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

Before the North Dakota Public Service Commission

Case No. PU-15-___

Direct Testimony
of
Nicole A. Kivisto

Q. Please state your name and business address.

A. My name is Nicole A. Kivisto and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. By whom are you employed and in what capacity?

A. I am the President and Chief Executive Officer (CEO) of Montana-Dakota Utilities Co. (Montana-Dakota) and Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc. I am also the President and CEO of Cascade Natural Gas Corporation and Intermountain Gas Company; subsidiaries of MDU Resources Group, Inc.

Q. Please describe your duties and responsibilities with Montana-Dakota.

A. I have executive responsibility for the development, coordination, and implementation of strategies and policies relative to operations of the above mentioned companies that, in combination, serve over one million customers in eight states.

Q. Please outline your educational and professional background.

2 PU-15-90 Filed 02/06/2015 Pages: 142
Application to increase gas rates – Vol. 1 – Direct Testimony
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Nicole Kivisto, President and CEO

A. I hold a Bachelor's Degree in Accounting from Minnesota State University Moorhead. I have worked for MDU Resources/Montana-Dakota for twenty years and have been in my current capacity since January 2015. I was the Vice President - Operations of Montana-Dakota and Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc. from January of 2014 until assuming my present position.

Prior to that, I was the Vice President, Controller and Chief Accounting Officer for MDU Resources for nearly four years, and held other finance related positions prior to that.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of Montana-Dakota's North Dakota natural gas operations, explain the Company's request for a natural gas distribution rate increase and discuss the reasons underlying the major aspects of the request. I will also address the request for a Rate Stabilization Mechanism, the need for an interim increase; and finally I will introduce the other Company witnesses that will present testimony and exhibits in further support of the Company's request.

Q. Would you provide a summary of Montana-Dakota's gas operations in North Dakota?

A. Montana-Dakota provides natural gas service to approximately 105,000 customers in 74 communities in North Dakota, operating over 2,450 miles of distribution mains and approximately 1,770 miles of service lines. The customer base is 86 percent residential customers and 14 percent commercial and industrial customers. As of December 31, 2014, the Company had 558 full and part time employees who live and work throughout the Company's North Dakota electric and gas service area. Montana-Dakota's North Dakota gas service area is divided into two operating regions with regional offices located in Bismarck and Dickinson, North Dakota. In addition to the regional offices, there are fully staffed operations centers located in the communities of Minot, Williston and Devils Lake, with satellite offices in Watford City and Jamestown.

Additionally there are service technicians and construction employees headquartered in 27 other North Dakota communities deemed strategic to the safe and reliable operation of the Company's distribution system. There are also personnel associated with electric operations only in additional locations in North Dakota. Service technicians and construction employees in Montana, and South Dakota also support operations in North Dakota communities close to the borders of those states. A map of the gas distribution system in North Dakota is included as Exhibit No. ___(NAK-1).

Montana-Dakota's customers have toll-free access to the Customer Service Centers located in Meridian, Idaho and Bismarck, North Dakota as well as the Credit Center in Bismarck, North Dakota, to place routine utility service requests and inquiries from 7:00 am to 7:00 pm local time, Monday through Friday and emergency calls on a 24-hour basis, as discussed in more detail by Ms. Jones. A scheduling center, located in Meridian, Idaho transmits electronic service orders to the mobile terminals placed in our fleet of service and construction vehicles. This network allows the Company to respond quickly to customer requests and emergency situations.

Q. Would you please provide more information regarding the customers the Company serves?

A. Yes. The residential, firm general service and small interruptible customers use natural gas primarily for space and water heating. As such, Montana-Dakota's system has a low load factor with peak gas requirements occurring during the winter with summer loads being small by comparison. Montana-Dakota is projecting to deliver approximately 22.7 Mmdk of natural gas to customers in North Dakota in 2015. The natural gas requirement by customer class is as follows: approximately 38 percent residential, 32 percent firm general service, 9 percent small interruptible, 19 percent large interruptible and 2 percent for the Air Force.

Q. Would you please describe the basic elements that make up the total costs of providing natural gas service?

A. For a natural gas distribution utility, the basic elements which make up the cost of providing natural gas service are the cost of gas purchased at the town border stations in its service territory and the cost of distributing the gas from the town border station to the end use customer.

It is the second of these two elements, the distribution costs, which are the subject of this application for a general rate increase.

The natural gas the Company purchases from suppliers is a commodity like wheat or corn, the price of which is not regulated. The cost of delivering the gas to the Company's distribution system at the town border station is regulated by the FERC or other regulatory agencies. These gas costs are passed on to customers on a dollar-for-dollar basis as specified in the Commission approved Cost of Gas tariff. The gas cost portion of the cost of providing natural gas service currently comprises about 71 percent of a typical residential bill for gas service.

The distribution portion of the Company's cost of service is the subject of this proceeding. This element includes the costs of new distribution investments, replacement of aging infrastructure, operation and maintenance expenses, depreciation, taxes, and the opportunity to earn a return on the Company's investments in facilities that provide natural gas service. Distribution costs are currently about 29 percent of a typical residential bill.

The basic components are shown graphically on Exhibit No. ___ (NAK-2).

Q. Ms. Kivisto, did you authorize the filing of the rate application in this proceeding?

A. Yes, I did.

Q. What is the amount of the increase requested?

A. As will be fully explained by other Company witnesses, the Company is requesting a natural gas rate increase of $4,301,515 (a 3.4 percent increase over current rates) based on a projected 2015 test period.

Q. Why has Montana-Dakota filed this application for a natural gas rate increase?

A. Montana-Dakota is requesting an increase in its general gas rates at this time because the current rates do not reflect the cost of providing natural gas service to the Company's North Dakota customers.

Q. What are the primary reasons that Montana-Dakota needs an increase at this time?

A. The primary reason for the increase in rates is the increased investment in facilities and the associated depreciation, operation and maintenance expenses and taxes associated with the increase in investment.

Q. When was the Company's last general rate case?

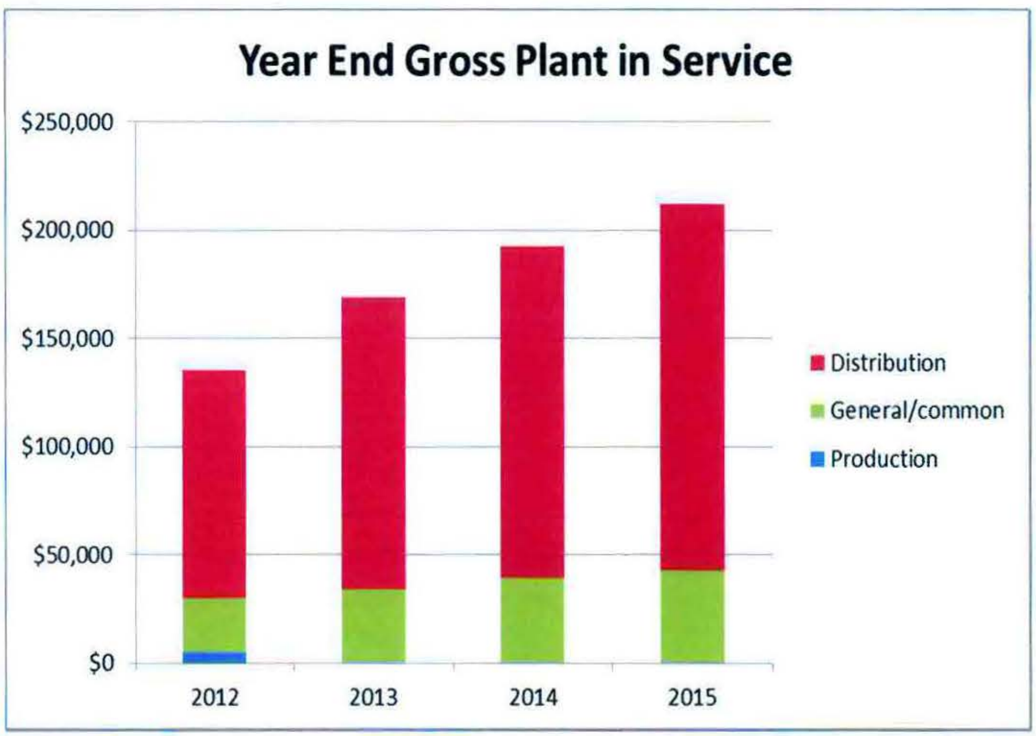
A. The Company's last rate case was Case No. PU-13-803. The resulting rate increase was $4.25 million, or a 3.95 percent overall increase. Final rates in that case became effective on May 1, 2014.

Q. If final rates from the Company's last case were just effective on May 1, 2014, why does the Company need to file again so soon?

A. The North Dakota natural gas system is experiencing unprecedented growth and the rates established based on a projected

2014 test period are not sufficient to provide an adequate return on the investments made to safely and reliably serve customers. Without a rate increase, the Company projects its 2015 rate of return will be 5.255 percent, well below its cost of capital.

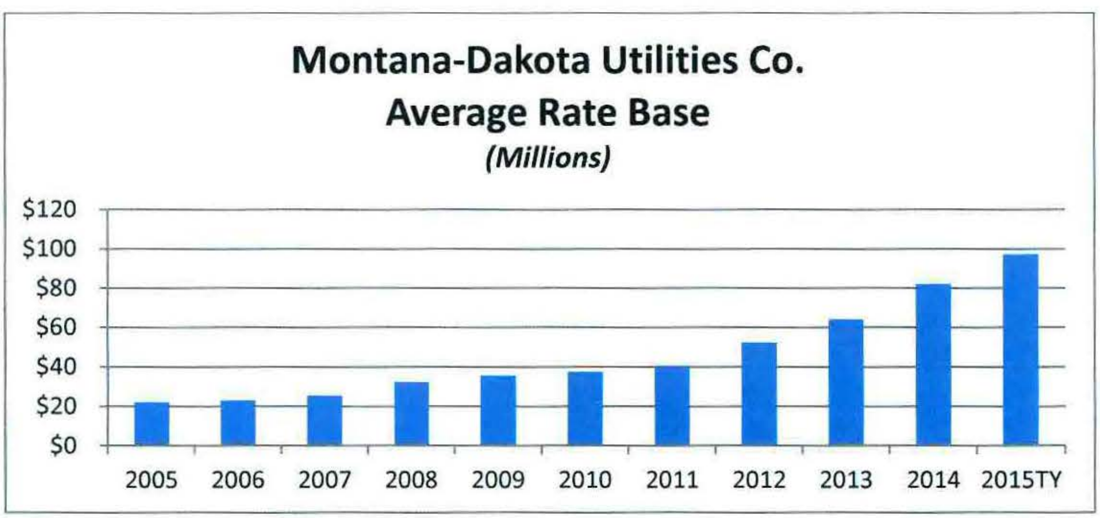
The table below shows the investment in natural gas plant assigned and allocated to North Dakota gas operations, exclusive of the pipeline installed in 2014 to provide service to the Heskett III generating station. Projected 2015 year end gross investment, excluding the Heskett III pipeline is $212 million or nearly 15 percent greater than the gross investment from the 2014 test year used in the last rate case.



The Company continues to make ongoing investments to add new customers to the system and replace existing facilities that have reached their end of life. With any new investments, regardless of whether they are required to serve new customers or replace existing facilities, there are associated depreciation expenses and taxes.

The increase in investment has been accompanied by an increase in customers as well as an increase in sales and transportation volumes. In this case, which is based on a 2015 test period, the Company estimates 107,247 customers in 2015 with usage of 22.7 Mmdk, which represents a 3.6 percent increase in customers and a two percent growth in usage over the customers and volume levels underlying authorized rates in the last rate case. The 2015 projections represent an increase of 11,189 customers or growth of approximately 12 percent since 2012.

The chart below illustrates the significant increase in investment since 2005, with the average rate base increasing from just over $20 million in 2005 to over $97 million for the test period in this case (excluding the Heskett III pipeline).

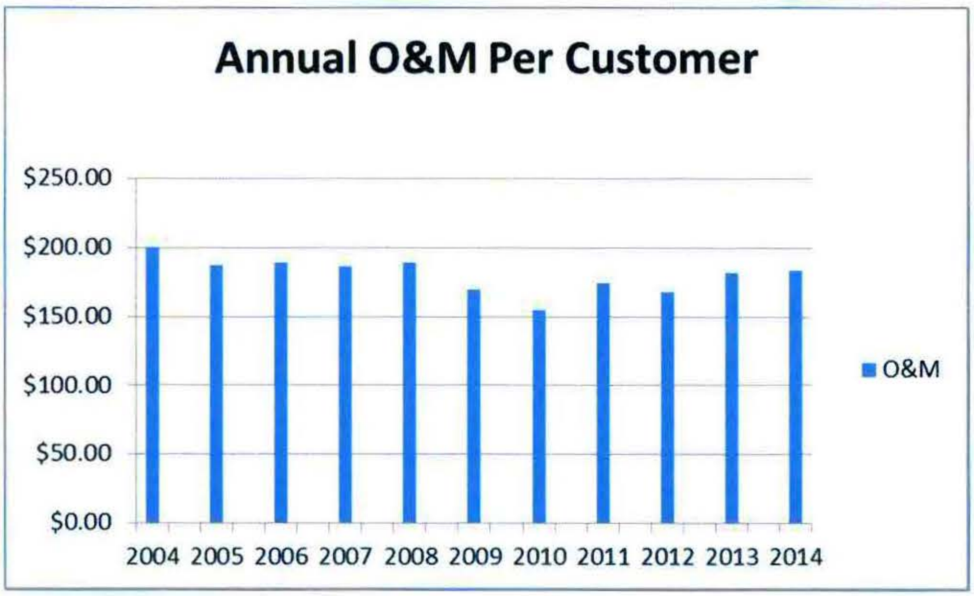


Q. Would you please provide an overview of the investments being made in 2015?

A. The investments required in 2015 are a continuation of the upgrades and system enhancements discussed in the last rate case. For example, in 2015 the second phase of the loop distribution system around the city of Williston will be installed, completing this project that has been providing service in phases and will provide additional capacity as well as additional security to Montana-Dakota's customers. In addition to the completion of the Williston loop line, new town border stations are scheduled for Epping, Alexander, Belfield and Mandan. The Mandan town border station will provide a new supply source into the City of Mandan as this town border station will interconnect with the natural gas line installed to provide natural gas to the Heskett III generating station improving the reliability of service in this area as well as providing necessary capacity. The Company expects that in 2015 it will spend approximately $5 million in distribution related investment in the Dakota Heartland Region and $10 million in the Badlands Region consisting of the major projects noted above and replacement and growth projects, partially offset by customer contributions. Lastly, the Company consistently targets areas for replacement of aging mains in both regions.

Q. Are increased operation and maintenance (O&M) expenses contributing to the need for this rate increase?

Yes, the Company is projecting an increase of approximately 13 percent over the projections underlying the last rate case. In fact, actual O&M for the twelve months ended December 2013 came in approximately 5 percent higher than the Projected 2014 O&M from the last rate case. The increase is driven primarily by labor and benefit costs. However, in spite of the growth in labor and benefit costs, the graph below illustrates that the Company's operation and maintenance costs have remained fairly consistent on a per customer basis over a number of years.



Q. Do you anticipate a slowdown in growth and expenses as a result of the recent decrease in oil prices?

A. The Company does expect a less frantic nature in the need for natural gas service expansion in the face of the current economic conditions surrounding the oil and gas industries. However, it is not clear how long this slowdown will be and if it will lead to a longer term reduction in growth, a more orderly growth pattern or if the boom cycle will return shortly. In the meantime, Montana-Dakota must continue to meet the needs of its customers. In order to address this uncertainty the Company is proposing to initiate a Rate Stabilization Mechanism that will provide a means to address changes in investments and volatile return levels in this time of uncertainty.

Q. Would you please describe the proposed Rate Stabilization Mechanism?

A. The Company is proposing to implement a Rate Stabilization Mechanism applicable to its North Dakota natural gas operations for a five year period starting in 2016. The Rate Stabilization Mechanism will provide an annual review of actual results and the resulting return on equity as compared to the return on equity authorized in this rate case. The Company is proposing a 50 basis point band be applied to the return on equity allowed in this rate case and in the event the Company's rate of return falls outside of the band width proposed, the Company will either return 50 percent of the earnings above the band to customers or in the case of lower earnings, the Company will be able to collect additional revenue from customers in order to meet its return on equity. In addition to the return adjustment based on actual results the Company will include an estimate of the next year's capital expenditures and labor costs for the upcoming year to determine the need for an adjustment similar to an interim adjustment in the rate case process. The Company believes that providing this flexibility will help reduce the need for future regulatory filings, encourage good performance and reward the Company and customers for the results. Ms. Aberle will provide a more detailed description of the mechanism that is provided in a new Rate Schedule 89.

Q. How will the requested increase affect the various classes of customers?

A. The proposed percentage change in rates by customer class is as follows:

Class	Percent Increase
Residential	5.8%
Firm General	0.0%
Air Force Delivery	0.0%
Small Interruptible	6.8%
Large Interruptible	0.0%
Overall	3.4%

Q. Ms. Kivisto, would you explain how Montana-Dakota strives to efficiently provide safe and reliable service to its North Dakota customers?

A. Montana-Dakota works hard to control its costs by continually looking for opportunities that create efficiencies and control costs. Although, in spite of Montana-Dakota's efforts to control costs, the Company sees cost pressures as the need to replace existing infrastructure and add new infrastructure continues.

Montana-Dakota continually reviews its field operations for ways to operate more efficiently and has been successful in doing so. Much of this has been possible due to the advancement of cost effective technology. However, with the recent growth in the Company's service territory, additional investments and increases in operation and maintenance expenses are needed to ensure the system can be operated safely and reliably

Q. Ms. Kivisto, what is the compensation philosophy at Montana-Dakota, how does it compare with other like businesses and can the Company reduce costs in this area?

A. The Company's compensation philosophy is to attract and retain a workforce that can provide safe and reliable service to customers. Montana-Dakota targets a total compensation package that is at the market average for similar positions at other utilities. This compensation includes base pay and incentive pay along with various benefits. Ms. Jones, Vice President of Human Resources, Customer Service and Safety discusses these areas in more detail.

Q. What return is Montana-Dakota requesting in this case?

A. Montana-Dakota is requesting an overall return of 7.588 percent, inclusive of a return on equity (ROE) of 10.0 percent. Dr. Gaske's analysis indicates that a 10.0 percent ROE is fully justified and supported.

Q. Is the Company proposing any rate design changes?

A. Yes. The Company is proposing to collect the increased revenue from the two classes that have returns less than the overall return, the residential class and the small interruptible class. All other classes will be held at their current revenue levels. The Company is further proposing to collect all the additional revenue assigned to the residential class from the Basic Service Charge, eliminate the Distribution Delivery Charge and no longer apply the Distribution Delivery Stabilization Mechanism to the residential class.

Q. Is Montana-Dakota seeking interim rate relief in this proceeding?

A. Yes. Interim rate relief is being sought in this case consistent with North Dakota Century Code 49-05-06. The amount of interim relief sought is $4,303,978 and consists of the Company's projected 2015 revenue requirement as described by Mr. Jacobson. The proposed interim rates are described by Ms. Aberle. The interim increase is necessary to provide the Company an opportunity to recover the costs of providing service to customers today.

Q. Will you please identify the witnesses who will testify on behalf of Montana-Dakota in this proceeding?

A. Yes. Following is a list of witnesses that will provide testimony and/or exhibits in support of the Company's application:

- Ms. Anne M. Jones, Vice President – Human Resources, Customer Service and Safety will testify regarding the Total Rewards Philosophy of the Company and changes to customer service.
- Ms. Donette Schmit, Director of Financial Reporting and Planning will testify regarding the overall cost of capital, capital structure and overall debt and preferred equity costs.

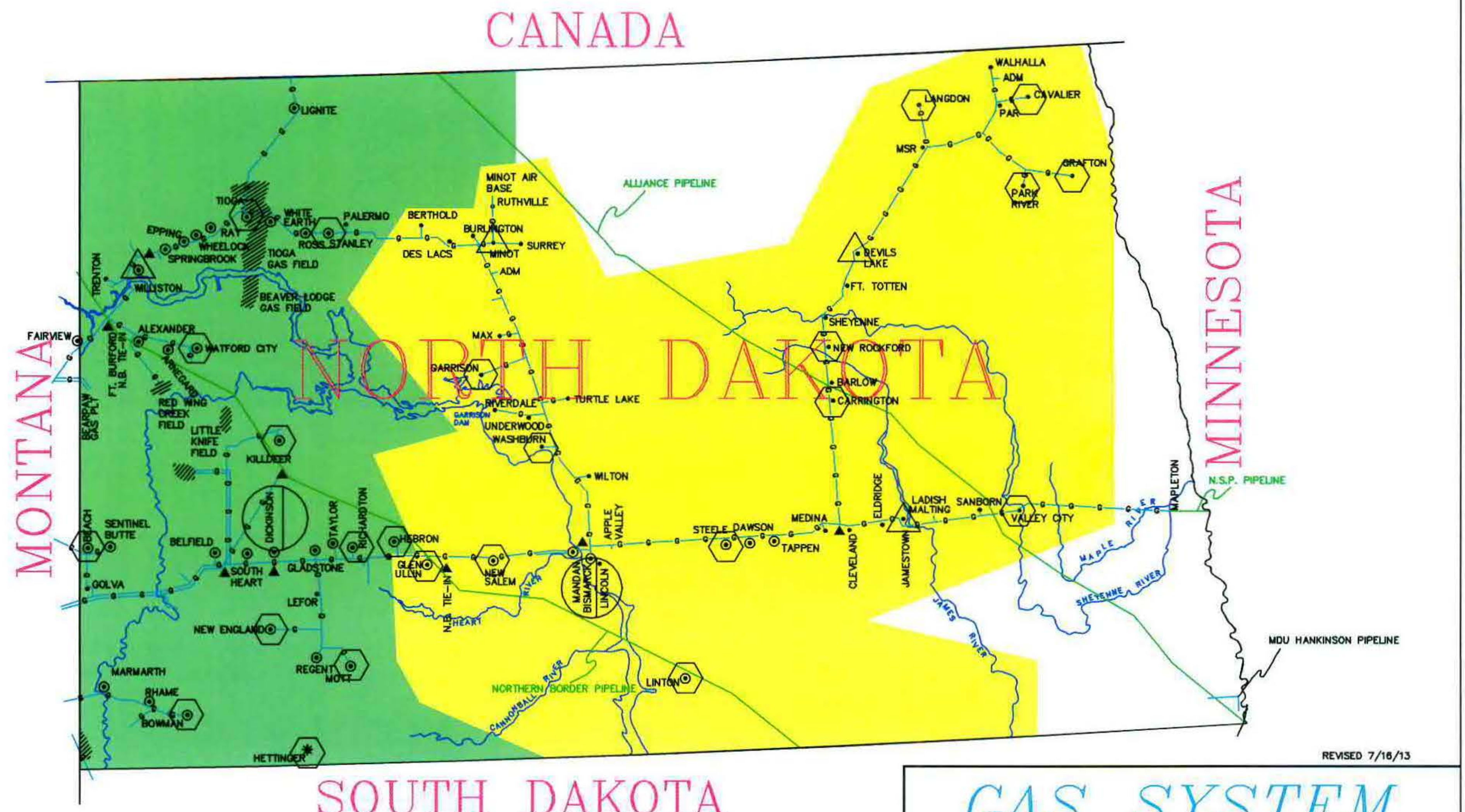
- Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy Advisors, Inc. will testify regarding the appropriate cost of common equity for Montana-Dakota's North Dakota gas operations.
- Mr. Travis R. Jacobson, Manager, Regulatory Affairs–Regulatory Analysis for Montana-Dakota, will testify regarding the total revenue requirement and the interim revenue requirement necessary for North Dakota gas operations.
- Ms. Sara Cardwell, Manager, Regulatory Affairs–Pricing & Tariff will testify on the Company's projected volumes and embedded class cost of service study.
- Ms. Tamie A. Aberle, Director of Regulatory Affairs for Montana-Dakota, will testify regarding the proposed Rate Stabilization Mechanism, rate design and other proposed tariff changes.

