting. I began my
17 career with Montana-Dakota in 1983 in the Regulatory Affairs Department,
18 holding several positions within the Department before attaining my

1 current position in 2014.

2 **Q. Have you testified in other proceedings before regulatory bodies?**

3 A. Yes. I have previously presented testimony before this
4 Commission, the Public Service Commissions of Montana and Wyoming,
5 and the Public Utilities Commissions of Minnesota and South Dakota.

6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. The purpose of my testimony is to present the results of the 2013
8 results of electric operations for North Dakota, to describe the proposed
9 Generation Resource Recovery Rider (Generation Rider) and changes
10 requested in the Fuel and Purchased Power Adjustment Rate 58. Finally I
11 will provide support for the Heskett III revenue requirement Montana-
12 Dakota is proposing to recover through the new Generation Rider.

13 **Q. What statements and exhibits are you sponsoring in this**
14 **proceeding?**

15 A. I am sponsoring Exhibit No. __ (TAA-1) through and Exhibit No.
16 __ (TAA-3) and the rate schedules appended to the Application marked
17 as Exhibit 1.

18 **Q. Would you please summarize the results of electric operations in**
19 **North Dakota for 2013?**

20 A. Yes. Exhibit No.__(TAA-1), Page 1 provides the rate of return on
21 average rate base and the resulting return on equity for the total Company
22 and North Dakota electric operations for 2012 and 2013. As shown, the
23 return on average rate base was 8.989 percent for North Dakota (currently

1 approved return on rate base is 8.791 percent) producing a return on
2 equity of 12.641 percent. Exhibit No.__(TAA-1), Page 1 is identical to
3 Page 2 of "Section I. Intrastate Return on Equity" that will be submitted
4 with the Company's Annual Report to the Commission. Pages 2 through 5
5 show the per books income statement and rate base statement for total
6 Company electric and for the North Dakota electric operations for 2013, as
7 also will be submitted with the Company's Annual Report. The average
8 capital structure for 2013 is provided as Page 6.

9 **Q. What is the North Dakota electric return expected to be in 2014?**

10 A. As shown on Page 7 of Exhibit No. ____ (TAA-1), the return on
11 average rate base is expected to drop to 6.71 percent resulting in a return
12 on equity of 7.67 percent based on the projected 2014 capital structure
13 provided on Page 9.

14 **Q. Would you please explain the reasons for the changes in in financial**
15 **results expected in 2014 and why the implementation of a Generation**
16 **Rider is appropriate at this time?**

17 A. Yes. The primary driver of the lower return is an increase in
18 average North Dakota electric plant investment of approximately \$128
19 million. The investments underlying the increase include the Heskett III
20 generating turbine planned to be operational in July 2014 representing an
21 investment of \$54.5 million as allocated to North Dakota. Based on a
22 detailed review of the Projected 2014 return and the required increase in
23 revenues to provide an adequate return on rate base, the Heskett III

1 investment and associated expenses would represent the majority of the
2 total increase that would be requested through a general rate increase.
3 Given the Heskett III turbine has been determined to be a prudent and
4 necessary investment for North Dakota electric customers by the
5 Commission in prior Advance Determination of Prudence and Certificate
6 of Public Convenience proceedings (Case Nos. PU-11-395 and PU-11-
7 396), the Company proposes that a tracker mechanism similar to
8 Montana-Dakota's Transmission Cost Adjustment, Rate 57 and
9 Renewable Riders approved by the Commission to recover investments in
10 wind facilities for other utilities, is appropriate and in the public interest
11 given the recent rate case (2010) and the ability to avoid the time and
12 expense associated with a rate case proceeding. At this time, given
13 projections for required rate relief based on anticipated future investments
14 and expenditures over the next several years, rate cases will be a more
15 frequent occurrence. Also, the cost of purchased power agreements for
16 capacity both current and in the future, would be recovered through the
17 Company's Fuel and Purchased Power Adjustment Rate 58. The Heskett
18 III investment, determined to be the least cost option over the long term,
19 should be afforded similar rate treatment until the project is included in
20 rate base in a general rate case proceeding.

