

May 29, 2015

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

Re: Case Nos. PU-14-108 and PU-14-109
Earnings Sharing Provision

On April 2, 2015 Montana-Dakota Utilities Co. (Montana-Dakota), submitted an earnings sharing adjustment pursuant to the Commission's Order on Settlement dated August 20, 2014 in the above-referenced cases. During the Commission deliberations on May 27, 2015 regarding Montana-Dakota's plan to implement the required earnings sharing adjustment there were questions raised regarding how the reported return for year end 2014 could have deviated as it did from the information provided in mid-November 2014 wherein the Company indicated the return would be in the range of the 10.75 percent return on equity.

There are several reasons this occurred. First, the presentation provided in mid-November was based on nine months of actual data and three months of estimated data for 2014. Provided in Attachment A is a comparison of the Projected 2014 results based on nine months of actual data and three months of projected information to the actual results for North Dakota electric operations for 2014 submitted in Montana-Dakota's Annual Report and used to determine the Earnings Sharing Provision. As shown, the percentage differences are relatively small in nature however, significant enough to cause the actual return on equity to exceed 10.75 percent by 0.54%.

The two primary drivers for the increase were 1) weather and 2) the extension of bonus tax depreciation for calendar year 2014 qualifying investments enacted under the Tax Prevention Act of 2014 in December 2014. As noted on Attachment A, sales were 7.3 percent higher than expected driven by weather that was 20 percent colder than normal in November. Bonus Tax Depreciation accounted for \$300,000 of the \$879,018 that will be returned to customers over the months of June and July.

As demonstrated by the changes that may affect earnings, the Earnings Sharing Provision approved by the Commission as part of the Generation Rider Settlement Agreement served customers well by providing a credit to customers. The earnings sharing provision was extended through calendar year 2015. By way of an update, the

year to date North Dakota electric earnings in 2015 do not meet the threshold that would require a sharing of earnings.

Please contact me if you have further questions or if a meeting to discuss in further detail is desired.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

cc: Garret Senger
Dan Kuntz

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC RETURNS
NORTH DAKOTA
PROJECTED 2014 vs. ACTUAL 2014**

INCOME STATEMENT

	Projected 2014	Actual 2014	Variance	% Variance
Operating Revenues				
Sales	\$ 168,410	\$ 170,425	\$ 2,015	1.2%
Sales for Resale	413	-	(413)	-100.0%
Other	6,746	7,179	433	6.4%
Total Revenues	175,569	177,604	2,035	1.2%
Operating Expenses				
Operation and Maintenance				
Cost of Fuel & Purchased Power	54,088	53,095	(993)	-1.8%
Other O&M	53,099	53,665	566	1.1%
Total O&M	107,187	106,760	(427)	-0.4%
Depreciation	22,858	22,909	51	0.2%
Taxes Other Than Income	5,780	5,580	(200)	-3.5%
Income Taxes	8,429	9,371	942	11.2%
Total Expenses	144,254	144,620	366	0.3%
Operating Income	\$ 31,315	\$ 32,984	\$ 1,669	5.3%
Average Rate Base	\$ 389,991	\$ 389,530	\$ 926	0.2%
Return on Rate Base	8.03%	8.47%	0.44%	5.5%
Return on Equity	10.24%	11.29%	1.05%	10.3%
Margin (Sales less Cost of F&PP)	\$ 114,735	\$ 117,330	\$ 2,595	2.3%

- Sales for the 4th quarter were 38.2 GWH or 7.3 percent higher than expected. The variance was largely driven by November's weather which was nearly 20 percent colder than normal.
- Other revenue was understated in the projected 2014.
- Rate base was lower than projected in spite of higher than expected additions to plant as a result of the passage of the Tax Prevention Act of 2014 which granted bonus tax depreciation. Approved in December 2014, this legislation increased the sharing by approximately \$300,000.