Q. Ms. Kivisto, are the rates requested in this proceeding just and reasonable?

A. Yes. In my opinion, the proposed rates are just and reasonable as they are reflective of the total costs being incurred by Montana-Dakota to provide safe and reliable natural gas service to its customers. The proposed rates will provide Montana-Dakota the opportunity to earn a fair and reasonable return on its North Dakota natural gas operations.

Q. Does this complete your direct testimony?

A. Yes, it does.



GAS SYSTEM

MDU RESOURCES GROUP, INC.

- ▲ GAS COMPRESSOR PLANTS
- NATURAL GAS FIELDS
- • TOWNS SERVED WITH NATURAL GAS
- ⊙ TOWNS SERVED WITH ELECTRICITY & NATURAL GAS
- TOWNS SERVED WITH ELECTRICITY & PROPANE
- WILLISTON BASIN NATURAL GAS PIPELINES
- OTHER COMPANIES PIPELINES

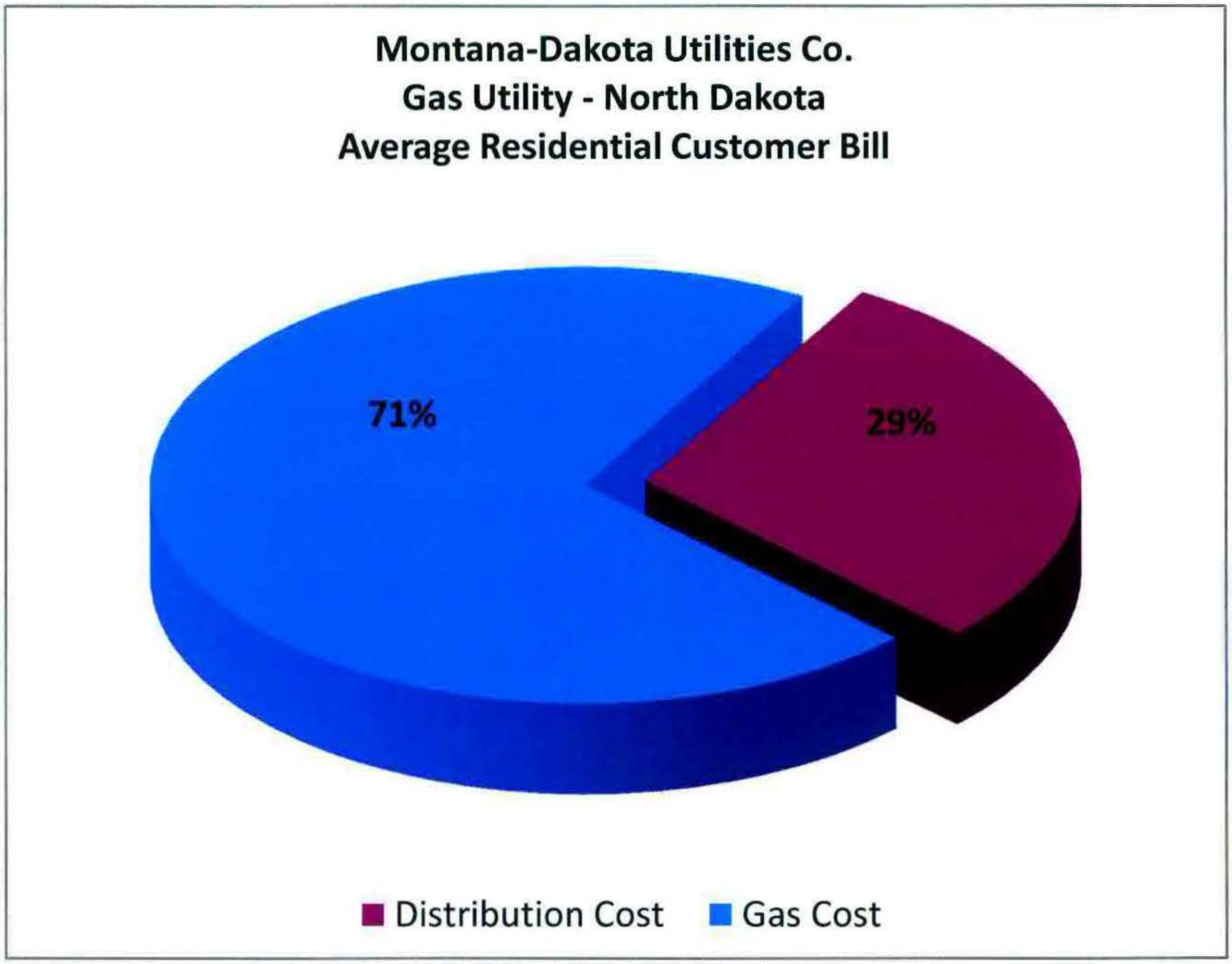
- REGION OFFICE
- △ DISTRICT OFFICE
- TOWNS WITH DISTRICT REPRESENTATIVE /SERVICE PERSONNEL

GRAPHIC SCALE

IN MILES

0 25 50 100

Case No. PU-15___
Exhibit No. ___(NAK-1)
Page 1 of 1


Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Average Residential Customer Bill
71%
29%
Distribution Cost
Gas Cost

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

Before the Public Service Commission of North Dakota
Case No. PU-15-___

Direct Testimony
of
Anne M. Jones

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

A. My name is Anne M. Jones and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Vice President - Human Resources, Customer Service & Safety for Montana-Dakota Utilities Co. (Montana-Dakota) and Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc.

Q. What are your duties and responsibilities?

A. I am responsible for all disciplines associated with the Human Resources function including compensation and benefits, organization development and training, labor and employee relations, and compliance with employment and employee relation laws and practices.

I am also responsible for the Customer Service Center, Credit and Collections Team as well as Safety and Technical training functions.

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

A. I have a Bachelor's Degree in Management with an emphasis in Human Resources from the University of Mary. I began my career with

Montana-Dakota 32 years ago and have held a variety of positions of increasing responsibility throughout the Company. I joined the Company's Human Resources group in 1997; and before being named Vice President in 2013, I served as Director of Human Resources.

Q. Have you testified before this Commission and other state regulatory bodies?

A. I have previously testified before this Commission as well as the Montana Public Service Commission and South Dakota Public Utilities Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the Company's efforts to control the costs of wages and benefits through its Total Rewards Philosophy and how the Company's efforts to operate efficiently in the customer service area also serves to control costs.

The Total Rewards Philosophy is comprised of base pay, variable (incentive) pay and employee benefits as a complete package.

Q. Would you explain how compensation is reviewed at Montana-Dakota?

A. The first component of the Total Rewards package is base pay. Montana-Dakota's philosophy is to set base pay using national general industry data and provide base pay opportunities that are aligned with the market average for similar positions. Periodically the Company contracts with an outside independent consultant to review compensation programs and practices. In 2013, the Company contracted with Aon Hewitt to provide a third party review of base compensation and incentive compensation.

The review indicated that Montana-Dakota's compensation programs are well designed and utilize high quality and established external survey sources to ensure the programs align well with other utilities and industries that compete for the same types of employees. Recommendations for improvement were primarily minor enhancements to employee pay opportunities because of Montana-Dakota's conservative approach to total compensation. For example, Aon Hewitt suggested that in order to keep the Company from falling below market competitive base pay levels, salary structures should be increased more aggressively than they have been in the past.

In addition to periodic third party reviews, Human Resources reviews standard benchmark jobs in the corporation annually, including job families such as engineers, construction supervisors and system analysts. The Company's total compensation package for the benchmark jobs are compared to market compensation for comparable positions to ensure that the Company is compensating employees at the appropriate pay grade and range. Human Resources also reviews positions on an "as needed" basis throughout the year to ensure it is competitively compensating within the established pay ranges. The Company uses many reputable industry surveys when determining base pay levels, including the American Gas Association, Salary.com, Mercer Benchmark, Milliman, Towers Watson and World at Work, among others.

Q. Would you please discuss the incentive compensation component of the Total Rewards Philosophy?

A. Yes. This second component of the Total Rewards package is incentive pay. Montana-Dakota's incentive plans are a critical portion of the total compensation provided to all employees. Incentive compensation is offered in an effort to remain competitive within the industry at the lowest reasonable cost and to focus employee efforts on achieving important objectives. The incentive plans encourage continued improvement in standards for performance that benefit customers and lead to positive business results. The key incentive plan measures include financial, customer service and operating costs.

Incentive plans are designed to:

- Establish a strong relationship between pay and Company performance;
- Provide focus on utility strategic initiatives that increase effectiveness and efficiency;
- Promote superior customer service; and
- Deliver labor market competitive rewards that attract, retain and motivate talented employees to higher levels of performance.

The efforts of employees, both individually and as team members, are keys to this success. Incentive plans provide an opportunity for employees to receive additional compensation only when pre-established financial results are achieved as well as attainment of important organizational and customer satisfaction goals. Through the design of incentive plans, part of the employees' total compensation package is "at risk." When business performance thresholds are not met, employees will not receive incentive pay.

According to a 2012 Towers Watson Regional Incentive Compensation Survey, 100 percent of the fifteen participating utilities provided incentive compensation to employees. Aon Hewitt also reviewed the Company's incentive compensation plan design and found the plans were sound and within market norms. Additionally they found eligibility is consistent with other utilities and the plan metrics include a significant and appropriate portion of incentive compensation focused on customer service and cost management.

In the absence of incentive compensation, the only viable alternative for Montana-Dakota is to increase base pay to remain competitive in the labor market and retain a qualified work force. Base pay is the most expensive way to compensate employees because other benefits such as the Company's 401K contributions are calculated as a percentage of base salary. Benefit cost increases lead to additional costs for the utility and ultimately for customers. For this reason, it is important to have a reasonable balance of base pay and incentive (variable/at risk) pay to stay competitive in the labor market while still controlling costs.

Q. Would you describe the third component, the benefits that are available to employees?

A. Yes. Employee benefits are the third part of the Total Rewards package. The Company offers standard health and welfare plans (medical, dental and vision insurance; vacation and other paid time off benefits; and life, disability and accident insurance); along with a retirement savings plan. Employees share premium costs for many of these benefits.

Q. Has the Company made any changes to medical plan benefits?

A. Yes. The medical plans for active employees continue to change to maintain a sustainable benefit under the new healthcare legislation. The Company has restructured and priced the medical benefit plans in a manner that encourages employees to strongly consider a higher deductible medical plan paired with a Health Savings Account (HSA). The high deductible medical plan encourages employees to be wise consumers of medical services and allows employees to build HSA accounts that may be used into retirement. The high deductible plan also decreases the medical liability of the Company under the self-insured plans because first dollar coverage is limited to preventative care.

Q. What benefit does Montana-Dakota's Total Rewards Package provide its North Dakota gas customers?

A. The Total Rewards Philosophy employed by Montana-Dakota is cost effective for the Company and customers because it provides a means to control costs while continuing to attract and retain the work force necessary to provide safe and reliable service to its customers.

This competitive Total Rewards Philosophy is key to maintaining the highly skilled workforce required to operate and maintain the utility. Montana-Dakota's workforce and operations have been significantly impacted by the highly competitive labor market due to the oil and natural gas industry expansion in North Dakota and eastern Montana. High paying oilfield jobs are plentiful and our work force is viewed by many companies as an ideal feeder pool for their vacant positions.

It is prudent and beneficial to customers to leverage all three components of the Total Rewards Philosophy to minimize turnover. Compensating employees competitively achieves this objective and in turn helps keep the gas distribution system safe and operational costs lower.

Q. Is the Company currently experiencing turnover in the Bakken and Western North Dakota in particular?

A. The Company continues to monitor this area and has put recruitment and retention programs into place to ensure the Company attracts qualified individuals for open positions as well as retains the labor force that is in place today. The Company still has work to do in these areas as a result of the Bakken expansion and it is important to continue to focus on positions that have been harder to fill and have been posted for longer period of times. The Company has engaged in a number of activities to fill positions and retain employees.

Q. Can you tell us more about what these activities entail?

A. Yes. The Company has held career fairs, increased advertising through not only traditional methods but also through social media such as Facebook, Indeed and Career Builder. The Company has also contracted with a recruiter to search for candidates. The Company has always had the ability to offer sign-on bonuses and has seen an increased need to rely upon sign-on bonuses. The Company will also pay current employees for referring qualified individuals through its Employee Referral Program. The employee is paid an award of $1,500 if the referral results in a successful hire which is defined as successful completion of a six month probationary period.

To retain the employees, retention incentives may include rental subsidies and in some cases, the Company has purchased mobile homes for employees to live in when housing is either not available or is not available at an affordable price.

The Company continues to receive fewer applicants for open positions compared to past openings for the same or similar positions.

Q. Has the Company made any changes to its customer service operations since the last case?

A. Yes. Montana-Dakota has moved eight Customer Service Representative positions from Meridian, Idaho to Bismarck to answer phone calls on a daily basis and to provide a backup function in an emergency to the Meridian location.

Based on second quarter 2014 billings, 40 percent of customers paid their bill electronically as opposed to mailing their payments. An increase to on-line services reduces the number of calls into the customer service center providing for efficiency gains in staff levels. It should also provide additional efficiencies and cost savings in mailing costs. These changes are also providing increased customer satisfaction. At this time, approximately eight percent of customers receive their bills electronically. As the Company continues to communicate and share information on this process, this number will also increase and provide additional efficiencies.

Q. What are the Call Center's hours and how does the Company respond to after-hours emergency calls?

A. The Call Center is designed to have representatives available to offer full service from 7:00 a.m. to 7:00 p.m. local time. After these hours, there is limited staff on duty to answer emergency calls, however, based on weather conditions, additional staff can quickly respond to provide assistance as well as initiating a recording to quickly let customers know the Company is aware of the emergency situation. An automated call back system is also available in order to better meet customer demand during times of high call volume. The Company has also found that customers respond well to social media such as Facebook and Twitter.

Q. Does this complete your direct testimony?

A. Yes, it does.

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

Before the Public Service Commission of North Dakota

Case No. PU-15___

Direct Testimony
of
Donette Schmit

Q. Please state your name and business address.

A. My name is Donette Schmit and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. By whom are you employed and in what capacity?

A. I am the Director of Financial Reporting and Planning for Montana-Dakota Utilities Co. (Montana-Dakota), and Great Plains Natural Gas Co. (Great Plains), divisions of MDU Resources Group, Inc.

Q. Please describe your duties and responsibilities with Montana-Dakota.

A. I am responsible for management of the accounting and the financial forecasting/planning functions, including the analysis and reporting of all financial transactions for Montana-Dakota and Great Plains.

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

A. I graduated from Moorhead State University with a Bachelor of Science degree in Accounting. I started my career with Montana-Dakota in 1983 as an internal auditor and during my tenure with the Company have held positions of increasing responsibility, including Supervisor of Financial Reporting and Planning and Manager of Financial Reporting and Planning.

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

A. While I have not testified in a previous regulatory proceeding, I have assisted in the preparation of testimony that was presented before the Montana Public Service Commission, the South Dakota Public Utilities Commission and the Wyoming Public Service Commission.

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

A. I am responsible for presenting Statement A, Statement B, and Statement F.

Q. Were these statements and the data contained therein prepared by you or under your supervision?

A. Yes, they were.

Q. Are they true to the best of your knowledge and belief?

A. Yes, they are.

Q. Would you describe Statement A and Statement B?

A. Statement A, pages 1 and 2 show Montana-Dakota's balance sheet as of December 31, 2012 and December 31, 2013, with September 30, 2013 and September 30, 2014 information shown on pages 3 and 4, with notes to the financial statements following. Statement B consists of Montana-Dakota's income statement for the twelve months ended December 31, 2013 and the nine months ended September 30, 2014.

These statements have been prepared from the Company's books and records that are maintained in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

Q. Would you please explain Statement F?

A. Statement F shows the utility capital structure of Montana-Dakota for the twelve months ended December 31, 2013 and December 31, 2014 and the projected capital structure for 2015. Statement F includes the associated costs of debt, preferred stock and common equity. This capital structure and the associated costs serve as the basis for the overall rate of return requested by Montana-Dakota in this rate filing of 7.588 percent. The basis for the requested 10.00 percent return on common equity contained within the overall requested rate of return is supported by the testimony of Dr. J. Stephen Gaske.

Page 1 of Statement F summarizes the utility capital structure and the related utility costs of capital at December 31, 2013 and December 31, 2014 and the projected capital structure and the related utility costs of capital for 2015. As shown on page 1, the components of the 2015 projected overall annual rate of return, which are used by Mr. Jacobson to calculate the revenue requirement, are:

	Weighted Cost of Capital
Long Term Debt	2.447%
Short Term Debt	0.132%
Preferred Stock	0.057%
Common Equity	4.952%
Required Rate of Return	7.588%

The debt costs reflected on Statement F, Schedule F-1, page 1 represent the actual weighted embedded costs of the long-term debt at December 31, 2013 and December 31, 2014 and those projected to be outstanding at December 31, 2015. In calculating the debt costs, the "Yield-to-Maturity" method (also referred to as the Internal Rate of Return (IRR) method) is used to determine the total cost for each respective debt issue, shown on pages 2 through 4. The yield-to-maturity calculation of each debt issue outstanding gives consideration to the stated rates of interest being paid on such debt, the timing of the interest payments, related issuance expenses, underwriters' commissions, and the losses on bond redemption transactions.

Page 5 reflects the amortization of issuance costs associated with reacquired debt.

Page 6 reports the twelve-month average short-term debt balance and the associated interest expense and cost of short-term debt for December 31, 2013 and December 31, 2014 and that projected to be outstanding on December 31, 2015.

Statement F, Schedule F-2, supports the cost of Montana-Dakota's preferred stock capital, representing the weighted cost of the issues at December 31, 2013 and December 31, 2014 and projected to be outstanding at December 31, 2015.

Statement F, Schedule F-3, supports the Company's utility common equity balance at December 31, 2013 and December 31, 2014 and the projected balance at December 31, 2015.

Q. How does the Company finance its gas utility operations and determine the amount of common equity, debt and preferred stock to be included in its capital structure?

A. As a regulated public utility, the Company has a duty and obligation to provide safe and reliable service to its customers across its service territory while prudently balancing cost and risk. In order to fulfill its service obligations, the Company is making significant capital expenditures for new plant investment throughout its service territory, especially in mains, services and meters. These new investments also have associated operating and maintenance costs. Through its financial planning process, the Company determines the amounts of necessary financing required to support these activities. Montana-Dakota finances its operations targeting a 50/50 debt to common equity capital structure. Capital expenditure investments are financed through a mix of internally generated funds, the utilization of the Company's short-term credit line and the issuance of additional debt and common equity financing as required to maintain targeted capital ratios and finance the combined utility operations.

The Company obtained $14.6 million and $82.0 million of additional common equity in 2013 and 2014, respectively. In addition, the Company expects to receive approximately $100.0 million of common equity during 2015 in order to achieve and maintain the targeted capital structure.

In September 2013, the Company issued a thirteen month $75 million London Interbank Offered Rate (LIBOR) floating rate note. This temporary bridge financing was put in place to delay issuance of permanent private placement debt in order to aggregate debt issuances and achieve more attractive long-term pricing while avoiding duplication of issuance costs. In January 2014, $150 million private placements of unsecured senior notes were issued with delayed draws of $50 million in April and $100 million in July 2014. The April draw of $50 million was issued with a thirty-year maturity, at an interest rate of 5.18 percent. The delayed draw in July 2014 was issued in two blocks, $60 million, at an interest rate of 4.24 percent, with a ten-year maturity, and $40 million, at an interest rate of 4.34 percent, with a twelve-year maturity. $25 million of the LIBOR note was paid off in May 2014 and the balance was paid off in June 2014.

Since 2006, the Company has refinanced essentially all of its long-term debt and has lowered its embedded long term debt cost from 8.794 percent at December 31, 2005 to a projected 5.949 percent at December 31, 2015. The mix of securities employs various maturity dates in order to provide flexibility and mitigate refinancing risks.

Q. What does Statement F, Schedule F-1 show?

A. Page 1 is a summary showing the Company's long-term debt at December 31, 2013 and 2014 and associated cost of debt, and it shows the projected long-term debt and associated costs for 2015. Page 2 shows the cost and the debt balance by issue at December 31, 2013 and page 3 shows the cost and debt balance by issue at December 31, 2014. Page 4 shows the projected cost and the debt balance by issue at December 31, 2015.

Q. How did you derive the projected cost of debt for 2015?

A. The projected cost of debt for 2015 is based upon the yield-to-maturity of each debt issue outstanding.

Q. Would you please describe Statement F, Schedule F-1, page 5 and explain the amortization method utilized?

A. Page 5 reflects the annual amortization of the costs associated with the redemption of long-term debt. For this proceeding, the amortization has been computed on a straight-line basis over the remaining life of the issues. The Company uses the same calculation for accounting purposes.

Q. Would you please describe Statement F, Schedule F-1, page 6?

A. Page 6 presents the twelve-month average short-term debt balance for 2013, 2014 and projected 2015 as well as the average cost of short-term debt. A twelve-month average of short-term debt is used in the cost of capital calculation to reflect the seasonality in the short-term debt balance. Short-term debt is historically at or near its peak in December and the twelve-month average calculation is more reflective of the borrowing level than a year-end balance.

Q. What does Statement F, Schedule F-2 show?

A. Page 1 presents the preferred stock balances at December 31, 2013 and December 31, 2014 and the projected balances for December 31, 2015. The anticipated weighted cost of preferred stock is also shown. Pages 2 and 3 set forth the various preferred stock issues outstanding at December 31, 2013 and December 31, 2014 and page 4 sets forth the projected issues outstanding at December 31, 2015.

Q. What does Statement F, Schedule F-3 show?

A. The schedule presents the common equity balance at December 31, 2013 and December 31, 2014 and the projected balance for December 31, 2015 reflecting the projected activity in the balance.

Q. Does this conclude your direct testimony?

A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-15-

Direct Testimony
of
Travis R. Jacobson

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

A. Yes. My name is Travis R. Jacobson and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Regulatory Analysis Manager for Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

Q. Would you please describe your duties as Regulatory Analysis Manager?

A. I am responsible for the preparation of cost of service studies, fuel cost adjustments, purchased gas cost adjustments, and gas tracking adjustments in each of the jurisdictions in which Montana-Dakota operates.

Q. Would you please describe your education and professional background?

A. I graduated from Minot State University with a Bachelor of Science degree in Accounting and I am a Certified Public Accountant (CPA). I started my career with Montana-Dakota in 1999 as a financial analyst in the Financial Reporting area and during my tenure with the Company have held positions of increasing responsibility, including Supervisor, Financial Reporting and Planning and Manager, Financial Reporting and Planning before attaining my current position.

Q. Are you familiar with the books and records of Montana-Dakota and the manner in which they are kept?

A. Yes. Montana-Dakota's books and records are kept in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (US of A).

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

A. The purpose of my testimony is to present the per books cost of service for the twelve months ended December 31, 2013 for North Dakota gas operations, the projected cost of service for 2014 and 2015, the calculation of the revenue deficiency and the calculation of the interim request.

Q. What statements, schedules and exhibits are you sponsoring?

A. I am sponsoring Statements C through E, Statements G through N, and Exhibit No.___(TRJ-1).

Q. Were these statements and exhibits prepared by you or under your direct supervision?

A. Yes, they were.

<u>Revenue Requirement</u>

Q. What were the results of North Dakota gas operations for 2013?

A. Statement L, pages 1 and 2 show the per books income statement and rate base for the total Company and for the North Dakota gas operations for 2013. As shown on page 1, North Dakota gas operations had a return on rate base of 5.520 percent for the twelve months ended December 31, 2013. The details for each line item, i.e. sales revenue, other revenue, etc., are included in the referenced Statements.

Q. How was the per books cost of service allocated to North Dakota?

A. The Company utilizes a jurisdictional accounting system that directly assigns and/or allocates every item of revenue, expense and rate base to the jurisdictions as part of the regular accounting process on a monthly basis. The allocation methods and procedures are the same as those that have previously been used in Commission proceedings and are based on the principle of assigning and/or allocating costs to the cost causer.

Q. What test period are you using to determine the revenue requirement?

A. The revenue requirement is based on a projected average 2015 test period. As stated by Ms. Kivisto, the primary reason for the increase is investment in facilities, including those to be completed through the end of 2015, and increases in Operation and Maintenance Expenses.

