

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

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;

- 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:

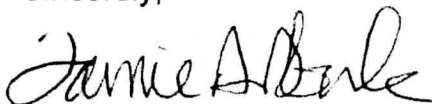
Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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% |
| | Unamortized Loss on Debt | 5,822,303 | 3,582,093 | 61.52% | 3,883,269 | -7.76% |
| | 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% |
| | 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% |

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

| | <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 | 20,292,935 | 13,039,009 | 7,253,926 |
| 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 | 1,211,546 | 969,318 | 242,228 |
| 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 | 3,668,519 | 2,282,772 | 1,385,747 |
| 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 | 19,604,645 | 12,458,191 | 7,146,454 |
| Total Operating Expenses | <u>\$215,127,983</u> | <u>\$133,589,259</u> | <u>\$81,538,724</u> |
| Operating Income | <u>\$40,734,693</u> | <u>\$26,623,690</u> | <u>\$14,111,003</u> |
| Year End Rate Base | <u>\$482,219,201</u> | <u>\$312,549,994</u> | <u>\$169,669,207</u> |
| Rate of Return | <u>8.45%</u> | <u>8.52%</u> | <u>8.32%</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. | 0 | 0 | 0 |
| 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 (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><u>\$798,250</u></u> | <u><u>100.000%</u></u> | | <u><u>3/</u></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**

| | <u>2013</u> | <u>Projected 2014 1/</u> | <u>Projected 2014 Incl. GRRR</u> |
|-------------------------------|-------------------------|------------------------------|--------------------------------------|
| Average Rate Base | | | |
| 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 |
|--------------------------------|---------|-----------|--------------|------------|-------------|-------------|------------|-------------|----------|----------|---------|---------|-----------|
| <u>Operating Expenses</u> | | | | | | | | | | | | | |
| <u>O&M</u> | | | | | | | | | | | | | |
| 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 |
| <u>Taxes Other Than Income</u> | | | | | | | | | | | | | |
| 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 - HSKETT 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% |
| | 370,534 | 100.000000% |