21 **Q. Have you prepared the North Dakota revenue requirement for the**
22 **Heskett III turbine?**

23 **A.** Yes. The monthly revenue requirement for Heskett III is provided

1 on page 2 of Exhibit No. ____ (TAA-2). The monthly plant investment,
2 accumulated reserve, deferred income taxes, operating and maintenance
3 expenses, ad valorem taxes, payroll taxes and the accumulated funds
4 used during construction are shown by month. A summary of the revenue
5 requirement including the associated income taxes is provided on page 1
6 of Exhibit No. ____ (TAA-2). As shown, the annual revenue requirement
7 associated with the Heskett III turbine equates to \$7,390,494 as allocated
8 to North Dakota electric operations. The plant investment and associated
9 expenses were allocated to North Dakota electric operations based on the
10 2013 integrated system demand factor with 71.6 percent of the demand
11 requirements associated with serving North Dakota electric customers.
12 The return requirement reflects the return on equity of 10.75 percent
13 authorized in Case No. PU-10-124 and the Projected 2014-2015 capital
14 structure. The rate base amount for the Heskett III turbine includes the
15 generating facility, electric interconnection costs and the approximate 24
16 miles of ten-inch pipeline required to supply natural gas to the turbine. As
17 described in more detail by Mr. Alan Welte, the Heskett III project is
18 coming in approximately 11 percent under the budgeted amount used for
19 resource modeling and the advance determination of prudence application
20 approved by the Commission. As a further benefit to customers, the 50
21 percent bonus tax depreciation incentive was applicable to the Heskett III
22 project resulting in a further reduction in the amount necessary to be
23 recovered under the Generation Rider.

1 **Q. What effect does the implementation of the Generation Tracker have**
 2 **on the Projected 2014 return?**

3 A. As shown on Exhibit No.____(TAA-1), page 7, the return on average
 4 rate base, including annual revenues collected under the Generation
 5 Tracker, would increase to 7.85 percent or 9.94 percent return on equity,
 6 still below the currently approved returns.

7 **Q. How is the Company proposing to recover costs approved for**
 8 **recovery under the Generation Tracker from customers?**

9 A. As shown on Exhibit No.____(TAA-3), the revenue requirement of
 10 \$7,390,494 has been allocated to the rate classes in the same way the
 11 Transmission Cost Adjustment and Environmental Cost Recovery Rider
 12 expenses are allocated based on the class demand factor. The 12 CP
 13 demand factor for the classes based on projected 2014 requirements has
 14 been used to allocate cost responsibility among the customer classes. As
 15 with the other two referenced adjustment mechanisms, the Generation
 16 Rider will be shown as a separate line item on customer bills and applied
 17 to the energy used in each billing period. The resulting charge and
 18 average increase for each customer class is shown below:

	\$/KWh	Avg Use	Monthly Increase
Res & Small General (Rates 10, 13, 20 & 25)	\$0.00405	894	\$3.62
Large General (Rates 30, 31, 32, 38, 40, 48)	0.00324	20,827	\$67.48
Lighting (Rates 41 & 52)	0.00195	617	\$1.20

19
 20 The monthly increase shown above will be offset by a reduction in the
 21 Fuel and Purchased Power Adjustment as a result of the expiration of the

1 capacity purchase contract expiring in May 2015. This cost reduction will
2 be approximately \$.00145 per Kwh or \$1.30 per month for a residential
3 customer using 894 Kwh per month.

4 **Q. Do you expect to request additional generation resources to be**
5 **recovered through the proposed Generation Rider?**

6 A. The Company does not have plans to do so at this time. However,
7 as incremental resources continue to be analyzed, the Generation Rider
8 would provide the opportunity to recover such costs.

9 **Q. Please describe the Generation Resource Recovery Rider rate**
10 **schedule?**

11 A. A new rate schedule designated as Generation Resource Recovery
12 Rider Rate 56 is proposed to be added to the electric tariff. As noted in
13 the proposed Rate 56 rate schedule provided as Exhibit 1 to the
14 Application, the Generation Rider will be applicable to electric service
15 provided under all rate schedules. The adjustment factor will be updated
16 annually along with a true up to reflect any over or under recovery of
17 revenue based on actual expenditures and actual amounts recovered on
18 an annual basis. Carrying charges or credits will be accrued at a rate
19 equal to the three-month Treasury Bill rate as published monthly by the
20 Federal Reserve Board which is consistent with the practice applied under
21 the Company's other tracking mechanisms authorized by the Commission.

22 **Q. What other tariff changes is the Company proposing at this time?**

23 A. Montana-Dakota is proposing to modify its Fuel and Purchased

1 Power Adjustment Rate 58 schedule to include natural gas used and
2 pipeline reservation and gas management charges recorded in Account
3 547 as costs recoverable under this rate schedule. Account 547 is used
4 to record fuel related costs associated with other power production. The
5 gas supplied to the Heskett III turbine will be contracted through a third
6 party with reservation charges and a monthly management fee associated
7 with the ability to call on the use of natural gas as required to supply the
8 turbine.