Montana-Dakota is using a future test year in accordance with North Dakota Century Code §49-05-04.1.

Q. Would you describe the development of the projected cost of service for 2014 and 2015?

A. The projected 2014 and 2015 cost of service is presented in Statement M, which contains all of the schedules supporting the income statement on page 1, and Statement N, which contains all of the schedules supporting the rate base on page 1. The revenues and expenses reflect the annual level that will be experienced when the new rates become effective. Likewise, the rate base reflects average 2014 and 2015 plant and related balances.

Q. Based on the timing of this request, have you compared the 2014 actual results with the projected 2014 data presented in the various statements?

A. Yes. The 2014 actual results have been compared to the information presented for projected 2014. Generally the results were consistent with the projections. As mentioned in the detailed adjustments, actual O&M and rate base information was used in the development of the 2015 projected revenue requirement when possible. Actual sales and transportation revenue were not used as the revenue requirement is based on normalized usage and currently effective tariff rates whereas actual sales and transportation revenue were impacted by weather and the application of interim and final rates pursuant to the PU-13-803 rate case. The projected 2014 information presented in this case provides a bridge to the projected 2015 revenue requirement.

Q. Were the investment and expenses related to the Billings Landfill gas production facility removed?

A. Yes. Pursuant to the Order on Settlement in Case No. PU-13-803, the investment and expenses related to the Billings Landfill gas production facility have been excluded. The expenses consist of all production costs, including depreciation and ad valorem taxes, as well as the associated benefits recorded in administrative and general expense (A&G). The investment consists of all production plant in service and the associated accumulated reserve and accumulated deferred income taxes.

<u>Income Statement</u>

Q. Would you describe the development of the projected revenues and expenses contained in Statement M?

A. The projected revenues for 2014 and 2015 are summarized on Statement M, page 2. Ms. Cardwell discusses the development of the sales and transportation revenues in her testimony

Other operating revenues are to remain at the 2013 level, with the exception of rent from property and other revenues as shown on Statement M, page 8. Rent from property was adjusted to reflect current revenue from property rented to others. The projected 2014 and 2015 amounts reflect current levels and the increase in revenue is due to the rental income received, primarily from Company-owned housing.

Other revenues are made up of Heskett pipeline revenue, late payment and penalty revenue. Revenue from the pipeline serving the

Heskett III gas turbine was included beginning with the in service date in 2014 and the projected annual amount for 2015. As shown on Statement M, page 9, a revenue requirement specific to the Heskett pipeline was prepared to show the total cost included in this rate case. The addition of the Mandan Border Station #2, as shown on Statement N, page 8, included as a 2015 capital addition connects the pipeline to Montana-Dakota's gas distribution system serving customers in and around the City of Mandan. Thus, a portion of the revenue requirement is allocated to North Dakota gas customers to reflect the incremental capacity necessary to serve customers. In addition, the pipeline will provide increased system security by offering a second source of gas into the existing distribution system. During 2014, the entire revenue requirement was recovered from the Heskett III Station commencing with the in service date.

Late payment revenues were projected for 2014-2015 based on the 2013 ratio of late payment revenue to billed sales and transportation revenue of 0.15 percent applied to projected 2014-2015 sales and transportation revenue. The 2014 and 2015 penalty revenues were restated to a three year average for 2011 to 2013 to smooth out any year to year fluctuations.

Q. **Would you describe the development of the operation and maintenance expenses?**

A. Yes. The projected 2014 and 2015 operation and maintenance (O&M) expenses are summarized on Statement M, pages 10 through 13, with the detail provided on pages 14 through 29.

The cost of gas, shown on page 14, uses the projected sales volumes, adjusted for losses, and an annual gas cost level for 2015. The projected cost of gas per dk was derived by calculating annual demand charges and commodity cost of gas and applying those costs to the November 1, 2014, purchased gas cost adjustment billing determinants. The distribution loss factor of 0.45 percent represents the current loss factor.

Q. Would you describe the development of the projected other O&M expense?

A. Yes. O&M expenses were reviewed and projected by resource, or cost category, some on a North Dakota only basis and some on a total Company basis. As discussed by Ms. Kivisto and Ms. Jones, the expansion in Western North Dakota has caused significant and ongoing changes throughout Montana-Dakota's North Dakota service territory, which are reflected in this filing. Given these changes, Montana-Dakota developed the O&M expenses for 2014 by annualizing 2014 per books data, reviewing current information, as well as discussions with operations personnel to determine the best information for 2014. The projections for 2015 were based on the projected 2014 data.

Q. Would you describe the development of the labor and benefits expense?

A. Yes. Labor expense is shown on page 15, with actual labor expense for the twelve months ended December 31, 2013 used as the starting point. The 2014 labor expense was calculated by annualizing the ten months ending October 31, 2014 labor expense. The projected increase of 3.50 percent in 2015 is the increase expected for bargaining unit employees pursuant to a negotiated union contract and for non-bargaining unit employees effective in 2015. In addition, incentive compensation has been adjusted to reflect a three year average percentage of labor.

Benefits are shown on page 16. Benefits expense consists of medical/dental insurance, pension, post-retirement, 401K, and workers compensation. Each of these items was adjusted individually. For 2014 medical/dental expense, a loading factor was developed using a ratio of the current medical/dental expense annualized to the projected labor expense excluding incentive compensation. For pension, post-retirement and 401K expense, a loading factor was developed using a ratio of the budgeted pension, post-retirement and 401K expenses to 2014 projected labor expense excluding incentive compensation. The loading factor for each component was applied to the projected 2014 labor expense, to arrive at projected benefits expense for 2014. Workers compensation is based on the ratio of workers compensation expense for 2013 to per books North Dakota gas labor expense applied to 2014 projected labor expense. Additional information regarding benefits is discussed by Ms. Jones.

For 2015, medical/dental expense is projected to increase by 4.10 percent based upon anticipated health insurance increases. Pension expense is projected to increase by 136.31 percent or $105,000 and post-retirement expense is expected to increase by 713.56 percent or $214,000 based on an actuarial study completed in August 2014. 401K expense will increase by 3.50 percent based upon the labor increase for 2015 and the workers compensation ratio for 2013 is applied to the 2015 labor expense to derive the 2015 workers compensation expense. Other benefits, primarily disability insurance, are also tied to labor expense with the changes applied accordingly.

Q. Would you describe the other projected O&M expense items?

A. Yes. The projected subcontract labor expense for 2014 increased based on known changes. Subcontract labor expense for 2015 is expected to remain at the 2014 level. Materials expense for 2014 is expected to remain at the 2013 level and increase in 2015 by the three year average inflation rate of 2.3 percent.

Vehicles and work equipment reflect all expenses associated with the Company's vehicles and equipment, such as backhoes, including the costs of fuel, insurance, maintenance and depreciation expense. The depreciation expense on these items is charged to a clearing account (rather than to depreciation expense), where it is then recorded in O&M expense or capitalized as part of a project as the vehicle or work equipment is used. The projected expense is updated based on the projected plant and the depreciation rates in Statement N.

Company consumption is the expense for electric and natural gas consumption in Company buildings. The electric component is projected to remain flat. The natural gas component is expected to increase by 12.3 percent in 2014 based on the increase in 2013 weather normalized firm general sales revenues and remain at the same level for 2015.

Uncollectible accounts are based on the ratio of the five year average of net write-offs to sales and transportation revenue. This ratio was then applied to the projected 2014 and 2015 sales and transportation revenues, which results in an increase in uncollectible accounts.

Projected postage expense for 2014 reflects a 6.38 percent increase based on the current level of expense annualized. Postage expense for 2015 is projected to increase due to the projected increase in customers but will be partially offset by the savings related to customers utilizing electronic billing.

Software maintenance reflects new programs in 2014 and 2015 that support or protect current software programs.

2014 and 2015 building rentals have been adjusted to reflect the annualized current level of expenses adjusted to reflect additional rented office space for General Office employees.

Advertising expense is shown on page 25. Promotional advertising expense has been eliminated and informational and institutional advertising are adjusted to exclude advertising that is not applicable to North Dakota gas operations.

Q. Would you please continue with your explanation of adjustments to operation and maintenance expenses?

A. Yes. Industry dues reflect the projected level of industry dues and those dues that are not specifically applicable to North Dakota natural gas operations have been eliminated.

Insurance expense reflects the current insurance level for 2014 and remaining flat for 2015.

Regulatory Commission Expense, as shown on page 28, reflects the expenses to be incurred in this filing, amortized over a three-year period, and a three year average of ongoing regulatory commission expense. The Company is also proposing to include the amortization of the Bismarck manufactured gas plant (MGP) remediation costs pursuant to Case No. PU-10-589. The site was used to service Bismarck customers prior to the availability of transmission pipelines that exist today. The costs to remediate the site were deferred and then, consistent with the Commission's Order issued in Case No. PU-10-589, Montana-Dakota began amortizing approximately $908,000 over a 10 year period effective January 1, 2008. The amortization of the costs to date has not been recovered from customers. The Company is now requesting inclusion of these costs as a part of its test year cost of service. The unamortized balance as of December 31, 2014 is approximately $272,000.

The items adjusted individually above represent approximately 94 percent of total North Dakota gas O&M, as shown on page 29. The remaining items, which make up approximately 6 percent of other O&M expense, were adjusted for the effects of inflation for 2014 and 2015. A 2.3 percent inflation factor, based on the three year average inflation change of the Consumer Price Index, was applied to the expenses not specifically adjusted for 2014 and 2015.

Q. Would you describe the calculation of depreciation expense?

A. Yes. Projected depreciation expense is summarized on Statement M, page 32. The calculation of depreciation expense and associated accumulated reserve for depreciation is shown on pages 33 and 34. Depreciation expense is calculated on projected plant using the projected plant in service, with the depreciation rates that were approved in Case No. PU-13-803. The depreciation rates are shown on Statement I, with a summary of composite rates by function on page 2.

Q. How were taxes other than income projected?

A. Projected taxes other than income are shown on pages 35 through 38. Ad valorem taxes were calculated using the projected 2014 and 2015 plant in service and applying a projected effective tax rate based on the ratio of 2013 ad valorem taxes to average plant balances as of December 31, 2013 by function.

Projected payroll taxes were based on the ratio of payroll taxes to labor expense for 2013 and applied to the projected 2014 and 2015 labor expense to determine the projected payroll taxes.

All other taxes other than income were projected to remain at the 2013 level.

Q. Would you describe the calculation of federal and state income taxes?

A. The projected income tax calculation for North Dakota gas operations is shown on pages 39 and 40. Interest is deductible for tax purposes and the projected interest expense is calculated on the projected rate base using the projected debt ratio and weighted cost of debt from Statement F, page 1.

North Dakota federal and state income taxes are fully normalized, so the calculation of income taxes is made on the taxable income after interest, since any tax deductions would be fully offset by deferred income taxes.

<u>Rate Base</u>

Q. Would you describe the development of the projected rate base for 2014 and 2015?

A. The rate base is summarized on Statement N, page 1 and shows the 2013 actual and projected 2014 and 2015 rate base for North Dakota gas operations. Pages 2 through 22 are the supporting components of the projected rate base. As noted earlier, the overall 2014 actual rate base was compared to the projected 2014 rate case presented in this case. The variance was just over $300,000 or 0.35 percent.

Pages 2 through 3 show the projected plant in service for 2014 and 2015. The projected plant was developed by adding the capital budget items for 2014 to the 2013 plant in service balances. The investment includes the significant addition of the pipeline used to serve the Heskett III gas turbine placed in service during 2014 as well as the previously mentioned construction of the Mandan Border Station #2 which ties the Heskett pipeline to the Company's distribution system providing increased capacity and reliability for the customers. Additionally, incremental investment in mains, services and meters has been included due to continued development taking place in the Company's service territory. Retirements, based on a three-year average of retirements by function, were deducted and the average 2014 balance was calculated. The process was repeated for 2015. The detail by project for 2014-2015 is shown on pages 4-10.

The projected accumulated reserve for depreciation is summarized on page 11. The projected reserve balances were calculated using the reserve balances at December 31, 2013, adding the calculated depreciation expense and deducting retirements based on a three-year average of retirements, as shown on Statement M, pages 33-34. The average 2014 balances were then calculated and the process was repeated for 2015.

Q. How were the working capital items derived?

A. The projected working capital items are shown on pages 12 through 18. Materials and supplies and fuel stocks were restated to a thirteen month average on page 13, reflecting actual balances through November 2014 with December remaining at the December 2013 level. Fuel stocks are restated to a thirteen month average balance on page 14.

Prepayments, which are made up of prepaid insurance, are shown on page 15. Prepayments are restated to a thirteen month average balance. The projected 2014 and 2015 balances are based on the projected 2014-2015 insurance expense.

The unamortized loss of debt was calculated using the balances as of December 31, 2013, and adding the calculated 2014 reflects a reallocation of the balance and the annual amortization to arrive at a balance for 2014. The 2013 and 2014 balances were then averaged to reflect the 2014 average unamortized loss on debt. The process was repeated to calculate the 2015 average unamortized loss on debt, as shown on page 16. The associated accumulated deferred income taxes are on page 22.

The gain on the sale of the Williston and Watford City office buildings as of December 31, 2013 is shown on page 17. The gain is being amortized over a 20 year period beginning with the month following the in service date of each building. The activity for 2014 is reflected and the 2013 and 2014 balances were then averaged to reflect the 2014 average balance. The process was repeated to calculate the 2015 average balance. The associated accumulated deferred income taxes are shown on page 22.

Customer advances for construction are restated to a thirteen month average balance for 2014 and 2015, with actuals through November 2014. Customer advances for construction are shown on page 18.

Q. Would you describe how the accumulated deferred income tax balances were developed?

A. The accumulated deferred income tax balances are summarized on page 19. The projected balances were derived by adding the changes to the deferred income taxes for 2014 and 2015 to the 2013 balances and calculating the average balance.

The changes associated with book/tax depreciation differences (liberalized depreciation) are on page 20 and display the projected changes due to the plant additions as well as existing plant.

The accumulated deferred income taxes associated with the unamortized loss on debt and the gain on the sale of the Williston office building are shown on pages 21 and 22 respectively. The change in accumulated deferred income taxes associated with full normalization and the acquisition adjustment are the same as experienced in 2013.

Q. What is the additional revenue requirement calculated on Exhibit No.____(TRJ-1)?

A. Exhibit No.____(TRJ-1), which is identical to Statement L, page 3, shows the calculation of the revenue deficiency of $4,304,000 based on the projected 2015 income and rate base and using the overall rate of return of 7.588 percent from Statement F, page 1 and supported by Ms. Schmit and Dr. Gaske.

Q. Is Montana-Dakota seeking an interim increase in this case?

A. Yes, it is. As stated by Ms. Kivisto, Montana-Dakota is seeking an interim rate relief in this case pursuant to North Dakota §49-05-06.

Q. What amount of interim rate relief is the Company seeking?

A. The Company has identified an interim Revenue Requirement, presented in Exhibit No. ___ (TRJ-1) of $4,304,000 and Exhibit C of the Interim Application based on the 2015 projected cost of service. The return used in this projection is based on a 10.00% return on equity allowed pursuant to the PU-13-803 rate case and also shown to be required in this case.

Q. Does this complete your direct testimony?

A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
PROJECTED 2015
(000s)

	Before Additional Revenue Requirements 1/	**Additional Revenue Requirements**	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	$125,858	**$4,304**	$130,162
Transportation	2,007		2,007
Other	3,694		3,694
Total Revenues	131,559	4,304	135,863
Operating Expenses			
Operation and Maintenance			
Cost of Gas	94,834		94,834
Other O&M	20,049		20,049
Total O&M	114,883		114,883
Depreciation	7,044		7,044
Taxes Other Than Income	1,864		1,864
Income Taxes	1,752	1,633 2/	3,385
Total Expenses	125,543	1,633	127,176
Operating Income	$6,016	$2,671	$8,687
Rate Base	$114,487		$114,487
Rate of Return	**5.255%**		**7.588%**

1/ Statement M, Page 1.
2/ Reflects state and federal taxes at 37.9445%.

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

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

Case No. PU-15-___

PREPARED DIRECT TESTIMONY OF

J. STEPHEN GASKE

Q1. Please state your name, position and business address.

A1. My name is J. Stephen Gaske and I am a Senior Vice President of Concentric Energy Advisors, Inc., 1130 Connecticut Avenue NW, Suite 850, Washington, DC 20036.

Q2. Would you please describe your educational and professional background?

A2. I hold a B.A. degree from the University of Virginia and an M.B.A. degree with a major in finance and investments from George Washington University. I also earned a Ph.D. degree from Indiana University where my major field of study was public utilities and my supporting fields were finance and economics.

From 1977 to 1980, I worked for H. Zinder & Associates ("HZA") as a research assistant and later as supervisor of regulatory research. Subsequently, I spent a year assisting in the preparation of cost of capital studies for presentation in regulatory proceedings.

From 1982 to 1986, I undertook graduate studies in economics and finance at Indiana University where I also taught courses in public utilities, transportation, and physical distribution. During this time, I also was employed as an independent consultant on a number of projects involving public utility regulation, rate design, and cost of capital. From 1983 to 1986, I was coordinator for the Edison Electric Institute Electric Rate Fundamentals course. In 1986, I accepted an appointment as assistant professor at Trinity University in San Antonio, Texas, where I taught courses in financial management, investments, corporate finance, and corporate financial theory.

In 1988, I returned to HZA and was President of the company from 2000 to 2008. In May 2008, HZA merged with Concentric Energy Advisors, Inc. ("Concentric") and I became a Senior Vice President of Concentric.

Q3. Have you presented expert testimony in other proceedings?

A3. Yes. I have filed testimony on the cost of capital and capital structure issues for electric and natural gas distribution and oil and natural gas pipeline operations before 11 state and provincial regulatory bodies, including the North Dakota Public Service Commission. I also have testified or filed testimony or affidavits before various federal regulators, including the Federal Energy Regulatory Commission on more than thirty occasions, the National Energy Board of Canada, and the Comisión Reguladora de Energía of México. Topics covered in these submissions have included rate of return, capital structure, cost allocation, rate design, revenue requirements, and market power. In addition, I have testified or submitted testimony on issues such as cost allocation, rate design, pricing and generating plant economics before the U.S. Postal Rate Commission, regulators in five Canadian provinces, and seven U.S. state public utility commissions. During the course of my consulting career, I have conducted many studies on issues related to regulated industries and have served as an advisor to numerous clients on economic, competitive, and financial matters. I also have spoken and lectured before many professional groups including the American Gas Association and the Edison Electric Institute Rate Fundamentals courses. Finally, I am a member of the American Economic Association, the Financial Management Association, and the American Finance Association.

I. INTRODUCTION

A. Scope and Overview

Q4. What is the scope of your testimony in this proceeding?

A4. I have been asked by Montana-Dakota Utilities Co. ("Montana-Dakota" or the "Company") to estimate the cost of common equity capital for the Company's natural gas distribution operations in the state of North Dakota. In this testimony, I calculate the cost of common equity capital for Montana-Dakota's North Dakota natural gas distribution operations based on a Discounted Cash Flow ("DCF") analysis of a group of proxy companies that have risks similar to those of Montana-Dakota's North Dakota natural gas distribution operations. The results of this DCF study are supported by various benchmark criteria that I have used to test the reasonableness of the DCF study results.

Q5. What rate of return is Montana-Dakota requesting in this proceeding?

A5. Based on its test period capital structure, Montana-Dakota is requesting the following rate of return:

Table 1: Requested Rate of Return – North Dakota Natural Gas Operations (000s)[1]

Source	Amount	Percent	Cost	Overall Rate of Return
Long-Term Debt	$505,460	41.135%	5.949%	2.447%
Short-Term Debt	99,624	8.108%	1.631%	0.132%
Preferred Stock	15,259	1.242%	4.579%	0.057%
Common Equity	608,435	49.515%	10.00%	4.952%
TOTAL	$1,228,778	100.00%		7.588%

As my testimony discusses, an overall allowed rate of return of 7.588 percent, with a 10.00 percent return on common equity, represents the cost of capital for Montana-Dakota at this time.

B. Company Background

Q6. Please describe Montana-Dakota's operations and those of its parent company, MDU Resources Group, Inc.

A6. Montana-Dakota is a wholly-owned division of MDU Resources Group, Inc. ("MDU Resources") that is engaged in the generation, transmission, and distribution of electricity, and the distribution of natural gas in the states of Montana, North Dakota, South Dakota, and Wyoming. MDU Resources also owns Cascade Natural Gas Corporation, which distributes natural gas in the states of Oregon and Washington; Intermountain Gas Company, which distributes natural gas in the state of Idaho; and Great Plains Natural Gas Co., which distributes natural gas in western Minnesota and southeastern North Dakota. Through other subsidiaries, MDU Resources is engaged in utility infrastructure construction, natural gas and oil exploration and production, natural gas gathering and

[1] Pro forma capital structure for 2015.

transmission, and produces and markets aggregates and other construction materials.

In 2013, the utility companies within MDU Resources provided natural gas distribution service to over 876,000 residential, commercial, and industrial customers in 334 communities across eight states.[2] In addition, Montana-Dakota provided electric utility service to over 134,000 residential, commercial, industrial, and municipal customers in 177 communities and adjacent rural areas across four states.[3] Natural gas distribution assets comprised 25.3 percent[4] of MDU Resources' total assets in 2013, and natural gas distribution revenues comprised 19.1 percent[5] of total operating revenues. North Dakota accounted for 14.0 percent of the natural gas distribution operating sales revenues, while Idaho (34.0 percent), Washington (24.0 percent), Oregon (8.0 percent), Montana (8.0 percent), South Dakota (6.0 percent), Minnesota (4.0 percent) and Wyoming (2.0 percent), accounted for the other 86 percent of natural gas distribution operating sales revenues.[6]

Q7. Would you please describe Montana-Dakota's North Dakota natural gas service territory?

A7. Montana-Dakota provides natural gas distribution service to approximately 102,138 customers in 74 communities in North Dakota[7], including Bismarck,

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2 MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2013, at 13.
3 *Ibid.*, at 9.
4 *Ibid.*, at 95.
5 *Ibid.*, at 94.
6 *Ibid.*, at 13.
7 Montana-Dakota Annual Report, State of North Dakota, Gas Operations, December 31, 2013, at Section IV, page 1 of 1. Montana-Dakota Utilities Co., State of North Dakota Gas Rate Schedule, NDPSC Volume 7, 3rd Revised Sheet No. 2.

Mandan, Dickinson, Williston, Watford City, Minot and Jamestown, and many small towns and rural areas.[8] Although Montana-Dakota's North Dakota natural gas distribution operations tend to be concentrated in cities and towns, a large portion of the local economies are based on agricultural and minerals production. Western North Dakota is experiencing a classic economic boom due to rapid development of oil in the Bakken Shale formation and this activity is spurring rapid growth in portions of Montana-Dakota's service territory. North Dakota also has some manufacturing, particularly in food processing and farm equipment.

Montana-Dakota's North Dakota natural gas distribution operations have experienced growth in recent years as a growing customer base has been partially offset by declining average use per customer due to energy efficiency and conservation. As discussed in the Direct Testimony of Montana-Dakota witness Ms. Nicole Kivisto, most of the recent investment in this jurisdiction has been for new distribution plant to accommodate customer growth and support reliability. Significant investment will continue to be required in coming years to support customer growth and to replace aging plant so that the Company can continue to provide safe, reliable and efficient natural gas distribution service to its North Dakota customers.

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[8] MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2013, at 13.

II. FINANCIAL MARKET STUDIES

A. Criteria for a Fair Rate of Return

Q8. Please describe the criteria which should be applied in determining a fair rate of return for a regulated company.

A8. The United States Supreme Court has provided general guidance regarding the level of allowed rate of return that will meet constitutional requirements. In *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia (262 U.S. 679, 693 (1923))*, the Court indicated that:

> The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

The Court has further elaborated on this requirement in its decision in *Federal Power Commission v. Hope Natural Gas Company (320 U.S. 591, 603 (1944))*. There the Court described the relevant criteria as follows:

> From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock.... By that standard, the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Thus, the standards established by the Court in Hope and Bluefield consist of three requirements. These are that the allowed rate of return should be:

1. commensurate with returns on enterprises with corresponding risks;
2. sufficient to maintain the financial integrity of the regulated company; and
3. adequate to allow the company to attract capital on reasonable terms.

These legal criteria will be satisfied best by employing the economic concept of the "cost of capital" or "opportunity cost" in establishing the allowed rate of return on common equity. For every investment alternative, investors consider the risks attached to the investment and attempt to evaluate whether the return they expect to earn is adequate for the risks undertaken. Investors also consider whether there might be other investment opportunities that would provide a better return relative to the risk involved. This weighing of alternatives and the highly competitive nature of capital markets causes the prices of stocks and bonds to adjust in such a way that investors can expect to earn a return that is just adequate for the risks involved. Thus, for any given level of risk, there is a return that investors expect in order to induce them to voluntarily undertake that risk and not invest their money elsewhere. That return is referred to as the "opportunity cost" of capital or "investor required" return.

Q9. How should a fair rate of return be evaluated from the standpoint of consumers and the public?

A9. The same standards should apply. When an unregulated entity faces competition, the pressure of that competition and consumer choices will combine to determine the fair rate of return. However, when regulation is appropriate, consumers and the public have a long-term interest in seeing that the regulated company has an opportunity to earn returns that are not so high as to be excessive, but that also are sufficient to encourage continued replacement and maintenance, as well as needed expansions, extensions, and new services. Thus, both the consumer and the public interest depend on establishing a return that will readily attract capital without being excessive.

Q10. How are the costs of preferred stock and long-term debt determined?

A10. For purposes of setting regulated rates, the current embedded costs of preferred stock and long-term debt are used in order to ensure that the company receives a return that is sufficient to pay the fixed dividend and interest obligations that are attached to these sources of capital.

Q11. How is the cost of common equity determined?

A11. The practice in setting a fair rate of return on common equity is to use the current market cost of common equity in order to ensure that the return is adequate to attract capital and is commensurate with returns available on other investments with similar levels of risk. However, determining the market cost of common equity is a relatively complicated task that requires analysis of many factors and some degree of judgment by an analyst. The current market cost of capital for securities that pay a fixed level of interest or dividends is relatively easy to determine. For example, the current market cost of debt for publicly-traded bonds can be calculated as the yield-to-maturity, adjusted for flotation costs, based on the current market price at which the bonds are selling. In contrast, because common stockholders receive only the residual earnings of the company, there are no fixed contractual payments which can be observed. This uncertainty associated with the dividends that eventually will be paid greatly complicates the task of estimating the cost of common equity capital. For purposes of this testimony, I have relied on several analytical approaches for estimating the cost of common equity. My primary approach relies on three DCF analyses. In addition, I have conducted a risk premium analysis and a market DCF analysis of the S&P 500 as benchmarks to assess the reasonableness of the DCF results. Each of these approaches is described later in this testimony.

B. Interest Rates and the Economy

Q12. What are the general economic factors that affect the cost of capital?

A12. Companies attempting to attract common equity must compete with a variety of alternative investments. Prevailing interest rates and other measures of economic trends influence investors' perceptions of the economic outlook and its implications on both short- and long-term capital markets. Page 1 of Schedule 1 of Exhibit No.___(JSG-2) shows various general economic statistics. Real growth in the Gross Domestic Product ("GDP") has averaged 2.9 percent annually during the past 30 years, 2.6 percent for the past 20 years, and 1.7 percent for the past 10 years. After increasing at an annual rate of 4.6 percent in the second quarter of 2014, in the third quarter, economic growth increased at an annual rate of 3.9 percent.[9] According to Blue Chip Economic Indicators, the consensus forecast for expected

[9] U.S. Department of Commerce, Bureau of Economic Analysis, News Release, November 25, 2014.

growth in real GDP is 2.3 percent in 2014[10] and 3.0 percent in 2015.[11] Likewise, the U.S. unemployment rate has improved in recent months to 5.8 percent as of October 2014,[12] but the labor force participation rate for civilians 16 years and over was 62.8 percent as of October 2014, the lowest rate since the late 1970s.[13] Improvements in the U.S. unemployment rate are partly attributed to the reduced U.S. labor force and are not fully explained by job growth. In light of these weak economic conditions, the Federal Reserve has maintained its federal funds rate of 0.00 percent to 0.25 percent for overnight loans to banks in order to provide continued liquidity to the U.S. financial markets.[14]

As pages 2 and 3 of Schedule 1 of Exhibit No.___(JSG-2) show, interest rates on longer-term public utility bonds have remained remarkably stable during the past three years. For the first eleven months of 2014, the average yield on A-rated public utility bonds was 4.31 percent and the average yield on Baa-rated public utility bonds was 4.81 percent. Credit spreads, which measure the incremental cost of corporate debt relative to U.S. Treasury bonds, have increased recently after declining slightly during the past three years with the average spread of A-rated utility bonds over 30-year U.S. Treasury bonds at 0.92 percent for the first eleven months of 2014. Similarly, the average spread of Baa-rated utility bonds over 30-year U.S. Treasury bonds was 1.42 percent in the first eleven months of 2014.

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10 Blue Chip Economic Indicators, Vol. 39, No. 12, December 10, 2014, at 2.

11 *Ibid.*, at 3.

12 U.S. Department of Labor, Bureau of Labor Statistics, News Release, September 5, 2014.

13 U.S. Department of Labor, Bureau of Labor Statistics, civilian labor force participation rate, 16 years and over, seasonally adjusted.

14 Statement of the Federal Open Market Committee, December 17, 2014.

Investors also are influenced by both the historical and projected level of inflation. During the past decade, the Consumer Price Index has increased at an average annual rate of 2.4 percent and the GDP Implicit Price Deflator, a measure of price changes for all goods produced in the United States, has increased at an average rate of 2.1 percent. According to Blue Chip Economic Indicators, the Consumer Price Index is forecasted to increase by 1.7 percent[15] and 1.4 percent[16] for 2014 and 2015, respectively. Over the intermediate and longer-term, however, investors can expect higher inflation rates as the Federal Reserve's accommodative monetary policy, which began in 2008, places upward pressure on consumer and producer prices once economic growth returns to historical levels. According to Blue Chip Financial Forecasts, the projected yield on 30-year U.S. Treasury bonds from 2016 to 2020 is 4.9 percent and from 2021 to 2025 it is 5.1 percent.[17] These interest rates are significantly higher than the current yield on the 30-year U.S. Treasury bond, suggesting that investors expect a substantial increase in inflationary pressure over the intermediate and long-term periods.

Q13. How are current economic conditions reflected in the equity markets?

A13. Although corporate bond yields are lower than pre-crisis levels and credit spreads for public utility bonds have returned to pre-recession levels primarily due to Federal Reserve monetary policy, investors remain risk averse and inflation fears persist. The equity markets have recovered from the large stock market decline in 2008 and 2009, but the Federal Reserve's massive purchases of federal debt and

[15] Blue Chip Economic Indicators, Vol. 39, No. 9, December 10, 2014, at 2.

[16] *Ibid.*, at 3.

[17] Blue Chip Financial Forecasts, Vol. 33, No. 6, December 1, 2014, at 14.

mortgage-backed securities have created artificially low interest rates and a potential stock market valuation bubble that increases the risks in the equity market.

C. Discounted Cash Flow Method

Q14. Please describe the DCF method of estimating the cost of common equity capital.

A14. The DCF method reflects the assumption that the market price of a share of common stock represents the discounted present value of the stream of all future dividends that investors expect the firm to pay. The DCF method suggests that investors in common stocks expect to realize returns from two sources: a current dividend yield plus expected growth in the value of their shares as a result of future dividend increases. Estimating the cost of capital with the DCF method, therefore, is a matter of calculating the current dividend yield and estimating the long-term future growth rate in dividends that investors reasonably expect from a company.

The dividend yield portion of the DCF method utilizes readily-available information regarding stock prices and dividends. The market price of a firm's stock reflects investors' assessments of risks and potential earnings as well as their assessments of alternative opportunities in the competitive financial markets. By using the market price to calculate the dividend yield, the DCF method implicitly recognizes investors' market assessments and alternatives. However, the other component of the DCF formula, investors' expectations regarding the future long-run growth rate of dividends, is not readily apparent from stock market data and must be estimated using informed judgment.

Q15. What is the appropriate DCF formula to use in this proceeding?

A15. There can be many different versions of the basic DCF formula, depending on the assumptions that are most reasonable regarding the timing of future dividend payments. In my opinion, it is most appropriate to use a model that is based on the assumptions that dividends are paid quarterly and that the next annual dividend increase is a half year away. One version of this quarterly model assumes that the next dividend payment will be received in three months, or one quarter. This model multiplies the dividend yield by $(1 + 0.75g)$. Another version assumes that the next dividend payment will be received today. This model multiplies the dividend yield by $(1 + 0.5g)$. Since, on average, the next dividend payment is a half quarter away, the average of the results of these two models is a reasonable approximation of the average timing of dividends and dividend increases that investors can expect from companies that pay dividends quarterly. The average of these two quarterly dividend models is:

$$K = \frac{D_0(1 + 0.625g)}{P} + g$$

Where: $K =$ the cost of capital, or total return that investors expect to receive;

$P =$ the current market price of the stock;

$D_0 =$ the current annual dividend rate; and

$g =$ the future annual growth rate that investors expect.

In my opinion, this is the DCF model that is most appropriate for estimating the cost of common equity capital for companies that pay dividends quarterly, such as those used in my analysis.

D. Flotation Cost Adjustment

Q16. Does the investor return requirement that is estimated by a DCF analysis need to be adjusted for flotation costs in order to estimate the cost of capital?

A16. Yes. There are significant costs associated with issuing new common equity capital, and these costs must be considered in determining the cost of capital. Schedule 2 of Exhibit No.___(JSG-2) shows a representative sample of flotation costs incurred with 50 new common stock issues by natural gas distribution companies from January 2000 to November 2014. Flotation costs associated with these new issues averaged 3.90 percent.

This indicates that in order to be able to issue new common stock on reasonable terms, without diluting the value of the existing stockholders' investment, Montana-Dakota must have an expected return that places a value on its equity that is approximately 4.0 percent above book value. The cost of common equity capital is therefore the investor return requirement multiplied by 1.04.

One purpose of a flotation cost adjustment is to compensate common equity investors for past flotation costs by recognizing that their real investment in the company exceeds the equity portion of the rate base by the amount of past flotation costs. For example, the proxy companies generally have incurred flotation costs in the past and, thus, the cost of capital invested in these companies is the investor return requirement plus an adjustment for flotation costs. A more important purpose of a flotation cost adjustment is to establish a return that is sufficient to enable a company to attract capital on reasonable terms. This fundamental requirement of a fair rate of return is analogous to the well-understood basic principle that a firm, or an individual, should maintain a good credit rating even when they do not expect to be borrowing money in the near future. Regardless of whether a company can confidently predict its need to issue new common stock several years in advance, it should be in a position to do so on reasonable terms at all times without dilution of the book value of the existing investors' common equity. This requires that the flotation cost adjustment be applied to the entire common equity investment and not just a portion of it.

E. DCF Study of Natural Gas Utility Companies

Q17. Would you please describe the overall approach used in your DCF analysis of Montana-Dakota's cost of common equity for its North Dakota natural gas distribution operations?

A17. Because Montana-Dakota's North Dakota natural gas distribution business must compete for capital with many other potential projects and investments, it is essential that it have an allowed return that matches returns potentially available from other similarly risky investments. The DCF method provides a good measure of the returns required by investors in the financial markets. However, the DCF method requires a market price of common stock to compute the dividend yield component. Since Montana-Dakota is a division of MDU Resources and does not have publicly-traded common stock, a direct, market-based DCF analysis of Montana-Dakota's North Dakota natural gas distribution operations as a stand-alone company is not possible. As an alternative, I have used a group of natural gas distribution companies that have publicly-traded common stock as a proxy group for purposes of estimating the cost of common equity for Montana-Dakota's North Dakota natural gas distribution operations.

Q18. How did you select a group of natural gas distribution proxy companies?

A18. I started with the eleven companies that The Value Line Investment Survey ("Value Line") classifies as Natural Gas Utilities to ensure that the companies are considered to be primarily engaged in the natural gas distribution business and that retention growth rate projections are available. From that group, I eliminated any companies that did not have investment-grade credit ratings from either Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's") because such companies are not sufficiently comparable in terms of business and financial risk to Montana-Dakota. In addition, I excluded any companies that did not pay dividends or that did not have future growth rate estimates provided by both Value Line and Zacks Investment Research ("Zacks").[18] Next, I excluded any companies that are party to a transformative transaction which could have transitory effects on a company's market valuation. In order to ensure that the companies are primarily engaged in the natural gas distribution business, I eliminated any companies that did not derive at least 70 percent of their operating income from regulated natural gas distribution operations in 2013, or that did not have at least 70 percent of their total assets devoted to the provision of natural gas distribution service in 2013. As shown on page 1 of Schedule 3 of Exhibit No.___(JSG-2), nine companies met these criteria for inclusion in the proxy group.

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[18] Zacks is a service that collects earnings growth estimates from professional investment analysts and publishes a summary of the consensus forecasts.

Q19. How did you calculate the dividend yields for the companies in your proxy group?

A19. These calculations are shown on pages 1 and 2 of Schedule 4 of Exhibit No.___(JSG-2). For the price component of the calculation, I used the average of the high and low stock prices for each month during the six-month period from June 2014 through November 2014. The average monthly dividend yields were calculated for each company by dividing the prevailing annualized dividend for the period by the average of the stock prices for each month. These dividend yields were then multiplied by the quarterly DCF model factor ($1 + 0.625g$) to arrive at the projected dividend yield component of the DCF model.

Q20. Please describe the method you used to estimate the future growth rate that investors expect from this group of companies.

A20. I developed three different DCF analyses of the proxy companies based on three different growth rate estimation methods. There are many methods that reasonably can be employed in formulating a growth rate estimate, but an analyst must attempt to ensure that the end result is an estimate that fairly reflects the forward-looking growth rate that investors expect.

In the first approach, I calculated retention growth (also known as "sustainable growth") forecasts from Value Line forecasts of dividends, earnings, and returns on equity to derive the DCF rate of return estimate. As a second approach, I conducted a Basic DCF analysis that relied on analysts' earnings forecasts for the growth rate component of the model. My third approach used a combination of the

Value Line retention growth forecasts and analysts' earnings growth projections to produce a Blended Growth Rate Analysis.

F. Retention Growth Analysis

Q21. What approach did you use in calculating the long-term growth rate in your Retention Growth DCF analysis?

A21. In the Retention Growth DCF analysis, the long-term growth rate component is based on the calculation of retention growth rates using Value Line forecasts for each company. This Retention Growth DCF analysis better reflects investors' inflation expectations and the real requirements for long-term investments in plant under current market conditions.

Q22. Please describe the Retention Growth rate component of your analysis.

A22. I have relied upon Value Line projections of the retention growth rates that the proxy companies are expected to begin maintaining three to five years in the future. Although companies may experience extended periods of growth for other reasons, in the long-run, growth in earnings and dividends per share depends in part on the amount of earnings that is being retained and reinvested in a company. Thus, the primary determinants of growth for the proxy companies will be (i) their ability to find and develop profitable opportunities; (ii) their ability to generate profits that can be reinvested in order to sustain growth; and, (iii) their willingness and inclination to reinvest available profits. Expected future retention rates provide a general measure of these determinants of expected growth, particularly items (ii) and (iii).

Q23. How can a company's earnings retention rate affect its future growth?

A23. Retention of earnings causes an increase in the book value per share and, other factors being equal, increases the amount of earnings that is generated per share of common stock. The retention growth rate can be estimated by multiplying the expected retention rate (*b*) by the rate of return on common equity (*r*) that a company is expected to earn in the future. For example, a company that is expected to earn a return of 12 percent and retain 75 percent of its earnings might be expected to have a growth rate of 9 percent, computed as follows:

$$0.75 \times 12\% = 9\%$$

On the other hand, another company that is also expected to earn 12 percent but only retains 25 percent of its earnings might be expected to have a growth rate of 3.0 percent, computed as follows:

$$0.25 \times 12\% = 3\%$$

Thus, the rate of growth in a firm's book value per share is primarily determined by the level of earnings and the proportion of earnings retained in the company.

Q24. How did you calculate the expected future retention rates of the proxy companies?

A24. For most companies, Value Line publishes forecasts of data that can be used to estimate the retention rates that its analysts expect individual companies to have three to five years in the future. Since these retention rates are projected to occur several years in the future, they should be indicative of a normal expectation for a primary underlying determinant of growth that would be sustainable indefinitely beyond the period covered by analysts' forecasts. While companies may have either accelerating or decelerating growth rates for extended periods of time, the retention growth rates expected to be in effect three to five years in the future generally represent a minimum "cruising speed" that companies can be expected to maintain indefinitely. The derivation of Value Line's retention growth rate forecasts for each of the proxy companies is shown on page 3 of Schedule 4 of Exhibit No.___(JSG-2). The projected earnings per share and projected dividends per share can be used to calculate the percentage of earnings per share that is being retained and reinvested in the company. This earnings retention rate is multiplied by the projected return on common equity to arrive at the projected retention growth rate. The average retention growth rate for the proxy companies is 5.05 percent.

Q25. How did you calculate the cost of capital using the Retention Growth DCF analysis?

A25. These calculations are shown on page 5 of Schedule 4 of Exhibit No.___(JSG-2). Again, the annual dividend yield is multiplied by the quarterly dividend adjustment factor ($1 + 0.625g$) and this product is added to the growth rate estimate to arrive at the investor-required return. Then, the investor return requirement is multiplied by the flotation cost adjustment factor, 1.04, to arrive at the Retention Growth DCF estimate of the cost of common equity capital for the proxy companies. The Retention Growth DCF analysis indicates a cost of common equity for the proxy companies in a range from 7.83 percent to 10.53 percent. In this analysis, the median for the group is 9.12 percent and the third quartile is 9.51 percent.

G. Basic DCF Analysis

Q26. How did you estimate the expected future growth rate in your Basic DCF analysis?

A26. In my Basic DCF analysis, I have estimated expected future growth based on long-term earnings per share growth rate forecasts of investment analysts, which are an important source of information regarding investors' growth rate expectations. This Basic DCF analysis assumes that the analysts' earnings growth forecasts incorporate all information required to estimate a long-term expected growth rate for a company. I have used consensus estimates of earnings growth forecasts published by Zacks as the primary source for analysts' forecasts in my calculations. As shown on page 4 of Schedule 4 of Exhibit No.___(JSG-2), the average of the analysts' long-term earnings growth rate estimates for the natural gas distribution proxy companies is 5.12 percent.

Q27. How did you calculate the cost of capital using the Basic DCF analysis?

A27. These calculations are shown on page 6 of Schedule 4 of Exhibit No.___(JSG-2). Again, the annual dividend yield is multiplied by the quarterly dividend adjustment factor ($1 + 0.625g$) and this product is added to the growth rate estimate to arrive at the investor-required return. Then, the investor return requirement is multiplied by the flotation cost adjustment factor, 1.04, to arrive at the Basic DCF estimate of the cost of common equity capital for the proxy companies. The Basic DCF analysis indicates a cost of common equity for the proxy companies in a range from 7.60 percent to 10.48 percent. In this analysis, the median for the group is 8.99 percent and the third quartile is 9.84 percent.

H. Blended Growth Rate Analysis

Q28. How did you use your Blended Growth Rate Analysis to estimate investors' long-term growth rate expectations for the proxy companies?

A28. The Blended Growth Rate approach combines: (i) Value Line retention growth forecasts; and (ii) estimates of long-term earnings growth for each company that are published by various investment analysts.

Q29. How did you utilize the analysts' projected earnings growth rates and the projected earnings retention growth rates in estimating expected growth for the proxy companies in the Blended Growth Rate Analysis?

A29. As shown on page 4 of Schedule 4 of Exhibit No.___(JSG-2), I calculated a weighted average of the analysts' projected earnings growth rates and the projected retention growth rates to derive long-term growth rate estimates for each of the proxy companies. In these calculations, I gave a one-half weighting to the analysts' earnings growth rate projections and one-half weighting to the projected retention growth rates. The average of the blended growth rates for the proxy companies is 5.09 percent and the median is 4.94 percent.

Q30. How did you utilize these Blended Growth Rate estimates in estimating the return on common equity capital that investors require from the proxy companies?

A30. These calculations are shown on page 7 of Schedule 4 of Exhibit No.___(JSG-2). Again, the annual dividend yield for each company is multiplied by the quarterly dividend adjustment factor ($1 + 0.625g$), and this product is added to the growth rate estimate to arrive at the investor-required return. Finally, the investor return requirement is multiplied by the flotation cost adjustment factor, 1.04, to arrive at the cost of common equity capital for the proxy companies. This Blended Growth Rate Analysis indicates that the cost of common equity capital for the natural gas distribution proxy companies is in a range between 8.24 percent and 10.18 percent. In this analysis, the median for the group is 9.00 percent and the third quartile is 9.15 percent.

I. Risk Premium Analysis

Q31. Have you conducted additional analyses in determining the cost of equity capital for Montana-Dakota?

A31. Yes. The risk premium approach provides a general guideline for determining the level of returns that investors expect from an investment in common stocks. Investments in the common stocks of companies carry considerably greater risk than investments in bonds of those companies since common stockholders receive only the residual income that is left after the bondholders have been paid. In addition, in the event of bankruptcy or liquidation of the company, the stockholders' claims on the assets of a company are subordinate to the claims of bondholders. This priority standing provides bondholders with greater assurances that they will receive the return on investment that they expect and that they will receive a return of their investment when the bonds mature. Accompanying the greater risk associated with common stocks is a requirement by investors that they can expect to earn, on average, a return that is greater than the return they could earn by investing in less risky bonds. Thus, the risk premium approach estimates the return investors require from common stocks by utilizing current market information that is readily available in bond yields and adding to those yields a premium for the added risk of investing in common stocks.

Investors' expectations for the future are influenced to a large extent by their knowledge of past experience. Ibbotson Associates annually publishes extensive data regarding the returns that have been earned on stocks, bonds and U.S. Treasury bills since 1926. Historically, the annual return on large company common stocks has exceeded the return on long-term corporate bonds by a premium of 580 basis points (5.8 percent) per year from 1926-2013.[19] When this premium is added to the average yield on Moody's corporate bonds for the period from June 2014 through November 2014 of 4.33 percent,[20] the result is an investor return requirement for large company stocks of approximately 10.13 percent. However, investors in smaller companies expect higher returns over the long-term, due to the additional business and financial risks that smaller companies face. According to Ibbotson Associates, companies in the same size range as Montana-Dakota's North Dakota natural gas distribution operations have had a premium of 1,420 basis points (14.6 percent) over the average return on long-term corporate bonds.[21] When added to the recent average corporate bond yield, this size-related premium suggests an expected return of 18.53 percent. This analysis indicates that the rate of return that

[19] Ibbotson SBBI 2014 Classic Yearbook, at 91. Calculation: (12.1 percent – 6.3 percent = 5.8 percent)

[20] Exhibit No.___(JSG-2), Schedule 1, at 3.

[21] Ibbotson SBBI 2014 Classic Yearbook, at 91 and 100. Calculation: (20.9 percent – 6.3 percent = 14.6 percent)

I am proposing in this proceeding would be low relative to the historic risk premiums earned by similarly-sized unregulated companies.

J. Market DCF Analysis

Q32. What other analysis did you conduct in determining the cost of equity capital for Montana-Dakota?

A32. For an additional benchmark of the reasonableness of my DCF results, I calculated the current required return for the companies contained in the S&P 500. Using data provided by the Bloomberg Professional service, I performed a market capitalization-weighted DCF calculation on the S&P 500 companies based on the current dividend yields and long-term growth rate estimates as of November 30, 2014. These calculations are shown in Schedule 5 of Exhibit No.___(JSG-2). The current secondary market required ROE for the S&P 500 is 12.72 percent. This analysis indicates that the rate of return that I am proposing in this proceeding is low relative to the return required by investors who invest in the S&P 500.

K. Relative Risk Analysis

Q33. Have you compared the risks faced by Montana-Dakota's North Dakota natural gas distribution operations with the risks faced by the proxy group of companies?