9 **Q. Does this conclude your direct testimony?**

10 **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)
Rate Base:						
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	<u>\$600,922,157</u>	<u>\$381,971,106</u>	<u>63.56%</u>	<u>\$340,401,444</u>	<u>12.21%</u>
Additions:						
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%
	Total Additions	<u>\$26,077,470</u>	<u>\$17,992,847</u>	<u>69.00%</u>	<u>\$17,794,724</u>	<u>1.11%</u>
Deductions:						
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	<u>\$162,107,303</u>	<u>\$103,778,196</u>	<u>64.02%</u>	<u>\$89,751,633</u>	<u>15.63%</u>
15	Average Rate Base	<u><u>\$464,892,324</u></u>	<u><u>\$296,185,757</u></u>	<u>63.71%</u>	<u><u>\$268,444,535</u></u>	<u>10.33%</u>
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	<u>0.088%</u>	<u>0.088%</u>		<u>0.102%</u>	
19	Weighted Return on Equity	6.165%	6.392%		5.982%	
20	% of Equity to Capital Structure	<u>50.566%</u>	<u>50.566%</u>		<u>53.382%</u>	
21	Return on Equity	<u><u>12.192%</u></u>	<u><u>12.641%</u></u>		<u><u>11.206%</u></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)
Operating Revenues:						
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%
Operating Expenses:						
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%
Income Tax Expense:						
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	<u>\$621,790</u>	<u>\$600,617</u>

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<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	<u>245,161,139</u>	<u>153,287,248</u>	<u>91,873,891</u>
Other Operating Revenues	<u>10,701,537</u>	<u>6,925,701</u>	<u>3,775,836</u>
Total Operating Revenues	<u>\$255,862,676</u>	<u>\$160,212,949</u>	<u>\$95,649,727</u>
 <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	<u>20,292,935</u>	<u>13,039,009</u>	<u>7,253,926</u>
Total O&M Expenses	<u>161,188,500</u>	<u>99,803,804</u>	<u>61,384,696</u>
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	<u>1,211,546</u>	<u>969,318</u>	<u>242,228</u>
Total Depreciation Expense	<u>32,586,493</u>	<u>21,147,489</u>	<u>11,439,004</u>

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<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	<u>6,491,010</u>	<u>2,998,999</u>	<u>3,492,011</u>
Other Taxes	<u>3,668,519</u>	<u>2,282,772</u>	<u>1,385,747</u>
Total Taxes Other Than Income Taxes	<u>10,159,529</u>	<u>5,281,771</u>	<u>4,877,758</u>
Current Income Taxes	(8,411,184)	(5,101,996)	(3,309,188)
Deferred Income Taxes	<u>19,604,645</u>	<u>12,458,191</u>	<u>7,146,454</u>
Total Operating Expenses	<u>\$215,127,983</u>	<u>\$133,589,259</u>	<u>\$81,538,724</u>
Operating Income	<u><u>\$40,734,693</u></u>	<u><u>\$26,623,690</u></u>	<u><u>\$14,111,003</u></u>
Year End Rate Base	<u><u>\$482,219,201</u></u>	<u><u>\$312,549,994</u></u>	<u><u>\$169,669,207</u></u>
Rate of Return	<u><u>8.45%</u></u>	<u><u>8.52%</u></u>	<u><u>8.32%</u></u>

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	<u>556,486,590</u>	<u>346,357,733</u>	<u>210,128,857</u>
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	<u>1,166,173,957</u>	<u>748,367,517</u>	<u>417,806,440</u>
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	<u>258,312,734</u>	<u>171,529,100</u>	<u>86,783,634</u>
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	<u>536,847,839</u>	<u>343,053,736</u>	<u>193,794,103</u>
Net Electric Plant in Service	629,326,118	405,313,781	224,012,337
CWIP in Service Pending Reclas.	<u>0</u>	<u>0</u>	<u>0</u>
Total Electric Plant in Service	<u>\$629,326,118</u>	<u>\$405,313,781</u>	<u>\$224,012,337</u>
<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	<u>24,846,216</u>	<u>17,242,925</u>	<u>7,603,291</u>
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	<u>171,953,133</u>	<u>110,006,712</u>	<u>61,946,421</u>

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

Line #	Description	(A) 2013 Average 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**

	(000's)		
	2013	Projected 2014 1/	Projected 2014 Incl. GRRR
Operating Revenues			
Sales	\$152,910	\$162,166	\$169,556
Sales for Resale	378	0	0
Other	6,925	5,995	5,995
Total Revenues	<u>160,213</u>	<u>168,161</u>	<u>175,551</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	49,648	53,416	53,416
Other O&M	50,156	51,054	51,054
Total O&M	<u>99,804</u>	<u>104,470</u>	<u>104,470</u>
Depreciation	21,147	25,742	25,742
Taxes Other Than Income	5,282	5,878	5,878
Current Income Taxes	(5,102)	5,396	8,267
Deferred Income Taxes	12,458	0	0
Total Expenses	<u>133,589</u>	<u>141,486</u>	<u>144,357</u>
Operating Income	\$26,624	\$26,675	\$31,194
Average Rate Base 2/	\$296,185	\$397,392	\$397,392
Return on Rate Base	8.99%	6.71%	7.85%
Return on Equity	12.64%	7.67%	9.94%