A33. Yes. There are four broad categories of risk that concern investors. These include:

1. Business Risk;
2. Regulatory Risk;
3. Financial Risk; and,
4. Market Risk.

Q34. Please describe the business risks inherent in the natural gas distribution industry.

A34. Business risk refers to the ability of the firm to generate revenues that exceed its cost of operations. Business risk exists because forecasts of both demand and costs are inherently uncertain. Markets change and the level of demand for the firm's output may be sufficient to cover its costs at one time and later become insufficient. Sunk investments in long-lived natural gas distribution assets, for which cost recovery occurs over a period of thirty years or more, are subject to enormous uncertainties and risks that demand, costs, supply, and competition may change in ways that adversely affect the value of the investment.

Q35. What are some of the business risks faced by Montana-Dakota's North Dakota natural gas distribution operations?

A35. The Company's natural gas distribution operations in North Dakota face many of the same business risks that are associated with other natural gas distribution companies. However, Montana-Dakota's North Dakota natural gas distribution operations face some particular risks that distinguish the Company from the proxy group of distribution companies, including being substantially smaller than the proxy group companies and providing service in a territory with a relatively undiversified local economy that is heavily dependent on natural resources extraction. In particular, the oil and natural gas production industry in North Dakota has expanded rapidly in recent years. While this growth has had a positive effect on the North Dakota economy, the oil and gas industry historically has been prone to boom-and-bust cycles that pose greater potential risks to other businesses operating in those local economies that depend heavily on the oil and gas industry.

As shown on page 1 of Schedule 3 of Exhibit No.___(JSG-2), Montana-Dakota's North Dakota natural gas distribution operations are considerably smaller than the operations of any of the proxy companies and a small fraction of the size of the typical proxy company. For example, the total assets of Montana-Dakota's North Dakota natural gas distribution operations are equal to only 1.58 percent of the total assets of the median proxy company. Similarly, Montana-Dakota's North Dakota natural gas distribution operating revenues and operating income are only 5.68 percent and 2.26 percent of the level for the median proxy company, respectively. Thus, depending upon the measure of size, the typical proxy company is somewhere between 18 and 63 times the size of Montana-Dakota's North Dakota natural gas distribution operations. The Company's smaller size has significant implications for business risks. Ibbotson Associates has documented the significantly higher returns that generally have been associated with small companies.

Montana-Dakota's relatively small natural gas distribution operations in North Dakota are heavily dependent upon a relatively undiversified local economy. With its small revenue base, Montana-Dakota's North Dakota natural gas distribution operations are subject to slightly greater risk that a major employer or industry, such as oil and gas production or coal mining, might experience a downturn that would significantly affect demand for natural gas distribution in the service territory.

In order to mitigate the high business risks currently associated with an expected decline in oil and gas drilling activity in the next few years, and to increase the likelihood of recovering its fixed costs from customers, Montana-Dakota is proposing to implement a Rate Stabilization Mechanism applicable to its North Dakota gas operations for a five year period starting in 2016. As discussed in more detail in the Direct Testimony of Montana-Dakota witness Nicole A. Kivisto, a Rate Stabilization Mechanism is a form of revenue decoupling that severs the link between fixed cost recovery and variations in customer billing units. If approved, the Rate Stabilization Mechanism will provide an annual review of actual results and the resulting return on equity as compared to the return on equity authorized in this rate case. For purposes of my recommended rate of return in this proceeding, I have assumed that the Company's Rate Stabilization Mechanism proposal will be approved. Because I have estimated the required rate of return on common equity for Montana-Dakota's North Dakota natural gas distribution operations using a proxy group of natural gas distribution companies, the business risks faced by Montana-Dakota's North Dakota natural gas distribution operations cannot be analyzed in isolation, but rather must be analyzed relative to the proxy group companies. In particular, I reviewed the tariffs of each of the operating utilities owned by the proxy group companies to determine whether the utility has implemented a revenue decoupling mechanism or a rate stabilization mechanism.

As shown on Schedule 6 of Exhibit No.___(JSG-2), 62.6 percent of the customers served by the proxy companies are located in jurisdictions that have revenue decoupling mechanisms that allow their rate designs to reflect the fixed cost nature of their operations, similar to Montana-Dakota's proposal for its North Dakota natural gas distribution operations. Therefore, if Montana-Dakota's request to implement a Rate Stabilization Mechanism in North Dakota is approved, all else being equal, the Company will not be less risky than the proxy group companies and no adjustment to the required rate of return on common equity is necessary unless the proposed rate design is rejected.

In summary, given the Company's smaller size and the characteristics of the local economy, Montana-Dakota's North Dakota natural gas distribution operations are riskier than the operations of the proxy companies and require a return that is more than 100 basis points higher than the return required for the typical proxy company.

Q36. What are the regulatory risks faced by Montana-Dakota's North Dakota natural gas utility operations?

A36. Regulatory risk is closely related to business risk and might be considered just another aspect of business risk. To the extent that the market demand for a natural gas distribution company's services is sufficiently strong that the company could conceivably recover all of its costs, regulators may nevertheless set the rates at a level that will not allow for full cost recovery. In effect, the binding constraint on natural gas distribution companies is often posed by regulation rather than by the working of market forces. One purpose of regulation is to provide a substitute for competition where markets are not workably competitive. As such, regulation often attempts to replicate the type of cost discipline and risks that might typically be found in highly competitive industries.

Moreover, there is the perceived risk that regulators may set allowed returns so low as to effectively undermine investor confidence and jeopardize the ability of natural gas distribution companies to finance their operations. Thus, in some instances, regulation may substitute for competition and in other instances it may limit the potential returns available to successful competitors. In either case, regulatory risk is an important consideration for investors and has a significant effect on the cost of capital for all firms in the natural gas distribution industry.

The regulatory environment can significantly affect both the access to, and cost of capital in several ways. As noted by Moody's, "[f]or rate-regulated utilities, which typically operate as a monopoly, the regulatory environment and how the utility adapts to that environment are the most important credit considerations."[22] Moody's further noted that:

> Utility rates are set in a political/regulatory process rather than a competitive or free-market process; thus, the Regulatory Framework is a key determinant of the success of utility. The Regulatory Framework has many components: the governing body and the utility legislation or decrees it enacts, the manner in which regulators are appointed or elected, the rules and procedures promulgated by those regulators, the judiciary that interprets the laws and rules and that arbitrates disagreements, and the manner in which the utility manages the political and regulatory process. In many cases, utilities have experienced credit stress or default primarily or at least secondarily because of a break-down or obstacle in the Regulatory Framework – for instance, laws that prohibited regulators from including investments in uncompleted power plants or plants not deemed "used and useful" in rates, or a disagreement about rate-making that could not be resolved until after the utility had defaulted on its debts.[23]

[22] Moody's Investors Service, *Regulated Electric and Gas Utilities*, December 23, 2013, at 9.
[23] *Ibid.*

Regulatory Research Associates assigns a rating of Average / 1 to the North Dakota Public Service Commission, its fifth highest rating.[24] This rating suggests average regulatory risk for Montana-Dakota's North Dakota natural gas distribution operations.

Q37. Would you please describe Montana-Dakota's relative financial risks?

A37. Financial risk exists to the extent that a company incurs fixed obligations in financing its operations. These fixed obligations increase the level of income which must be generated before common stockholders receive any return and serve to magnify the effects of business and regulatory risks. Fixed financial obligations also increase the probability of bankruptcy by reducing the company's financial flexibility and ability to respond to adverse circumstances. One possible indicator of investors' perceptions of relative financial risk in this case might be obtained from credit ratings. Because Montana-Dakota, as a division of MDU Resources, does not have its own bonds outstanding, it is difficult to make direct comparisons between the ratings of Montana-Dakota and the proxy group. However, page 2 of Schedule 3 of Exhibit No.___(JSG-2) shows the credit ratings assigned by S&P and Moody's to each of the companies in the comparison group and MDU Resources.

The median S&P credit rating for companies in the proxy group is A-. By comparison, MDU Resources' long-term rating from S&P is BBB+. This suggests that the perceived business and financial risk of MDU Resources' bonds is slightly higher than that of the typical company in the comparison group.

[24] Regulatory Research Associates, North Dakota Regulatory Review, September 12, 2014.

The capital structure data on Schedule 7 of Exhibit No.___(JSG-2) show that Montana-Dakota's filed common equity ratio of 49.52 percent is fairly close to the 46.89 percent median for the proxy companies as of September 30, 2014. This slightly above average common equity ratio, which is offset somewhat by the Company's below-average credit rating, suggests average financial risk for Montana-Dakota's North Dakota natural gas distribution operations.

Q38. Would you please describe Montana-Dakota's market risks?

A38. Market risk is associated with the changing value of all investments because of business cycles, inflation, and fluctuations in the general cost of capital throughout the economy. Different companies are subject to different degrees of market risk largely as a result of differences in their business and financial risks. Overall, the market risk of Montana-Dakota's North Dakota natural gas distribution business is comparable to that of the companies in the natural gas distribution comparison group.

Q39. How do the overall risks of the proxy companies compare with the risks faced by Montana-Dakota's North Dakota natural gas distribution operations?

A39. Montana-Dakota's North Dakota natural gas distribution operations face overall risks that are near the top of the range relative to those of the proxy companies. Although it has financial risks that are average relative to the proxy companies, Montana-Dakota's North Dakota natural gas distribution operations have business risks that are above average. In addition to its exceptionally small size relative to the proxy companies and its exposure to a relatively undiversified local economy that is heavily dependent on volatile natural resources production, Montana-

Dakota's North Dakota natural gas distribution operations are faced with elevated capital expenditures to accommodate customer growth and to support system reliability. These considerations lead me to conclude that investors appraise the overall risks of Montana-Dakota's North Dakota natural gas distribution operations to be above average relative to those of the proxy companies. Consequently, Montana-Dakota's North Dakota natural gas distribution business requires an allowed rate of return that is at the high end of the range for the companies in the proxy group indicated by my DCF analyses.

III. SUMMARY AND CONCLUSIONS

Q40. Please summarize the results of your cost of capital study.

A40. I conducted three DCF analyses on a group of natural gas distribution companies that have a range of risks that is roughly comparable to those of Montana-Dakota's North Dakota natural gas distribution operations. These results are summarized as follows:

Table 2: Summary of DCF Results

	Retention Growth DCF Analysis	Basic DCF Analysis	Blended Growth Rate DCF Analysis
High	10.53%	10.48%	10.18%
3rd Quartile	9.51%	9.84%	9.15%
Median	9.12%	8.99%	9.00%
1st Quartile	8.13%	8.53%	8.76%
Low	7.83%	7.60%	8.24%

In addition, I conducted two risk premium analyses and a market DCF analysis of the S&P 500 to test the reasonableness of my DCF analyses. Those results are summarized as follows:

Table 3: Benchmark Risk Premium and Market DCF Analyses

	Return
Risk Premium (Long-Term Corporate Bonds)	
vs. Large Company Stocks	10.13%
vs. Small Company Stocks	18.53%
Market DCF (S&P 500)	12.72%

My risk premium and market DCF analyses suggest that the DCF results generally are low relative to current market benchmarks. In particular, all of the DCF return estimates are considerably below the 18.53 percent risk premium return benchmark for companies in Montana-Dakota's relative size range. Similarly, the DCF estimates for the natural gas distribution proxy companies are well below the 12.72 percent market DCF estimate for the S&P 500 companies.

Q41. What rate of return on common equity do you recommend for Montana-Dakota's North Dakota natural gas distribution operations in this proceeding?

A41. My analyses indicate that an appropriate rate of return on common equity for Montana-Dakota's North Dakota natural gas distribution operations at this time is 10.00 percent, which is above the median, but below the top of the range for my three DCF analyses. This recommended return reflects my assessment that the overall risks of Montana-Dakota's North Dakota natural gas distribution operations are near the top of the range relative to those of the proxy companies. Although the Company has financial risks that are average relative to the proxy companies, it has business risks that are well above average. In addition to its exceptionally small size relative to the proxy companies and its exposure to a relatively undiversified local economy, Montana-Dakota's North Dakota natural gas distribution operations are faced with elevated capital expenditures to accommodate customer growth and to support system reliability. Thus, my recommended return is appropriately positioned to reflect the risks faced by Montana-Dakota's North Dakota natural gas distribution operations relative to the risks faced by the proxy companies.

Q42. Does this conclude your Prepared Direct Testimony?

A42. Yes.

Montana-Dakota Utilities Co.

General Economic Statistics
1983-2013

	[1]	[2]	[3]	[4]	[5]
	Percentage Price Changes				
Year	Consumer Price Index	GDP Implicit Price Deflator	Real GDP Growth	Nominal GDP ($ billions)	Nominal GDP Growth
1983	3.2%	3.9%	4.6%	3,638.1	
1984	4.3%	3.5%	7.3%	4,040.7	11.1%
1985	3.6%	3.2%	4.2%	4,346.7	7.6%
1986	1.9%	2.0%	3.5%	4,590.2	5.6%
1987	3.6%	2.6%	3.5%	4,870.2	6.1%
1988	4.1%	3.5%	4.2%	5,252.6	7.9%
1989	4.8%	3.9%	3.7%	5,657.7	7.7%
1990	5.4%	3.7%	1.9%	5,979.6	5.7%
1991	4.2%	3.3%	-0.1%	6,174.0	3.3%
1992	3.0%	2.3%	3.6%	6,539.3	5.9%
1993	3.0%	2.4%	2.7%	6,878.7	5.2%
1994	2.6%	2.1%	4.0%	7,308.8	6.3%
1995	2.8%	2.1%	2.7%	7,664.1	4.9%
1996	3.0%	1.8%	3.8%	8,100.2	5.7%
1997	2.3%	1.7%	4.5%	8,608.5	6.3%
1998	1.6%	1.1%	4.5%	9,089.2	5.6%
1999	2.2%	1.5%	4.7%	9,660.6	6.3%
2000	3.4%	2.3%	4.1%	10,284.8	6.5%
2001	2.8%	2.3%	1.0%	10,621.8	3.3%
2002	1.6%	1.5%	1.8%	10,977.5	3.3%
2003	2.3%	2.0%	2.8%	11,510.7	4.9%
2004	2.7%	2.7%	3.8%	12,274.9	6.6%
2005	3.4%	3.2%	3.3%	13,093.7	6.7%
2006	3.2%	3.1%	2.7%	13,855.9	5.8%
2007	2.8%	2.7%	1.8%	14,477.6	4.5%
2008	3.8%	2.0%	-0.3%	14,718.6	1.7%
2009	-0.4%	0.8%	-2.8%	14,418.7	-2.0%
2010	1.6%	1.2%	2.5%	14,964.4	3.8%
2011	3.2%	2.1%	1.6%	15,517.9	3.7%
2012	2.1%	1.8%	2.3%	16,163.2	4.2%
2013	1.5%	1.5%	2.2%	16,768.1	3.7%
Average Rate of Change [6]:					
1984-2013	2.9%	2.3%	2.9%	5.2%	5.2%
1994-2013	2.4%	2.0%	2.6%	4.6%	4.6%
2004-2013	2.4%	2.1%	1.7%	3.8%	3.9%

Notes:
[1] U.S. Department of Labor, Bureau of Labor Statistics;
U.S. city average, all urban consumers, all items, not seasonally adjusted
[2] U.S. Department of Commerce, Bureau of Economic Analysis,
National Income and Product Accounts Tables, Table 1.1.9, Revised on August 28, 2014
[3] U.S. Department of Commerce, Bureau of Economic Analysis,
National Income and Product Accounts Tables, Table 1.1.1, Revised on August 28, 2014
[4] U.S. Department of Commerce, Bureau of Economic Analysis,
National Income and Product Accounts Tables, Table 1.1.5, Revised on August 28, 2014
[5] Equals annual percent change of Column [4]
[6] Nominal GDP growth rates based on geometric average rate of change

Montana-Dakota Utilities Co.

Bond Yield Averages

January 2010 - November 2014

		[1]	[2]	[3]	[4]	[5]	[6]
		30-year U.S. Treasury Bond	Average Corporate	Public Utility Bonds A-Rated	Public Utility Bonds Baa-Rated	Credit Spreads A-Rated	Credit Spreads Baa-Rated
2010	JAN	4.60	5.76	5.77	6.16	1.17	1.55
	FEB	4.62	5.86	5.87	6.25	1.25	1.63
	MAR	4.64	5.81	5.84	6.22	1.20	1.58
	APR	4.69	5.80	5.81	6.19	1.12	1.49
	MAY	4.29	5.52	5.50	5.97	1.21	1.68
	JUN	4.13	5.52	5.46	6.18	1.34	2.05
	JUL	3.99	5.32	5.26	5.98	1.26	1.98
	AUG	3.80	5.05	5.01	5.55	1.20	1.74
	SEP	3.77	5.05	5.01	5.53	1.24	1.76
	OCT	3.87	5.15	5.10	5.62	1.23	1.75
	NOV	4.19	5.37	5.37	5.85	1.18	1.67
	DEC	4.42	5.55	5.56	6.04	1.14	1.62
2011	JAN	4.52	5.56	5.57	6.06	1.05	1.54
	FEB	4.65	5.66	5.68	6.10	1.03	1.45
	MAR	4.51	5.55	5.56	5.97	1.05	1.46
	APR	4.50	5.56	5.55	5.98	1.05	1.48
	MAY	4.29	5.33	5.32	5.74	1.03	1.45
	JUN	4.23	5.30	5.26	5.67	1.03	1.44
	JUL	4.27	5.30	5.27	5.70	0.99	1.43
	AUG	3.65	4.79	4.69	5.22	1.04	1.57
	SEP	3.18	4.60	4.48	5.11	1.30	1.93
	OCT	3.13	4.60	4.52	5.24	1.39	2.11
	NOV	3.02	4.39	4.25	4.93	1.23	1.92
	DEC	2.98	4.47	4.33	5.07	1.35	2.09
2012	JAN	3.03	4.45	4.34	5.06	1.31	2.04
	FEB	3.11	4.42	4.36	5.02	1.25	1.91
	MAR	3.28	4.54	4.48	5.13	1.20	1.85
	APR	3.18	4.49	4.40	5.11	1.21	1.93
	MAY	2.93	4.33	4.20	4.97	1.27	2.03
	JUN	2.70	4.22	4.08	4.91	1.38	2.21
	JUL	2.59	4.03	3.93	4.85	1.34	2.26
	AUG	2.77	4.09	4.00	4.88	1.23	2.11
	SEP	2.88	4.09	4.02	4.81	1.14	1.93
	OCT	2.90	3.97	3.91	4.54	1.01	1.64
	NOV	2.80	3.92	3.84	4.42	1.03	1.61
	DEC	2.88	4.05	4.00	4.56	1.12	1.67

Montana-Dakota Utilities Co.

Bond Yield Averages

January 2010 - November 2014

		[1]	[2]	[3]	[4]	[5]	[6]
		30-year U.S. Treasury Bond	Average Corporate	Public Utility Bonds		Credit Spreads	
				A-Rated	Baa-Rated	A-Rated	Baa-Rated
2013	JAN	3.08	4.19	4.15	4.66	1.07	1.58
	FEB	3.17	4.27	4.18	4.74	1.02	1.58
	MAR	3.16	4.29	4.20	4.72	1.04	1.56
	APR	2.93	4.07	4.00	4.49	1.07	1.55
	MAY	3.11	4.23	4.17	4.65	1.05	1.54
	JUN	3.40	4.63	4.53	5.08	1.13	1.68
	JUL	3.61	4.76	4.68	5.21	1.08	1.60
	AUG	3.76	4.89	4.73	5.28	0.97	1.52
	SEP	3.79	4.95	4.80	5.31	1.02	1.52
	OCT	3.68	4.82	4.70	5.17	1.02	1.49
	NOV	3.80	4.91	4.77	5.24	0.97	1.44
	DEC	3.89	4.92	4.81	5.25	0.92	1.36
2014	JAN	3.77	4.76	4.63	5.09	0.86	1.32
	FEB	3.66	4.68	4.53	5.01	0.87	1.35
	MAR	3.62	4.65	4.51	5.00	0.89	1.37
	APR	3.52	4.52	4.41	4.85	0.89	1.33
	MAY	3.39	4.38	4.26	4.69	0.87	1.30
	JUN	3.42	4.44	4.29	4.73	0.87	1.31
	JUL	3.33	4.37	4.23	4.66	0.89	1.33
	AUG	3.20	4.29	4.13	4.65	0.93	1.45
	SEP	3.26	4.39	4.24	4.79	0.98	1.53
	OCT	3.04	4.22	4.06	4.67	1.02	1.63
	NOV	3.04	4.28	4.09	4.75	1.05	1.71
2014	AVG	3.39	4.45	4.31	4.81	0.92	1.42

Notes:
[1] Bloomberg Finance L.P., 30-Year U.S. Treasury Bond
[2] Bloomberg Finance L.P., Moody's Average Corporate Bond Index
[3] Bloomberg Finance L.P., Moody's A-Rated Utility Bond Index
[4] Bloomberg Finance L.P., Moody's Baa-Rated Utility Bond Index
[5] Equals Column [3] – Column [1]
[6] Equals Column [4] – Column [1]

Montana-Dakota Utilities Co.

Common Equity Flotation Costs of Natural Gas Distribution Companies

2000-2014

Issuer	Date of Offering	Number of Shares	Issue Price	Net Proceeds Per Share	Financing Costs as a Percent of Net Proceeds
SEMCO Energy, Inc.	6/12/2000	9,000,000	$10.000	$9.600	4.17%
NiSource Inc.	11/30/2000	10,000,000	$25.250	$24.430	3.36%
Atmos Energy Corporation	12/14/2000	6,000,000	$22.250	$21.140	5.25%
Vectren Corporation	2/8/2001	5,500,000	$21.270	$20.530	3.60%
UtiliCorp United, Inc.	3/5/2001	10,000,000	$29.760	$28.940	2.83%
WGL Holdings, Inc.	6/20/2001	1,790,000	$26.730	$25.835	3.46%
UtiliCorp United, Inc.	1/25/2002	11,000,000	$23.000	$22.253	3.36%
NUI Corporation	3/14/2002	1,500,000	$22.500	$21.430	4.99%
Aquila, Inc.	6/27/2002	37,500,000	$7.500	$7.256	3.36%
NiSource Inc.	11/6/2002	36,000,000	$18.300	$17.751	3.09%
MDU Resources Group, Inc.	11/19/2002	2,100,000	$24.000	$23.280	3.09%
KeySpan Corporation	1/13/2003	13,900,000	$34.500	$34.070	1.26%
Cinergy Corporation	1/31/2003	5,700,000	$31.100	$30.850	0.81%
AGL Resources Inc.	2/11/2003	5,600,000	$22.000	$21.230	3.63%
Delta Natural Gas Company, Inc.	4/29/2003	525,000	$21.600	$20.650	4.60%
Southern Union Company	6/5/2003	9,500,000	$16.000	$15.440	3.63%
Atmos Energy Corporation	6/17/2003	4,000,000	$25.310	$24.298	4.17%
Vectren Corporation	8/7/2003	6,500,000	$22.810	$22.012	3.63%
Sempra Energy	10/8/2003	15,000,000	$28.000	$27.160	3.09%
Unitil Corporation	10/23/2003	624,000	$25.400	$24.130	5.26%
Piedmont Natural Gas Company, Inc.	1/20/2004	4,250,000	$42.500	$41.010	3.63%
MDU Resources Group, Inc.	2/4/2004	2,000,000	$23.320	$22.527	3.52%
UGI Corporation	3/18/2004	7,500,000	$32.100	$30.696	4.58%
Northwest Natural Gas Company	3/30/2004	1,200,000	$31.000	$29.990	3.37%
The Laclede Group, Inc.	5/25/2004	1,500,000	$26.800	$25.929	3.36%
Atmos Energy Corporation	7/13/2004	8,650,000	$24.750	$23.760	4.17%
Southern Union Company	7/26/2004	11,000,000	$18.750	$18.094	3.63%
Aquila, Inc.	8/18/2004	40,000,000	$2.550	$2.451	4.04%
Atmos Energy Corporation	10/21/2004	14,000,000	$24.750	$23.760	4.17%
AGL Resources Inc.	11/19/2004	9,600,000	$31.010	$30.080	3.09%
Cinergy Corporation	12/9/2004	6,100,000	$41.000	$40.510	1.21%
Southern Union Company	2/7/2005	14,910,000	$23.000	$22.300	3.14%
SEMCO Energy, Inc.	8/10/2005	4,300,000	$6.320	$6.067	4.17%
Chesapeake Utilities Corporation	11/16/2006	600,300	$30.100	$28.975	3.88%
Atmos Energy Corporation	12/7/2006	5,500,000	$31.500	$30.398	3.63%
Vectren Corporation	2/22/2007	4,600,000	$28.330	$27.338	3.63%
Unitil Corporation	12/10/2008	2,000,000	$20.000	$18.950	5.54%
Unitil Corporation	5/20/2009	2,400,000	$20.000	$18.950	5.54%
CenterPoint Energy, Inc.	9/10/2009	21,000,000	$12.000	$11.580	3.63%
CenterPoint Energy, Inc.	6/9/2010	22,000,000	$12.900	$12.449	3.63%

Montana-Dakota Utilities Co.

Common Equity Flotation Costs of Natural Gas Distribution Companies

2000-2014

Issuer	Date of Offering	Number of Shares	Issue Price	Net Proceeds Per Share	Financing Costs as a Percent of Net Proceeds
NiSource Inc.	9/8/2010	21,100,000	$16.500	$15.964	3.36%
Gas Natural Inc.	11/10/2010	2,100,000	$10.000	$9.400	6.38%
Unitil Corporation	5/10/2012	2,400,000	$25.250	$23.988	5.26%
Gas Natural Inc.	6/27/2012	700,000	$10.100	$9.494	6.38%
Piedmont Natural Gas Company, Inc.	1/29/2013	4,000,000	$32.000	$30.880	3.63%
The Laclede Group, Inc.	5/22/2013	8,700,000	$44.500	$42.780	4.02%
Gas Natural Inc.	7/11/2013	1,500,000	$10.000	$9.425	6.10%
Gas Natural Inc.	10/31/2013	1,134,155	$10.000	$9.425	6.10%
Atmos Energy Corporation	2/11/2014	8,000,000	$44.000	$42.460	3.63%
The Laclede Group, Inc.	6/5/2014	9,000,000	$46.250	$44.539	3.84%
			Average 2000-2014:		3.90%
			Selected Flotation Costs for Cost of Equity:		4.00%

Sources: *Analysis of Public Utility Financing* and *Public Utility Financing Tracker;*
Bloomberg Finance L.P.

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Fiscal Year 2013 Operating Data

Company	Ticker	Total Assets ($ millions)	Operating Revenues ($ millions)	Operating Income ($ millions)	
AGL Resources Inc.	GAS	14,550.0	4,209.0	639.0	1/
Atmos Energy Corporation	ATO	8,594.7	4,940.9	611.3	2/
Laclede Group, Inc.	LG	5,074.0	1,627.2	166.4	2/
New Jersey Resources Corporation	NJR	3,158.8	3,738.1	201.2	2/
Northwest Natural Gas Company	NWN	2,970.9	777.5	142.7	1/
Piedmont Natural Gas Company, Inc	PNY	4,368.6	1,278.2	144.2	3/
South Jersey Industries, Inc.	SJI	2,924.9	731.4	69.6	1/
Southwest Gas Corporation	SWX	4,565.2	1,950.8	274.2	1/
WGL Holdings, Inc.	WGL	4,856.5	2,780.9	197.5	2/
High		14,550	4,941	639	
Average		**5,674**	**2,448**	**272**	
Median		**4,565**	**1,951**	**198**	
Low		2,925	731	70	
Montana-Dakota Utilities Co.					
- North Dakota Natural Gas Distribution		**$72.2**	**$110.8**	**$4.5**	4/
Montana-Dakota North Dakota Natural Gas Distribution % of:					
- Proxy Company Median		1.58%	5.68%	2.26%	

Notes:
1/ Source: SNL Financial LC; data as of December 31, 2013
2/ Source: SNL Financial LC; data as of September 30, 2014
3/ Source: SNL Financial LC; data as of October 31, 2013
4/ Source: Annual Report to the North Dakota Public Service Commission for the Year Ended December 31

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Credit Ratings

Company	Ticker	Standard & Poor's	Moody's
AGL Resources Inc.	GAS	BBB+	Baa1
Atmos Energy Corporation	ATO	A-	A2
Laclede Group, Inc.	LG	A-	Baa2
New Jersey Resources Corporation	NJR	A	Aa2
Northwest Natural Gas Company	NWN	A+	A3
Piedmont Natural Gas Company, Inc	PNY	A	A2
South Jersey Industries, Inc.	SJI	BBB+	--
Southwest Gas Corporation	SWX	BBB+	A3
WGL Holdings, Inc.	WGL	A+	A3
Average		**A-**	**A3**
Median		**A-**	**A3**
MDU Resources Group, Inc.		BBB+	--

Notes:
Source: SNL Financial LC
New Jersey Resources Corporation rating is for New Jersey Natural Gas Company

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Dividend Yields
June 2014 - November 2014

Company	Ticker	Average Dividend Yield
AGL Resources Inc.	GAS	3.72%
Atmos Energy Corporation	ATO	2.94%
Laclede Group, Inc.	LG	3.65%
New Jersey Resources Corporation	NJR	3.23%
Northwest Natural Gas Company	NWN	4.10%
Piedmont Natural Gas Company, Inc	PNY	3.54%
South Jersey Industries, Inc.	SJI	3.34%
Southwest Gas Corporation	SWX	2.78%
WGL Holdings, Inc.	WGL	4.08%
Average		**3.49%**
Median		**3.54%**

			Price			Annualized	Dividend
			Low	High	Average	Dividend	Yield
AGL Resources Inc.	GAS	Jun-14	$ 51.90	$ 55.10	$ 53.50	$ 1.96	3.66%
		Jul-14	51.55	55.30	53.43	1.96	3.67%
		Aug-14	48.72	53.34	51.03	1.96	3.84%
		Sep-14	50.71	54.27	52.49	1.96	3.73%
		Oct-14	50.50	55.00	52.75	1.96	3.72%
		Nov-14	51.02	55.59	53.31	1.96	3.68%
							3.72%
Atmos Energy Corporation	ATO	Jun-14	$ 49.87	$ 53.41	$ 51.64	$ 1.48	2.87%
		Jul-14	48.29	53.47	50.88	1.48	2.91%
		Aug-14	46.77	50.69	48.73	1.48	3.04%
		Sep-14	46.64	51.47	49.05	1.48	3.02%
		Oct-14	47.22	53.56	50.39	1.48	2.94%
		Nov-14	52.64	54.92	53.78	1.56	2.90%
							2.94%
Laclede Group, Inc.	LG	Jun-14	$ 44.96	$ 48.75	$ 46.86	$ 1.76	3.76%
		Jul-14	46.81	48.99	47.90	1.76	3.67%
		Aug-14	45.36	49.55	47.46	1.76	3.71%
		Sep-14	45.66	49.95	47.81	1.76	3.68%
		Oct-14	46.00	51.09	48.55	1.76	3.63%
		Nov-14	49.84	51.72	50.78	1.76	3.47%
							3.65%
New Jersey Resources Corporation	NJR	Jun-14	$ 52.95	$ 57.68	$ 55.31	$ 1.68	3.04%
		Jul-14	51.00	57.79	54.40	1.68	3.09%
		Aug-14	48.63	52.88	50.76	1.68	3.31%
		Sep-14	49.71	52.91	51.31	1.80	3.51%
		Oct-14	49.29	58.68	53.99	1.80	3.33%
		Nov-14	56.55	59.83	58.19	1.80	3.09%
							3.23%
Northwest Natural Gas Company	NWN	Jun-14	$ 44.33	$ 47.32	$ 45.83	$ 1.84	4.02%
		Jul-14	43.22	47.50	45.36	1.84	4.06%
		Aug-14	41.81	45.60	43.71	1.84	4.21%
		Sep-14	42.25	45.66	43.96	1.84	4.19%
		Oct-14	42.29	47.07	44.68	1.86	4.16%
		Nov-14	45.88	47.75	46.81	1.86	3.97%
							4.10%

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Dividend Yields
June 2014 - November 2014

Company	Ticker	Average Dividend Yield
AGL Resources Inc.	GAS	3.72%
Atmos Energy Corporation	ATO	2.94%
Laclede Group, Inc.	LG	3.65%
New Jersey Resources Corporation	NJR	3.23%
Northwest Natural Gas Company	NWN	4.10%
Piedmont Natural Gas Company, Inc	PNY	3.54%
South Jersey Industries, Inc.	SJI	3.34%
Southwest Gas Corporation	SWX	2.78%
WGL Holdings, Inc.	WGL	4.08%
Average		**3.49%**
Median		**3.54%**

			Price			Annualized	Dividend
			Low	High	Average	Dividend	Yield
Piedmont Natural Gas Company, Inc	PNY	Jun-14	$ 35.25	$ 37.43	$ 36.34	$ 1.28	3.52%
		Jul-14	34.69	37.86	36.28	1.28	3.53%
		Aug-14	33.78	37.48	35.63	1.28	3.59%
		Sep-14	33.49	37.58	35.53	1.28	3.60%
		Oct-14	33.38	38.36	35.87	1.28	3.57%
		Nov-14	36.62	38.48	37.55	1.28	3.41%
							3.54%
South Jersey Industries, Inc.	SJI	Jun-14	$ 56.37	$ 60.55	$ 58.46	$ 1.89	3.23%
		Jul-14	53.57	60.67	57.12	1.89	3.31%
		Aug-14	52.25	58.36	55.31	1.89	3.42%
		Sep-14	52.40	58.13	55.27	1.89	3.42%
		Oct-14	53.00	59.00	56.00	1.89	3.38%
		Nov-14	56.15	59.74	57.95	1.89	3.26%
							3.34%
Southwest Gas Corporation	SWX	Jun-14	$ 50.96	$ 53.22	$ 52.09	$ 1.46	2.80%
		Jul-14	49.26	53.34	51.30	1.46	2.85%
		Aug-14	47.21	52.80	50.00	1.46	2.92%
		Sep-14	48.54	53.03	50.79	1.46	2.87%
		Oct-14	48.23	58.53	53.38	1.46	2.74%
		Nov-14	56.77	59.76	58.27	1.46	2.51%
							2.78%
WGL Holdings, Inc.	WGL	Jun-14	$ 40.13	$ 43.12	$ 41.63	$ 1.76	4.23%
		Jul-14	38.96	43.65	41.31	1.76	4.26%
		Aug-14	37.77	43.56	40.67	1.76	4.33%
		Sep-14	41.37	44.71	43.04	1.76	4.09%
		Oct-14	42.04	47.61	44.82	1.76	3.93%
		Nov-14	46.99	50.00	48.50	1.76	3.63%
							4.08%

Source: Bloomberg Finance L.P.

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Projected Earnings Retention Growth Rates

		Value Line Forecast 2017-19				
Company	Ticker	EPS	DPS	ROE	Retention Rate	Retention Growth
AGL Resources Inc.	GAS	$4.30	$2.40	12.00%	44.19%	5.30%
Atmos Energy Corporation	ATO	$3.50	$1.75	9.00%	50.00%	4.50%
Laclede Group, Inc.	LG	$4.05	$2.20	10.00%	45.68%	4.57%
New Jersey Resources Corporation	NJR	$3.80	$1.92	12.50%	49.47%	6.18%
Northwest Natural Gas Company	NWN	$3.30	$2.10	9.50%	36.36%	3.45%
Piedmont Natural Gas Company, Inc	PNY	$2.25	$1.43	11.50%	36.44%	4.19%
South Jersey Industries, Inc.	SJI	$4.80	$2.60	14.50%	45.83%	6.65%
Southwest Gas Corporation	SWX	$4.00	$1.80	11.00%	55.00%	6.05%
WGL Holdings, Inc.	WGL	$3.20	$1.87	11.00%	41.56%	4.57%
Average						**5.05%**
Median						**4.57%**

Source: Value Line Investment Survey, December 5, 2014

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Blended Growth Rate Estimates

Company	Ticker	1/2 Zacks 5-Yr Earnings Growth Est.	1/2 Retention Growth	Weighted Average
AGL Resources Inc.	GAS	4.00%	5.30%	4.65%
Atmos Energy Corporation	ATO	7.00%	4.50%	5.75%
Laclede Group, Inc.	LG	5.30%	4.57%	4.93%
New Jersey Resources Corporation	NJR	4.00%	6.18%	5.09%
Northwest Natural Gas Company	NWN	4.00%	3.45%	3.73%
Piedmont Natural Gas Company, Inc	PNY	5.00%	4.19%	4.60%
South Jersey Industries, Inc.	SJI	6.00%	6.65%	6.32%
Southwest Gas Corporation	SWX	5.50%	6.05%	5.78%
WGL Holdings, Inc.	WGL	5.30%	4.57%	4.94%
Average		**5.12%**	**5.05%**	**5.09%**
Median		**5.30%**	**4.57%**	**4.94%**

Source: Zacks Investment Research.

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Retention Growth DCF Calculation

Company	Ticker	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market: Investor Required Return	Flotation Cost Adjustment	Primary Market: Cost of Capital
AGL Resources Inc.	GAS	3.72%	3.84%	5.30%	9.14%	1.0400	9.51%
Atmos Energy Corporation	ATO	2.94%	3.03%	4.50%	7.53%	1.0400	7.83%
Laclede Group, Inc.	LG	3.65%	3.76%	4.57%	8.32%	1.0400	8.66%
New Jersey Resources Corporation	NJR	3.23%	3.35%	6.18%	9.54%	1.0400	9.92%
Northwest Natural Gas Company	NWN	4.10%	4.19%	3.45%	7.64%	1.0400	7.95%
Piedmont Natural Gas Company, Inc	PNY	3.54%	3.63%	4.19%	7.82%	1.0400	8.13%
South Jersey Industries, Inc.	SJI	3.34%	3.47%	6.65%	10.12%	1.0400	10.53%
Southwest Gas Corporation	SWX	2.78%	2.89%	6.05%	8.94%	1.0400	9.29%
WGL Holdings, Inc.	WGL	4.08%	4.19%	4.57%	8.77%	1.0400	9.12%
High					10.12%		10.53%
3rd Quartile					9.14%		9.51%
2nd Quartile (Median)					**8.77%**		**9.12%**
1st Quartile					7.82%		8.13%
Low					7.53%		7.83%

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Basic DCF Calculation

Company	Ticker	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market: Investor Required Return	Flotation Cost Adjustment	Primary Market: Cost of Capital
AGL Resources Inc.	GAS	3.72%	3.81%	4.00%	7.81%	1.0400	8.12%
Atmos Energy Corporation	ATO	2.94%	3.07%	7.00%	10.07%	1.0400	10.48%
Laclede Group, Inc.	LG	3.65%	3.77%	5.30%	9.07%	1.0400	9.44%
New Jersey Resources Corporation	NJR	3.23%	3.31%	4.00%	7.31%	1.0400	7.60%
Northwest Natural Gas Company	NWN	4.10%	4.20%	4.00%	8.20%	1.0400	8.53%
Piedmont Natural Gas Company, Inc	PNY	3.54%	3.65%	5.00%	8.65%	1.0400	8.99%
South Jersey Industries, Inc.	SJI	3.34%	3.46%	6.00%	9.46%	1.0400	9.84%
Southwest Gas Corporation	SWX	2.78%	2.88%	5.50%	8.38%	1.0400	8.71%
WGL Holdings, Inc.	WGL	4.08%	4.21%	5.30%	9.51%	1.0400	9.89%
High					10.07%		10.48%
3rd Quartile					9.46%		9.84%
2nd Quartile (Median)					**8.65%**		**8.99%**
1st Quartile					8.20%		8.53%
Low					7.31%		7.60%

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Blended Growth Rate DCF Calculation

Company	Ticker	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market: Investor Required Return	Flotation Cost Adjustment	Primary Market: Cost of Capital
AGL Resources Inc.	GAS	3.72%	3.82%	4.65%	8.48%	1.0400	8.81%
Atmos Energy Corporation	ATO	2.94%	3.05%	5.75%	8.80%	1.0400	9.15%
Laclede Group, Inc.	LG	3.65%	3.76%	4.93%	8.70%	1.0400	9.05%
New Jersey Resources Corporation	NJR	3.23%	3.33%	5.09%	8.42%	1.0400	8.76%
Northwest Natural Gas Company	NWN	4.10%	4.20%	3.73%	7.92%	1.0400	8.24%
Piedmont Natural Gas Company, Inc	PNY	3.54%	3.64%	4.60%	8.23%	1.0400	8.56%
South Jersey Industries, Inc.	SJI	3.34%	3.47%	6.32%	9.79%	1.0400	10.18%
Southwest Gas Corporation	SWX	2.78%	2.88%	5.78%	8.66%	1.0400	9.00%
WGL Holdings, Inc.	WGL	4.08%	4.20%	4.94%	9.14%	1.0400	9.50%
High					9.79%		10.18%
3rd Quartile					8.80%		9.15%
2nd Quartile (Median)					**8.66%**		**9.00%**
1st Quartile					8.42%		8.76%
Low					7.92%		8.24%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1]	[2]	[3]	[4]
	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
3M Co	MMM	640.819	158.160	101,352	0.6260%	2.16%	9.33%	0.0135%	0.0584%
Abbott Laboratories	ABT	1,505.791	44.320	66,737	0.4122%	1.99%	10.94%	0.0082%	0.0451%
AbbVie Inc	ABBV	1,593.452	69.110	110,123	0.6802%	2.84%	8.83%	0.0193%	0.0601%
Accenture PLC	ACN	627.505	86.000	53,965	0.3333%	2.37%	10.45%	0.0079%	0.0348%
ACE Ltd	ACE	331.738	114.870	38,107	0.2354%	2.26%	7.13%	0.0053%	0.0168%
Actavis plc	ACT	265.061	263.070	69,730	0.0000%	n/a	18.80%	n/a	0.0000%
Adobe Systems Inc	ADBE	498.739	73.750	36,782	0.0000%	n/a	12.50%	n/a	0.0000%
ADT Corp/The	ADT	174.527	34.000	5,934	0.0367%	2.35%	6.55%	0.0009%	0.0024%
AES Corp/VA	AES	713.046	13.650	9,733	0.0601%	1.47%	8.00%	0.0009%	0.0048%
Aetna Inc	AET	351.700	87.540	30,788	0.1902%	1.14%	11.75%	0.0022%	0.0223%
Affiliated Managers Group Inc	AMG	55.573	201.940	11,222	0.0000%	n/a	14.51%	n/a	0.0000%
Aflac Inc	AFL	450.587	59.270	26,706	0.1650%	2.63%	8.35%	0.0043%	0.0138%
Agilent Technologies Inc	A	333.513	41.590	13,871	0.0857%	0.96%	9.10%	0.0008%	0.0078%
AGL Resources Inc	GAS	119.573	52.380	6,263	0.0387%	3.74%	5.50%	0.0014%	0.0021%
Air Products & Chemicals Inc	APD	213.711	144.090	30,794	0.1902%	2.14%	8.67%	0.0041%	0.0165%
Airgas Inc	ARG	74.702	114.000	8,516	0.0526%	1.93%	11.80%	0.0010%	0.0062%
Akamai Technologies Inc	AKAM	177.994	63.060	11,224	0.0000%	n/a	15.83%	n/a	0.0000%
Alcoa Inc	AA	1,178.823	17.140	20,205	0.1248%	0.70%	10.67%	0.0009%	0.0133%
Alexion Pharmaceuticals Inc	ALXN	198.287	192.510	38,172	0.0000%	n/a	37.07%	n/a	0.0000%
Allegheny Technologies Inc	ATI	108.703	32.810	3,567	0.0220%	2.19%	16.90%	0.0005%	0.0037%
Allegion PLC	ALLE	95.729	53.700	5,141	0.0318%	0.60%	17.40%	0.0002%	0.0055%
Allergan Inc/United States	AGN	297.899	210.650	62,752	0.3876%	0.09%	21.00%	0.0004%	0.0814%
Alliance Data Systems Corp	ADS	59.412	281.610	16,731	0.0000%	n/a	16.32%	n/a	0.0000%
Allstate Corp/The	ALL	419.433	67.610	28,358	0.1752%	1.66%	8.48%	0.0029%	0.0149%
Altera Corp	ALTR	304.817	37.050	11,293	0.0698%	1.94%	12.03%	0.0014%	0.0084%
Altria Group Inc	MO	1,976.470	50.300	99,416	0.6141%	4.14%	6.26%	0.0254%	0.0384%
Amazon.com Inc	AMZN	463.006	326.000	150,940	0.0000%	n/a	36.58%	n/a	0.0000%
Ameren Corp	AEE	242.635	43.200	10,482	0.0647%	3.80%	7.27%	0.0025%	0.0047%
American Electric Power Co Inc	AEP	489.240	58.010	28,381	0.1753%	3.65%	5.78%	0.0064%	0.0101%
American Express Co	AXP	1,034.677	92.140	95,335	0.5889%	1.13%	9.42%	0.0066%	0.0555%
American International Group Inc	AIG	1,399.912	54.430	76,197	0.4707%	0.92%	9.50%	0.0043%	0.0447%
American Tower Corp	AMT	396.463	103.490	41,030	0.2534%	1.39%	17.95%	0.0035%	0.0455%
Ameriprise Financial Inc	AMP	184.532	130.680	24,115	0.1490%	1.78%	18.10%	0.0026%	0.0270%
AmerisourceBergen Corp	ABC	218.692	90.840	19,866	0.1227%	1.28%	10.66%	0.0016%	0.0131%
AMETEK Inc	AME	245.933	50.650	12,457	0.0769%	0.71%	12.73%	0.0005%	0.0098%
Amgen Inc	AMGN	760.670	166.410	126,583	0.7819%	1.47%	8.83%	0.0115%	0.0690%
Amphenol Corp	APH	309.465	52.940	16,383	0.1012%	0.94%	11.45%	0.0010%	0.0116%
Anadarko Petroleum Corp	APC	506.450	78.730	39,873	0.2463%	1.37%	18.78%	0.0034%	0.0462%
Analog Devices Inc	ADI	314.213	54.650	17,172	0.1061%	2.71%	10.87%	0.0029%	0.0115%
Aon PLC	AON	285.137	92.420	26,352	0.1628%	1.08%	12.66%	0.0018%	0.0206%
Apache Corp	APA	376.482	63.810	24,023	0.1484%	1.57%	3.92%	0.0023%	0.0058%
Apartment Investment & Management Co	AIV	146.205	37.080	5,421	0.0335%	2.80%	7.28%	0.0009%	0.0024%
Apple Inc	AAPL	5,864.840	115.070	674,867	4.1685%	1.63%	15.97%	0.0681%	0.6656%
Applied Materials Inc	AMAT	1,217.401	23.740	28,901	0.1785%	1.68%	13.20%	0.0030%	0.0236%
Archer-Daniels-Midland Co	ADM	643.788	52.460	33,773	0.2086%	1.83%	10.03%	0.0038%	0.0209%
Assurant Inc	AIZ	70.255	67.350	4,732	0.0292%	1.60%	6.98%	0.0005%	0.0020%
AT&T Inc	T	5,187.000	35.060	181,856	1.1233%	5.25%	5.45%	0.0590%	0.0612%
Autodesk Inc	ADSK	227.200	60.510	13,748	0.0000%	n/a	11.65%	n/a	0.0000%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1]	[2]	[3]	[4]
	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
Automatic Data Processing Inc	ADP	482.057	86.070	41,491	0.2563%	2.28%	10.29%	0.0058%	0.0264%
AutoNation Inc	AN	113.144	58.290	6,595	0.0000%	n/a	12.60%	n/a	0.0000%
AutoZone Inc	AZO	32.041	575.720	18,447	0.0000%	n/a	13.39%	n/a	0.0000%
Avago Technologies Ltd	AVGO	252.899	90.950	23,001	0.1421%	1.41%	20.63%	0.0020%	0.0293%
AvalonBay Communities Inc	AVB	132.008	161.720	21,348	0.1319%	2.87%	6.55%	0.0038%	0.0086%
Avery Dennison Corp	AVY	91.101	49.130	4,476	0.0276%	2.85%	11.70%	0.0008%	0.0032%
Avon Products Inc	AVP	434.656	9.610	4,177	0.0258%	2.50%	6.52%	0.0006%	0.0017%
Baker Hughes Inc	BHI	432.599	56.510	24,446	0.1510%	1.20%	25.18%	0.0018%	0.0380%
Ball Corp	BLL	136.922	67.390	9,227	0.0570%	0.77%	10.03%	0.0004%	0.0057%
Bank of America Corp	BAC	10,516.450	16.790	176,571	1.0906%	1.19%	10.83%	0.0130%	0.1181%
Bank of New York Mellon Corp/The	BK	1,125.710	39.580	44,556	0.2752%	1.72%	9.83%	0.0047%	0.0270%
Baxter International Inc	BAX	541.978	72.870	39,494	0.2439%	2.85%	9.47%	0.0070%	0.0231%
BB&T Corp	BBT	720.298	37.050	26,687	0.1648%	2.59%	12.06%	0.0043%	0.0199%
Becton Dickinson and Co	BDX	191.977	141.150	27,098	0.1674%	1.70%	9.28%	0.0028%	0.0155%
Bed Bath & Beyond Inc	BBBY	185.239	72.950	13,513	0.0000%	n/a	7.78%	n/a	0.0000%
Bemis Co Inc	BMS	99.881	40.070	4,002	0.0247%	2.70%	8.85%	0.0007%	0.0022%
Berkshire Hathaway Inc	BRK/B	1,215.933	148.520	180,590	0.0000%	n/a	6.70%	n/a	0.0000%
Best Buy Co Inc	BBY	349.616	37.260	13,027	0.0805%	2.04%	13.02%	0.0016%	0.0105%
Biogen Idec Inc	BIIB	236.155	308.440	72,840	0.0000%	n/a	21.05%	n/a	0.0000%
BlackRock Inc	BLK	165.214	355.030	58,656	0.3623%	2.17%	12.37%	0.0079%	0.0448%
Boeing Co/The	BA	712.930	132.390	94,385	0.5830%	2.21%	11.15%	0.0129%	0.0650%
BorgWarner Inc	BWA	227.374	56.820	12,919	0.0798%	0.92%	11.77%	0.0007%	0.0094%
Boston Properties Inc	BXP	153.100	129.980	19,900	0.1229%	2.00%	5.44%	0.0025%	0.0067%
Boston Scientific Corp	BSX	1,326.490	12.890	17,098	0.0000%	n/a	10.27%	n/a	0.0000%
Bristol-Myers Squibb Co	BMY	1,658.776	59.050	97,951	0.6050%	2.44%	13.25%	0.0148%	0.0802%
Broadcom Corp	BRCM	542.000	42.800	23,198	0.1433%	1.12%	10.51%	0.0016%	0.0151%
Brown-Forman Corp	BF/B	128.970	95.580	12,327	0.0761%	1.32%	9.60%	0.0010%	0.0073%
CA Inc	CA	444.906	30.890	13,743	0.0849%	3.24%	4.77%	0.0027%	0.0040%
Cablevision Systems Corp	CVC	219.492	20.020	4,394	0.0000%	3.00%	-6.25%	0.0000%	0.0000%
Cabot Oil & Gas Corp	COG	413.020	33.200	13,712	0.0847%	0.24%	42.81%	0.0002%	0.0363%
Cameron International Corp	CAM	197.446	49.780	9,829	0.0000%	n/a	17.47%	n/a	0.0000%
Campbell Soup Co	CPB	314.293	45.060	14,162	0.0875%	2.77%	4.59%	0.0024%	0.0040%
Capital One Financial Corp	COF	555.971	82.310	45,762	0.2827%	1.46%	6.00%	0.0041%	0.0170%
Cardinal Health Inc	CAH	330.962	82.000	27,139	0.1676%	1.67%	12.16%	0.0028%	0.0204%
CareFusion Corp	CFN	203.918	59.190	12,070	0.0000%	n/a	11.91%	n/a	0.0000%
CarMax Inc	KMX	215.395	56.140	12,092	0.0000%	n/a	13.76%	n/a	0.0000%
Carnival Corp	CCL	592.649	42.390	25,122	0.1552%	2.36%	17.03%	0.0037%	0.0264%
Caterpillar Inc	CAT	605.399	99.000	59,935	0.3702%	2.83%	9.48%	0.0105%	0.0351%
CBRE Group Inc	CBG	332.867	33.310	11,088	0.0000%	n/a	12.17%	n/a	0.0000%
CBS Corp	CBS	480.424	54.470	26,169	0.1616%	1.10%	14.47%	0.0018%	0.0234%
Celgene Corp	CELG	798.704	113.430	90,597	0.0000%	n/a	25.66%	n/a	0.0000%
CenterPoint Energy Inc	CNP	429.796	23.500	10,100	0.0624%	4.04%	6.00%	0.0025%	0.0037%
CenturyLink Inc	CTL	570.705	41.100	23,456	0.0000%	5.26%	-0.72%	0.0000%	0.0000%
Cerner Corp	CERN	341.472	64.310	21,960	0.0000%	n/a	16.82%	n/a	0.0000%
CF Industries Holdings Inc	CF	49.735	267.110	13,285	0.0821%	2.25%	12.18%	0.0018%	0.0100%
CH Robinson Worldwide Inc	CHRW	146.285	72.510	10,607	0.0655%	1.93%	11.40%	0.0013%	0.0075%
Charles Schwab Corp/The	SCHW	1,305.769	27.660	36,118	0.2231%	0.87%	20.98%	0.0019%	0.0468%
Chesapeake Energy Corp	CHK	665.111	20.070	13,349	0.0825%	1.74%	5.00%	0.0014%	0.0041%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1]	[2]	[3]	[4]
	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