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**

	(000's)	Projected	Projected 2014
	2013	2014 1/	Incl. GRRR
<u>Average Rate Base</u>			
Electric Plant in Service	\$716,525	\$844,510	\$844,510
Accumulated Reserve	334,554	351,756	351,756
Net Electric Plant in Service	<u>381,971</u>	<u>492,754</u>	<u>492,754</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	109,351	109,351
Accumulated ITCs	791	1,361	1,361
Customer Advances	2,735	3,026	3,026
Total Deductions	<u>103,778</u>	<u>113,738</u>	<u>113,738</u>
Total Average Rate Base	<u>\$296,185</u>	<u>\$397,392</u>	<u>\$397,392</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	\$531,804
Depreciation	1,161,351
Taxes Other than Income	299,232
Return 2/	3,793,110
Income Taxes 2/	<u>1,604,997</u>
Total	<u><u>\$7,390,494</u></u>

Average Rate Base 1/ \$46,886,400

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	\$54,359,996	\$54,442,109	\$54,446,243	\$54,450,377	\$54,471,047	\$54,491,718	\$54,491,718	\$54,491,718	\$54,491,718	\$54,491,718	\$54,491,718	\$54,491,718	\$54,467,650
Accumulated Reserve	0	105,509	211,026	316,551	422,116	527,721	633,326	738,931	844,536	950,141	1,055,746	1,161,351	580,580
Net Plant	\$54,359,996	\$54,336,600	\$54,235,217	\$54,133,826	\$54,048,931	\$53,963,997	\$53,858,392	\$53,752,787	\$53,647,182	\$53,541,577	\$53,435,972	\$53,330,367	\$53,887,070
Accumulated DITs	0	1,841,726	3,683,452	5,525,178	7,366,904	9,208,630	9,262,457	9,316,284	9,370,111	9,423,938	9,477,765	9,531,592	7,000,670
Net Rate Base	\$54,359,996	\$52,494,874	\$50,551,765	\$48,608,648	\$46,682,027	\$44,755,367	\$44,595,935	\$44,436,503	\$44,277,071	\$44,117,639	\$43,958,207	\$43,798,775	\$46,886,400

	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
<u>Operating Expenses</u>													
<u>O&M</u>													
Labor	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$9,484	\$113,808
Benefits	4,268	4,268	4,268	4,268	4,268	4,268	4,268	4,268	4,268	4,268	4,268	4,268	51,216
Other fixed costs	28,332	28,332	28,332	28,332	28,332	28,332	28,332	28,332	28,332	28,332	28,332	28,332	339,984
Variable costs	921	921	921	921	921	921	921	921	921	921	921	921	11,052
Pipeline expense	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	15,744
Total O&M	44,317	44,317	44,317	44,317	44,317	44,317	44,317	44,317	44,317	44,317	44,317	44,317	531,804
Depreciation Expense		105,509	105,517	105,525	105,565	105,605	105,605	105,605	105,605	105,605	105,605	105,605	1,161,351
<u>Taxes Other Than Income</u>													
Ad Valorem Taxes	24,276	24,276	24,276	24,276	24,276	24,276	24,276	24,276	24,276	24,276	24,276	24,276	291,312
Payroll Taxes	660	660	660	660	660	660	660	660	660	660	660	660	7,920
Total Taxes Other	24,936	24,936	24,936	24,936	24,936	24,936	24,936	24,936	24,936	24,936	24,936	24,936	299,232

**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	100.000%		8.090%

Income Taxes

Return	\$3,793,110
Interest	(1,209,669)
Equity AFUDC	41,415
Net	2,624,856
 Tax component	 61.1461%
 Income Taxes	 \$1,604,997

**Montana-Dakota Utilities Co.
 Electric Utility - North Dakota
 Generation Resource Recover Rider
 Heskett III**

	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%	\$3,820,146	944,402,255	\$0.00405
Large General (Rates 30, 31, 32, 38, 40, 48)	47.532750%	3,512,905	1,085,422,143	0.00324
Lighting (Rates 41 & 52)	0.777257%	57,443	29,462,064	0.00195
	100.000000%	\$7,390,494	2,059,286,462	

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

2/ Exhibit No. TAA-2 page 1. Total Revenue Requirement \$7,390,494

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%
	370,534	100.000000%