		[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
Company	Ticker	Shares Outstanding (million)	Price	Market Capitalization ($million)	Percent of Total Market Capitalization	Current Dividend Yield	BEst Long-Term Growth Estimate	Market Capitalization-Weighted Dividend Yield	Market Capitalization-Weighted BEst Long-Term Growth Estimate
Chevron Corp	CVX	1,890.424	111.730	211,217	1.3046%	3.83%	6.08%	0.0500%	0.0793%
Chipotle Mexican Grill Inc	CMG	31.013	660.880	20,496	0.0000%	n/a	22.73%	n/a	0.0000%
Chubb Corp/The	CB	235.814	103.160	24,327	0.1503%	1.94%	9.00%	0.0029%	0.0135%
Cigna Corp	CI	261.579	102.560	26,828	0.1657%	0.04%	10.66%	0.0001%	0.0177%
Cimarex Energy Co	XEC	87.249	103.760	9,053	0.0559%	0.62%	12.85%	0.0003%	0.0072%
Cincinnati Financial Corp	CINF	163.490	50.810	8,307	0.0000%	3.46%	n/a	0.0000%	n/a
Cintas Corp	CTAS	116.979	71.800	8,399	0.0519%	1.18%	10.68%	0.0006%	0.0055%
Cisco Systems Inc	CSCO	5,113.588	27.590	141,084	0.8714%	2.75%	8.93%	0.0240%	0.0778%
Citigroup Inc	C	3,029.488	53.350	161,623	0.9983%	0.08%	11.05%	0.0007%	0.1103%
Citrix Systems Inc	CTXS	160.971	66.030	10,629	0.0000%	n/a	15.33%	n/a	0.0000%
Clorox Co/The	CLX	129.402	101.300	13,108	0.0810%	2.92%	6.70%	0.0024%	0.0054%
CME Group Inc/IL	CME	336.838	84.610	28,500	0.1760%	2.22%	14.05%	0.0039%	0.0247%
CMS Energy Corp	CMS	276.149	33.250	9,182	0.0567%	3.25%	5.83%	0.0018%	0.0033%
Coach Inc	COH	275.590	36.100	9,949	0.0615%	3.74%	8.03%	0.0023%	0.0049%
Coca-Cola Co/The	KO	4,380.113	44.550	195,134	1.2053%	2.74%	5.76%	0.0330%	0.0694%
Coca-Cola Enterprises Inc	CCE	241.734	43.510	10,518	0.0650%	2.30%	9.04%	0.0015%	0.0059%
Cognizant Technology Solutions Corp	CTSH	608.918	54.050	32,912	0.0000%	n/a	17.30%	n/a	0.0000%
Colgate-Palmolive Co	CL	911.398	69.400	63,251	0.3907%	2.07%	9.80%	0.0081%	0.0383%
Comcast Corp	CMCSA	2,150.369	56.600	121,711	0.7518%	1.59%	13.09%	0.0120%	0.0984%
Comerica Inc	CMA	179.687	45.230	8,127	0.0502%	1.77%	10.69%	0.0009%	0.0054%
Computer Sciences Corp	CSC	140.491	63.520	8,924	0.0551%	1.45%	9.45%	0.0008%	0.0052%
ConAgra Foods Inc	CAG	424.828	36.410	15,468	0.0955%	2.75%	9.37%	0.0026%	0.0089%
ConocoPhillips	COP	1,230.913	67.770	83,419	0.5153%	4.31%	6.13%	0.0222%	0.0316%
CONSOL Energy Inc	CNX	230.180	37.450	8,620	0.0532%	0.67%	9.70%	0.0004%	0.0052%
Consolidated Edison Inc	ED	292.888	63.830	18,695	0.1155%	3.95%	3.14%	0.0046%	0.0036%
Constellation Brands Inc	STZ	169.485	94.730	16,055	0.0000%	n/a	16.35%	n/a	0.0000%
Corning Inc	GLW	1,281.848	20.910	26,803	0.1656%	1.91%	8.35%	0.0032%	0.0138%
Costco Wholesale Corp	COST	437.762	141.980	62,153	0.3839%	1.00%	11.15%	0.0038%	0.0428%
Covidien PLC	COV	452.784	100.990	45,727	0.2824%	1.43%	8.50%	0.0040%	0.0240%
CR Bard Inc	BCR	74.899	170.040	12,736	0.0787%	0.52%	12.20%	0.0004%	0.0096%
Crown Castle International Corp	CCI	333.858	82.250	27,460	0.1696%	3.99%	27.43%	0.0068%	0.0465%
CSX Corp	CSX	999.572	35.060	35,045	0.2165%	1.83%	11.88%	0.0040%	0.0257%
Cummins Inc	CMI	182.692	145.340	26,552	0.1640%	2.15%	14.62%	0.0035%	0.0240%
CVS Health Corp	CVS	1,146.383	90.160	103,358	0.6384%	1.22%	14.14%	0.0078%	0.0903%
Danaher Corp	DHR	702.692	83.070	58,373	0.3606%	0.48%	11.25%	0.0017%	0.0406%
Darden Restaurants Inc	DRI	132.647	57.520	7,630	0.0471%	3.82%	12.93%	0.0018%	0.0061%
DaVita HealthCare Partners Inc	DVA	214.900	76.010	16,335	0.0000%	n/a	8.66%	n/a	0.0000%
Deere & Co	DE	358.420	89.580	32,107	0.1983%	2.68%	6.38%	0.0053%	0.0127%
Delphi Automotive PLC	DLPH	296.079	72.900	21,584	0.1333%	1.37%	14.01%	0.0018%	0.0187%
Delta Air Lines Inc	DAL	836.941	45.620	38,181	0.2358%	0.79%	17.02%	0.0019%	0.0401%
Denbury Resources Inc	DNR	352.563	8.010	2,824	0.0174%	3.12%	3.90%	0.0005%	0.0007%
DENTSPLY International Inc	XRAY	141.530	54.740	7,747	0.0479%	0.48%	10.38%	0.0002%	0.0050%
Devon Energy Corp	DVN	409.100	59.940	24,521	0.1515%	1.60%	11.47%	0.0024%	0.0174%
Diamond Offshore Drilling Inc	DO	137.148	30.500	4,183	0.0000%	11.48%	-12.67%	0.0000%	0.0000%
DIRECTV	DTV	502.237	87.730	44,061	0.0000%	n/a	6.00%	n/a	0.0000%
Discover Financial Services	DFS	453.480	65.250	29,590	0.1828%	1.47%	9.73%	0.0027%	0.0178%
Discovery Communications Inc	DISCA	148.491	34.690	5,151	0.0000%	n/a	20.53%	n/a	0.0000%
Discovery Communications Inc	DISCK	287.302	33.980	9,763	0.0000%	n/a	20.53%	n/a	0.0000%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1] Dividend Yield	[2] Dividend Yield x (1 + 0.625g)	[3] Expected Growth Rate (g)	[4] Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
Dollar General Corp	DG	303.397	66.320	20,121	0.0000%	n/a	13.34%	n/a	0.0000%
Dollar Tree Inc	DLTR	205.654	67.940	13,972	0.0000%	n/a	15.27%	n/a	0.0000%
Dominion Resources Inc/VA	D	583.911	72.280	42,205	0.2607%	3.32%	6.00%	0.0087%	0.0156%
Dover Corp	DOV	165.362	75.030	12,407	0.0766%	2.13%	11.88%	0.0016%	0.0091%
Dow Chemical Co/The	DOW	1,178.561	48.120	56,712	0.3503%	3.49%	6.68%	0.0122%	0.0234%
DR Horton Inc	DHI	364.587	25.100	9,151	0.0565%	1.00%	11.43%	0.0006%	0.0065%
Dr Pepper Snapple Group Inc	DPS	194.409	73.030	14,198	0.0877%	2.25%	8.43%	0.0020%	0.0074%
DTE Energy Co	DTE	176.991	81.540	14,432	0.0891%	3.38%	4.85%	0.0030%	0.0043%
Duke Energy Corp	DUK	707.291	82.000	57,998	0.3582%	3.88%	4.91%	0.0139%	0.0176%
Dun & Bradstreet Corp/The	DNB	35.910	125.070	4,491	0.0277%	1.41%	10.70%	0.0004%	0.0030%
E*TRADE Financial Corp	ETFC	289.161	22.060	6,379	0.0000%	n/a	40.00%	n/a	0.0000%
Eastman Chemical Co	EMN	148.527	82.160	12,203	0.0754%	1.70%	7.53%	0.0013%	0.0057%
Eaton Corp PLC	ETN	474.600	67.190	31,888	0.1970%	2.92%	9.12%	0.0057%	0.0180%
eBay Inc	EBAY	1,242.367	54.870	68,169	0.0000%	n/a	12.45%	n/a	0.0000%
Ecolab Inc	ECL	300.116	104.300	31,302	0.1933%	1.05%	13.64%	0.0020%	0.0264%
Edison International	EIX	325.811	63.600	20,722	0.1280%	2.23%	5.06%	0.0029%	0.0065%
Edwards Lifesciences Corp	EW	106.974	129.390	13,841	0.0000%	n/a	12.54%	n/a	0.0000%
El du Pont de Nemours & Co	DD	905.947	71.080	64,395	0.3978%	2.64%	7.68%	0.0105%	0.0305%
Electronic Arts Inc	EA	310.936	43.150	13,417	0.0000%	n/a	9.90%	n/a	0.0000%
Eli Lilly & Co	LLY	1,113.430	68.510	76,281	0.4712%	2.86%	9.13%	0.0135%	0.0430%
EMC Corp/MA	EMC	2,034.909	30.290	61,637	0.3807%	1.52%	11.00%	0.0058%	0.0419%
Emerson Electric Co	EMR	693.635	62.810	43,567	0.2691%	2.99%	9.19%	0.0081%	0.0247%
Ensco PLC	ESV	234.258	33.870	7,934	0.0490%	8.86%	2.27%	0.0043%	0.0011%
Entergy Corp	ETR	180.481	83.830	15,130	0.0935%	3.96%	3.10%	0.0037%	0.0029%
EOG Resources Inc	EOG	548.009	87.240	47,808	0.2953%	0.77%	12.82%	0.0023%	0.0378%
EQT Corp	EQT	151.506	91.480	13,860	0.0856%	0.13%	30.00%	0.0001%	0.0257%
Equifax Inc	EFX	120.587	79.400	9,575	0.0591%	1.26%	11.90%	0.0007%	0.0070%
Equity Residential	EQR	362.363	70.640	25,597	0.1581%	2.83%	6.80%	0.0045%	0.0107%
Essex Property Trust Inc	ESS	63.942	201.530	12,886	0.0796%	2.58%	6.16%	0.0021%	0.0049%
Estee Lauder Cos Inc/The	EL	231.418	73.740	17,065	0.1054%	1.30%	11.26%	0.0014%	0.0119%
Exelon Corp	EXC	859.465	36.240	31,147	0.1924%	3.42%	5.00%	0.0066%	0.0096%
Expedia Inc	EXPE	113.748	86.490	9,838	0.0608%	0.83%	18.28%	0.0005%	0.0111%
Expeditors International of Washington Inc	EXPD	193.031	45.420	8,767	0.0542%	1.41%	7.54%	0.0008%	0.0041%
Express Scripts Holding Co	ESRX	733.910	83.650	61,392	0.0000%	n/a	13.50%	n/a	0.0000%
Exxon Mobil Corp	XOM	4,234.529	92.350	391,059	2.4155%	2.99%	13.28%	0.0722%	0.3208%
F5 Networks Inc	FFIV	73.783	128.070	9,449	0.0000%	n/a	16.95%	n/a	0.0000%
Facebook Inc	FB	2,223.936	75.100	167,018	0.0000%	n/a	36.91%	n/a	0.0000%
Family Dollar Stores Inc	FDO	114.351	79.420	9,082	0.0561%	1.56%	4.13%	0.0009%	0.0023%
Fastenal Co	FAST	296.441	44.420	13,168	0.0813%	2.25%	16.47%	0.0018%	0.0134%
FedEx Corp	FDX	283.246	177.700	50,333	0.3109%	0.45%	14.80%	0.0014%	0.0460%
Fidelity National Information Services Inc	FIS	283.751	61.430	17,431	0.1077%	1.56%	12.00%	0.0017%	0.0129%
Fifth Third Bancorp	FITB	824.007	19.750	16,274	0.1005%	2.63%	8.15%	0.0026%	0.0082%
First Solar Inc	FSLR	100.211	45.760	4,586	0.0000%	n/a	-2.83%	n/a	0.0000%
FirstEnergy Corp	FE	420.793	37.040	15,586	0.0963%	3.89%	1.82%	0.0037%	0.0017%
Fiserv Inc	FISV	243.966	71.210	17,373	0.0000%	n/a	11.75%	n/a	0.0000%
FLIR Systems Inc	FLIR	140.892	30.965	4,363	0.0269%	1.29%	14.33%	0.0003%	0.0039%
Flowserve Corp	FLS	136.308	58.890	8,027	0.0496%	1.09%	12.38%	0.0005%	0.0061%
Fluor Corp	FLR	156.221	60.250	9,412	0.0581%	1.39%	10.40%	0.0008%	0.0060%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

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S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
FMC Corp	FMC	133.267	53.750	7,163	0.0442%	1.12%	9.00%	0.0005%	0.0040%
FMC Technologies Inc	FTI	233.846	47.620	11,136	0.0000%	n/a	18.15%	n/a	0.0000%
Ford Motor Co	F	3,777.835	15.770	59,576	0.3680%	3.17%	9.31%	0.0117%	0.0342%
Fossil Group Inc	FOSL	51.084	109.970	5,618	0.0000%	n/a	14.18%	n/a	0.0000%
Franklin Resources Inc	BEN	622.372	57.060	35,513	0.2194%	0.84%	12.44%	0.0018%	0.0273%
Freeport-McMoRan Inc	FCX	1,039.000	26.200	27,222	0.1681%	4.77%	9.34%	0.0080%	0.0157%
Frontier Communications Corp	FTR	1,002.081	6.950	6,964	0.0430%	5.76%	3.00%	0.0025%	0.0013%
GameStop Corp	GME	112.667	35.830	4,037	0.0249%	3.68%	14.27%	0.0009%	0.0036%
Gannett Co Inc	GCI	225.831	32.650	7,373	0.0455%	2.45%	12.10%	0.0011%	0.0055%
Gap Inc/The	GPS	434.866	39.430	17,147	0.1059%	2.23%	11.73%	0.0024%	0.0124%
Garmin Ltd	GRMN	191.227	56.240	10,755	0.0664%	3.41%	8.22%	0.0023%	0.0055%
General Dynamics Corp	GD	331.390	143.760	47,641	0.2943%	1.73%	7.94%	0.0051%	0.0234%
General Electric Co	GE	10,042.192	26.020	261,298	1.6140%	3.38%	8.92%	0.0546%	0.1440%
General Growth Properties Inc	GGP	884.107	26.840	23,729	0.1466%	2.53%	6.22%	0.0037%	0.0091%
General Mills Inc	GIS	603.748	52.630	31,775	0.1963%	3.12%	7.02%	0.0061%	0.0138%
General Motors Co	GM	1,606.696	32.940	52,925	0.3269%	3.64%	10.55%	0.0119%	0.0345%
Genuine Parts Co	GPC	153.089	101.760	15,578	0.0962%	2.26%	7.18%	0.0022%	0.0069%
Genworth Financial Inc	GNW	496.660	9.190	4,564	0.0000%	n/a	5.00%	n/a	0.0000%
Gilead Sciences Inc	GILD	1,508.664	100.550	151,696	0.0000%	n/a	24.58%	n/a	0.0000%
Goldman Sachs Group Inc/The	GS	435.546	188.200	81,970	0.5063%	1.28%	17.53%	0.0065%	0.0888%
Goodyear Tire & Rubber Co/The	GT	274.563	26.910	7,388	0.0456%	0.89%	7.00%	0.0004%	0.0032%
Google Inc	GOOGL	284.816	539.650	153,701	0.0000%	n/a	18.02%	n/a	0.0000%
Google Inc	GOOG	339.339	533.800	181,139	0.0000%	n/a	18.02%	n/a	0.0000%
H&R Block Inc	HRB	275.088	33.480	9,210	0.0569%	2.39%	11.00%	0.0014%	0.0063%
Halliburton Co	HAL	847.460	41.210	34,924	0.2157%	1.75%	17.25%	0.0038%	0.0372%
Harley-Davidson Inc	HOG	214.268	68.740	14,729	0.0910%	1.60%	11.73%	0.0015%	0.0107%
Harman International Industries Inc	HAR	68.516	107.060	7,335	0.0453%	1.23%	16.95%	0.0006%	0.0077%
Harris Corp	HRS	104.592	71.720	7,501	0.0000%	2.62%	n/a	0.0000%	n/a
Hartford Financial Services Group Inc/The	HIG	431.481	41.010	17,695	0.1093%	1.76%	9.50%	0.0019%	0.0104%
Hasbro Inc	HAS	125.682	57.460	7,222	0.0446%	2.99%	11.20%	0.0013%	0.0050%
HCP Inc	HCP	459.263	45.420	20,860	0.1288%	4.80%	3.01%	0.0062%	0.0039%
Health Care REIT Inc	HCN	327.674	74.510	24,415	0.1508%	4.43%	5.68%	0.0067%	0.0086%
Helmerich & Payne Inc	HP	108.256	69.070	7,477	0.0462%	3.98%	12.30%	0.0018%	0.0057%
Hershey Co/The	HSY	160.250	100.200	16,057	0.0992%	2.14%	9.64%	0.0021%	0.0096%
Hess Corp	HES	298.969	73.970	22,115	0.1366%	1.35%	6.00%	0.0018%	0.0082%
Hewlett-Packard Co	HPQ	1,866.275	38.560	71,964	0.4445%	1.66%	5.65%	0.0074%	0.0251%
Home Depot Inc/The	HD	1,317.827	98.880	130,307	0.8049%	1.90%	15.42%	0.0153%	0.1241%
Honeywell International Inc	HON	782.810	97.400	76,246	0.4710%	2.13%	10.05%	0.0100%	0.0473%
Hormel Foods Corp	HRL	263.457	52.840	13,921	0.0860%	1.89%	8.10%	0.0016%	0.0070%
Hospira Inc	HSP	169.202	59.940	10,142	0.0000%	n/a	12.70%	n/a	0.0000%
Host Hotels & Resorts Inc	HST	757.319	23.160	17,540	0.1083%	3.45%	6.00%	0.0037%	0.0065%
Hudson City Bancorp Inc	HCBK	528.765	9.650	5,103	0.0000%	1.66%	n/a	0.0000%	n/a
Humana Inc	HUM	153.335	139.080	21,326	0.1317%	0.81%	9.62%	0.0011%	0.0127%
Huntington Bancshares Inc/OH	HBAN	814.454	9.980	8,128	0.0502%	2.40%	5.70%	0.0012%	0.0029%
Illinois Tool Works Inc	ITW	390.934	94.310	36,869	0.2277%	2.06%	11.78%	0.0047%	0.0268%
Ingersoll-Rand PLC	IR	265.472	62.120	16,491	0.1019%	1.61%	13.21%	0.0016%	0.0135%
Integrys Energy Group Inc	TEG	79.963	73.570	5,883	0.0363%	3.70%	5.00%	0.0013%	0.0018%
Intel Corp	INTC	4,835.000	37.170	179,717	1.1101%	2.58%	8.34%	0.0287%	0.0926%

Montana-Dakota Utilities Co.

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Intercontinental Exchange Inc	ICE	112.707	223.820	25,226	0.1558%	1.16%	15.78%	0.0018%	0.0246%
International Business Machines Corp	IBM	989.660	161.540	159,870	0.9875%	2.72%	8.80%	0.0269%	0.0869%
International Flavors & Fragrances Inc	IFF	80.972	101.460	8,215	0.0507%	1.85%	10.63%	0.0009%	0.0054%
International Paper Co	IP	423.614	52.950	22,430	0.1385%	3.02%	8.40%	0.0042%	0.0116%
Interpublic Group of Cos Inc/The	IPG	418.229	20.250	8,469	0.0523%	1.88%	9.97%	0.0010%	0.0052%
Intuit Inc	INTU	285.496	94.120	26,871	0.1660%	1.06%	14.87%	0.0018%	0.0247%
Intuitive Surgical Inc	ISRG	36.252	513.730	18,624	0.0000%	n/a	8.90%	n/a	0.0000%
Invesco Ltd	IVZ	430.828	40.290	17,358	0.1072%	2.48%	13.26%	0.0027%	0.0142%
Iron Mountain Inc	IRM	193.704	38.830	7,522	0.0465%	4.89%	11.00%	0.0023%	0.0051%
Jacobs Engineering Group Inc	JEC	130.553	45.970	6,002	0.0000%	n/a	10.52%	n/a	0.0000%
JM Smucker Co/The	SJM	101.817	102.780	10,465	0.0646%	2.49%	5.10%	0.0016%	0.0033%
Johnson & Johnson	JNJ	2,799.110	108.030	302,388	1.8678%	2.59%	6.89%	0.0484%	0.1287%
Johnson Controls Inc	JCI	666.189	49.180	32,763	0.2024%	2.11%	12.86%	0.0043%	0.0260%
Joy Global Inc	JOY	98.176	50.290	4,937	0.0305%	1.59%	9.65%	0.0005%	0.0029%
JPMorgan Chase & Co	JPM	3,738.189	60.000	224,291	1.3854%	2.67%	5.95%	0.0369%	0.0824%
Juniper Networks Inc	JNPR	432.569	21.760	9,413	0.0581%	1.84%	10.02%	0.0011%	0.0058%
Kansas City Southern	KSU	110.360	115.470	12,743	0.0787%	0.97%	19.42%	0.0008%	0.0153%
Kellogg Co	K	355.034	66.090	23,464	0.1449%	2.97%	6.10%	0.0043%	0.0088%
Keurig Green Mountain Inc	GMCR	162.010	139.010	22,521	0.1391%	0.83%	15.83%	0.0012%	0.0220%
KeyCorp	KEY	866.325	13.180	11,418	0.0705%	1.97%	6.98%	0.0014%	0.0049%
Kimberly-Clark Corp	KMB	372.455	115.910	43,171	0.2667%	2.90%	7.49%	0.0077%	0.0200%
Kimco Realty Corp	KIM	411.425	25.640	10,549	0.0652%	3.74%	3.99%	0.0024%	0.0026%
Kinder Morgan Inc/DE	KMI	1,028.230	40.940	42,096	0.2600%	4.30%	9.00%	0.0112%	0.0234%
KLA-Tencor Corp	KLAC	164.477	68.860	11,326	0.0700%	2.90%	4.53%	0.0020%	0.0032%
Kohl's Corp	KSS	204.668	57.530	11,775	0.0727%	2.71%	6.65%	0.0020%	0.0048%
Kraft Foods Group Inc	KRFT	588.824	59.920	35,282	0.2179%	3.67%	7.39%	0.0080%	0.0161%
Kroger Co/The	KR	491.091	59.820	29,377	0.1815%	1.24%	11.07%	0.0022%	0.0201%
L Brands Inc	LB	292.351	80.790	23,619	0.1459%	1.68%	12.07%	0.0025%	0.0176%
L-3 Communications Holdings Inc	LLL	85.133	123.900	10,548	0.0652%	1.94%	5.39%	0.0013%	0.0035%
Laboratory Corp of America Holdings	LH	84.500	104.040	8,791	0.0000%	n/a	10.07%	n/a	0.0000%
Lam Research Corp	LRCX	158.960	81.710	12,989	0.0802%	0.88%	5.24%	0.0007%	0.0042%
Legg Mason Inc	LM	114.110	56.040	6,395	0.0395%	1.14%	17.32%	0.0005%	0.0068%
Leggett & Platt Inc	LEG	137.625	41.690	5,738	0.0000%	2.97%	n/a	0.0000%	n/a
Lennar Corp	LEN	173.942	46.270	8,048	0.0497%	0.35%	16.50%	0.0002%	0.0082%
Leucadia National Corp	LUK	368.429	22.600	8,326	0.0000%	1.11%	n/a	0.0000%	n/a
Level 3 Communications Inc	LVLT	335.961	48.730	16,371	0.0000%	n/a	30.94%	n/a	0.0000%
Lincoln National Corp	LNC	259.790	55.610	14,447	0.0892%	1.44%	11.52%	0.0013%	0.0103%
Linear Technology Corp	LLTC	238.532	45.450	10,841	0.0670%	2.38%	9.51%	0.0016%	0.0064%
Lockheed Martin Corp	LMT	315.925	191.100	60,373	0.3729%	3.14%	8.38%	0.0117%	0.0313%
Loews Corp	L	374.144	41.230	15,426	0.0000%	0.61%	n/a	0.0000%	n/a
Lorillard Inc	LO	360.020	63.250	22,771	0.1407%	3.89%	9.26%	0.0055%	0.0130%
Lowe's Cos Inc	LOW	987.110	63.160	62,346	0.3851%	1.46%	16.34%	0.0056%	0.0629%
LyondellBasell Industries NV	LYB	500.668	76.810	38,456	0.2375%	3.65%	6.50%	0.0087%	0.0154%
M&T Bank Corp	MTB	132.112	124.200	16,408	0.1014%	2.25%	5.45%	0.0023%	0.0055%
Macerich Co/The	MAC	140.716	79.000	11,117	0.0687%	3.29%	4.36%	0.0023%	0.0030%
Macy's Inc	M	353.127	63.190	22,314	0.1378%	1.98%	9.58%	0.0027%	0.0132%
Mallinckrodt PLC	MNK	116.279	88.220	10,258	0.0000%	n/a	23.99%	n/a	0.0000%
Marathon Oil Corp	MRO	674.897	28.990	19,565	0.1208%	2.90%	10.84%	0.0035%	0.0131%

Montana-Dakota Utilities Co.

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Marathon Petroleum Corp	MPC	280.193	90.790	25,439	0.1571%	2.20%	12.60%	0.0035%	0.0198%
Marriott International Inc/DE	MAR	283.361	77.450	21,946	0.1356%	1.03%	10.63%	0.0014%	0.0144%
Marsh & McLennan Cos Inc	MMC	540.899	56.480	30,550	0.1887%	1.98%	12.70%	0.0037%	0.0240%
Martin Marietta Materials Inc	MLM	67.270	115.670	7,781	0.0481%	1.38%	19.34%	0.0007%	0.0093%
Masco Corp	MAS	356.260	23.940	8,529	0.0527%	1.50%	11.23%	0.0008%	0.0059%
MasterCard Inc	MA	1,112.920	87.460	97,336	0.6012%	0.50%	17.07%	0.0030%	0.1026%
Mattel Inc	MAT	338.827	30.570	10,358	0.0640%	4.97%	7.50%	0.0032%	0.0048%
McCormick & Co Inc/MD	MKC	117.110	73.910	8,656	0.0535%	2.16%	7.60%	0.0012%	0.0041%
McDonald's Corp	MCD	973.204	95.780	93,213	0.5758%	3.55%	7.49%	0.0204%	0.0431%
McGraw Hill Financial Inc	MHFI	271.500	92.920	25,228	0.1558%	1.29%	12.50%	0.0020%	0.0195%
McKesson Corp	MCK	231.882	208.800	48,417	0.2991%	0.46%	15.10%	0.0014%	0.0452%
Mead Johnson Nutrition Co	MJN	202.030	103.920	20,995	0.1297%	1.44%	10.38%	0.0019%	0.0135%
MeadWestvaco Corp	MWV	166.717	44.310	7,387	0.0456%	2.26%	8.10%	0.0010%	0.0037%
Medtronic Inc	MDT	984.317	73.870	72,711	0.4491%	1.65%	7.78%	0.0074%	0.0349%
Merck & Co Inc	MRK	2,850.873	60.520	172,535	1.0657%	2.97%	6.60%	0.0317%	0.0703%
MetLife Inc	MET	1,136.042	54.400	61,801	0.3817%	2.57%	11.14%	0.0098%	0.0425%
Michael Kors Holdings Ltd	KORS	205.911	73.320	15,097	0.0000%	n/a	21.53%	n/a	0.0000%
Microchip Technology Inc	MCHP	200.966	44.730	8,989	0.0555%	3.19%	10.70%	0.0018%	0.0059%
Micron Technology Inc	MU	1,073.455	34.990	37,560	0.0000%	n/a	12.54%	n/a	0.0000%
Microsoft Corp	MSFT	8,242.853	48.620	400,768	2.4754%	2.55%	9.22%	0.0631%	0.2281%
Mohawk Industries Inc	MHK	72.897	151.990	11,080	0.0000%	n/a	9.35%	n/a	0.0000%
Molson Coors Brewing Co	TAP	161.684	75.850	12,264	0.0758%	1.95%	4.62%	0.0015%	0.0035%
Mondelez International Inc	MDLZ	1,679.923	38.980	65,483	0.4045%	1.54%	9.80%	0.0062%	0.0396%
Monsanto Co	MON	484.073	118.850	57,532	0.3554%	1.65%	10.78%	0.0059%	0.0383%
Monster Beverage Corp	MNST	167.638	111.300	18,658	0.0000%	n/a	24.20%	n/a	0.0000%
Moody's Corp	MCO	208.600	99.670	20,791	0.1284%	1.12%	13.50%	0.0014%	0.0173%
Morgan Stanley	MS	1,957.403	35.100	68,705	0.4244%	1.14%	27.53%	0.0048%	0.1168%
Mosaic Co/The	MOS	336.965	44.720	15,069	0.0931%	2.24%	10.60%	0.0021%	0.0099%
Motorola Solutions Inc	MSI	240.722	65.440	15,753	0.0973%	2.08%	4.43%	0.0020%	0.0043%
Murphy Oil Corp	MUR	177.495	49.030	8,703	0.0538%	2.86%	7.37%	0.0015%	0.0040%
Mylan Inc/PA	MYL	374.274	57.790	21,629	0.0000%	n/a	13.15%	n/a	0.0000%
Nabors Industries Ltd	NBR	289.439	12.910	3,737	0.0231%	1.86%	37.42%	0.0004%	0.0086%
NASDAQ OMX Group Inc/The	NDAQ	167.665	44.270	7,423	0.0458%	1.36%	9.91%	0.0006%	0.0045%
National Oilwell Varco Inc	NOV	430.574	66.460	28,616	0.1768%	2.77%	9.36%	0.0049%	0.0165%
Navient Corp	NAVI	410.219	20.910	8,578	0.0000%	2.87%	n/a	0.0000%	n/a
NetApp Inc	NTAP	311.693	41.980	13,085	0.0808%	1.57%	12.80%	0.0013%	0.0103%
Netflix Inc	NFLX	60.246	341.810	20,593	0.0000%	n/a	30.80%	n/a	0.0000%
Newell Rubbermaid Inc	NWL	271.100	36.020	9,765	0.0603%	1.89%	9.98%	0.0011%	0.0060%
Newfield Exploration Co	NFX	137.229	26.110	3,583	0.0000%	n/a	11.00%	n/a	0.0000%
Newmont Mining Corp	NEM	498.796	19.660	9,806	0.0000%	0.51%	-2.00%	0.0000%	0.0000%
News Corp	NWSA	380.446	15.560	5,920	0.0000%	n/a	8.30%	n/a	0.0000%
NextEra Energy Inc	NEE	436.482	104.810	45,748	0.2826%	2.77%	6.21%	0.0078%	0.0175%
Nielsen NV	NLSN	381.074	42.260	16,104	0.0995%	2.37%	16.17%	0.0024%	0.0161%
NIKE Inc	NKE	683.951	97.690	66,815	0.4127%	1.15%	13.00%	0.0047%	0.0537%
NiSource Inc	NI	315.700	41.510	13,105	0.0809%	2.51%	4.08%	0.0020%	0.0033%
Noble Corp plc	NE	252.259	17.900	4,515	0.0279%	8.38%	1.80%	0.0023%	0.0005%
Noble Energy Inc	NBL	361.857	49.700	17,984	0.1111%	1.45%	11.15%	0.0016%	0.0124%
Nordstrom Inc	JWN	192.611	75.650	14,571	0.0900%	1.74%	9.89%	0.0016%	0.0089%

Montana-Dakota Utilities Co.

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Norfolk Southern Corp	NSC	309.442	106.360	32,912	0.2033%	2.14%	12.93%	0.0044%	0.0263%
Northeast Utilities	NU	316.799	50.690	16,059	0.0992%	3.10%	6.50%	0.0031%	0.0064%
Northern Trust Corp	NTRS	235.505	66.780	15,727	0.0971%	1.98%	9.27%	0.0019%	0.0090%
Northrop Grumman Corp	NOC	201.999	138.760	28,029	0.1731%	2.02%	6.22%	0.0035%	0.0108%
NRG Energy Inc	NRG	338.109	30.860	10,434	0.0644%	1.81%	39.14%	0.0012%	0.0252%
Nucor Corp	NUE	319.000	53.280	16,996	0.1050%	2.78%	7.33%	0.0029%	0.0077%
NVIDIA Corp	NVDA	543.537	20.580	11,186	0.0691%	1.65%	10.59%	0.0011%	0.0073%
O'Reilly Automotive Inc	ORLY	101.445	181.520	18,414	0.0000%	n/a	19.19%	n/a	0.0000%
Occidental Petroleum Corp	OXY	775.428	79.450	61,608	0.3805%	3.62%	8.00%	0.0138%	0.0304%
Omnicom Group Inc	OMC	248.180	77.210	19,162	0.1184%	2.59%	7.85%	0.0031%	0.0093%
ONEOK Inc	OKE	208.198	51.950	10,816	0.0668%	4.54%	13.55%	0.0030%	0.0091%
Oracle Corp	ORCL	4,431.304	42.080	186,469	1.1518%	1.14%	9.67%	0.0131%	0.1113%
Owens-Illinois Inc	OI	164.910	25.650	4,230	0.0000%	n/a	4.22%	n/a	0.0000%
PACCAR Inc	PCAR	354.104	67.490	23,898	0.1476%	1.30%	9.30%	0.0019%	0.0137%
Pall Corp	PLL	106.835	95.960	10,252	0.0633%	1.27%	11.56%	0.0008%	0.0073%
Parker-Hannifin Corp	PH	148.645	127.660	18,976	0.1172%	1.97%	9.19%	0.0023%	0.0108%
Patterson Cos Inc	PDCO	104.260	47.960	5,000	0.0309%	1.67%	11.33%	0.0005%	0.0035%
Paychex Inc	PAYX	362.828	47.300	17,162	0.1060%	3.21%	9.90%	0.0034%	0.0105%
Pentair PLC	PNR	186.794	62.750	11,721	0.0724%	1.91%	14.35%	0.0014%	0.0104%
People's United Financial Inc	PBCT	307.970	14.680	4,521	0.0279%	4.50%	11.57%	0.0013%	0.0032%
Pepco Holdings Inc	POM	251.907	27.470	6,920	0.0427%	3.93%	6.96%	0.0017%	0.0030%
PepsiCo Inc	PEP	1,496.606	99.670	149,167	0.9214%	2.63%	7.83%	0.0242%	0.0722%
PerkinElmer Inc	PKI	112.963	45.380	5,126	0.0317%	0.62%	11.81%	0.0002%	0.0037%
Perrigo Co PLC	PRGO	140.777	158.190	22,270	0.1376%	0.27%	12.15%	0.0004%	0.0167%
PetSmart Inc	PETM	99.411	78.610	7,815	0.0483%	0.99%	13.91%	0.0005%	0.0067%
Pfizer Inc	PFE	6,300.657	31.260	196,959	1.2166%	3.33%	2.30%	0.0405%	0.0280%
PG&E Corp	PCG	475.088	50.620	24,049	0.1485%	3.60%	7.00%	0.0053%	0.0104%
Philip Morris International Inc	PM	1,553.715	86.500	134,396	0.8301%	4.62%	6.50%	0.0384%	0.0540%
Phillips 66	PSX	553.513	71.860	39,775	0.2457%	2.78%	7.73%	0.0068%	0.0190%
Pinnacle West Capital Corp	PNW	110.450	63.600	7,025	0.0434%	3.74%	4.64%	0.0016%	0.0020%
Pioneer Natural Resources Co	PXD	148.898	144.840	21,566	0.1332%	0.06%	18.00%	0.0001%	0.0240%
Pitney Bowes Inc	PBI	200.990	24.060	4,836	0.0000%	3.12%	n/a	0.0000%	n/a
Plum Creek Timber Co Inc	PCL	175.892	41.600	7,317	0.0452%	4.23%	6.60%	0.0019%	0.0030%
PNC Financial Services Group Inc/The	PNC	526.210	86.590	45,565	0.2814%	2.22%	5.21%	0.0062%	0.0147%
PPG Industries Inc	PPG	137.235	219.870	30,174	0.1864%	1.22%	8.13%	0.0023%	0.0151%
PPL Corp	PPL	665.072	35.600	23,677	0.1462%	4.19%	4.40%	0.0061%	0.0064%
Praxair Inc	PX	291.373	127.560	37,168	0.2296%	2.04%	9.45%	0.0047%	0.0217%
Precision Castparts Corp	PCP	142.533	235.970	33,634	0.2077%	0.05%	10.10%	0.0001%	0.0210%
Priceline Group Inc/The	PCLN	52.356	1,153.200	60,377	0.0000%	n/a	22.80%	n/a	0.0000%
Principal Financial Group Inc	PFG	293.667	52.660	15,465	0.0955%	2.58%	13.50%	0.0025%	0.0129%
Procter & Gamble Co/The	PG	2,702.119	90.080	243,407	1.5035%	2.86%	8.53%	0.0430%	0.1282%
Progressive Corp/The	PGR	589.207	27.100	15,968	0.0986%	1.82%	8.25%	0.0018%	0.0081%
Prologis Inc	PLD	499.989	42.310	21,155	0.1307%	3.12%	7.00%	0.0041%	0.0091%
Prudential Financial Inc	PRU	456.000	83.710	38,172	0.2358%	2.77%	10.67%	0.0065%	0.0252%
Public Service Enterprise Group Inc	PEG	506.044	41.630	21,067	0.1301%	3.56%	3.56%	0.0046%	0.0046%
Public Storage	PSA	172.726	186.260	32,172	0.1987%	3.01%	4.41%	0.0060%	0.0088%
PulteGroup Inc	PHM	370.768	21.680	8,038	0.0497%	1.48%	6.92%	0.0007%	0.0034%
PVH Corp	PVH	82.393	122.090	10,059	0.0621%	0.12%	10.05%	0.0001%	0.0062%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1] Dividend Yield	[2] Dividend Yield x (1 + 0.625g)	[3] Expected Growth Rate (g)	[4] Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
QEP Resources Inc	QEP	180.149	21.090	3,799	0.0235%	0.38%	15.00%	0.0001%	0.0035%
QUALCOMM Inc	QCOM	1,662.601	71.790	119,358	0.7372%	2.34%	13.37%	0.0173%	0.0985%
Quanta Services Inc	PWR	212.464	28.500	6,055	0.0000%	n/a	10.58%	n/a	0.0000%
Quest Diagnostics Inc	DGX	144.534	64.680	9,348	0.0577%	2.04%	8.87%	0.0012%	0.0051%
Ralph Lauren Corp	RL	61.424	181.280	11,135	0.0688%	0.99%	12.58%	0.0007%	0.0086%
Range Resources Corp	RRC	168.701	65.350	11,025	0.0681%	0.24%	29.65%	0.0002%	0.0202%
Raytheon Co	RTN	308.368	106.280	32,773	0.2024%	2.28%	8.00%	0.0046%	0.0162%
Red Hat Inc	RHT	187.822	61.510	11,553	0.0000%	n/a	16.72%	n/a	0.0000%
Regeneron Pharmaceuticals Inc	REGN	99.692	408.720	40,746	0.0000%	n/a	18.91%	n/a	0.0000%
Regions Financial Corp	RF	1,376.475	9.770	13,448	0.0831%	2.05%	4.45%	0.0017%	0.0037%
Republic Services Inc	RSG	355.539	39.240	13,951	0.0862%	2.85%	4.35%	0.0025%	0.0037%
Reynolds American Inc	RAI	531.284	65.650	34,879	0.2154%	4.08%	6.85%	0.0088%	0.0148%
Robert Half International Inc	RHI	135.958	55.830	7,591	0.0469%	1.29%	16.49%	0.0006%	0.0077%
Rockwell Automation Inc	ROK	135.771	111.620	15,155	0.0936%	2.33%	10.35%	0.0022%	0.0097%
Rockwell Collins Inc	COL	132.946	84.880	11,284	0.0697%	1.41%	9.96%	0.0010%	0.0069%
Roper Industries Inc	ROP	100.158	155.790	15,604	0.0964%	0.51%	12.13%	0.0005%	0.0117%
Ross Stores Inc	ROST	209.832	90.160	18,918	0.1169%	0.89%	11.28%	0.0010%	0.0132%
Ryder System Inc	R	53.040	91.980	4,879	0.0301%	1.61%	13.20%	0.0005%	0.0040%
Safeway Inc	SWY	230.500	34.790	8,019	0.0495%	2.64%	9.33%	0.0013%	0.0046%
salesforce.com inc	CRM	631.000	59.080	37,279	0.0000%	n/a	22.26%	n/a	0.0000%
SanDisk Corp	SNDK	220.649	102.860	22,696	0.1402%	1.17%	12.10%	0.0016%	0.0170%
SCANA Corp	SCG	142.550	57.410	8,184	0.0505%	3.66%	6.25%	0.0018%	0.0032%
Schlumberger Ltd	SLB	1,286.794	84.840	109,172	0.6743%	1.89%	14.36%	0.0127%	0.0968%
Scripps Networks Interactive Inc	SNI	102.795	77.910	8,009	0.0495%	1.03%	11.80%	0.0005%	0.0058%
Seagate Technology PLC	STX	327.239	65.945	21,580	0.1333%	3.28%	9.00%	0.0044%	0.0120%
Sealed Air Corp	SEE	211.158	38.610	8,153	0.0504%	1.35%	12.27%	0.0007%	0.0062%
Sempra Energy	SRE	246.218	109.270	26,904	0.1662%	2.42%	7.65%	0.0040%	0.0127%
Sherwin-Williams Co/The	SHW	95.998	243.070	23,334	0.1441%	0.91%	10.00%	0.0013%	0.0144%
Sigma-Aldrich Corp	SIAL	119.085	136.110	16,209	0.1001%	0.68%	8.50%	0.0007%	0.0085%
Simon Property Group Inc	SPG	314.315	180.380	56,696	0.3502%	2.88%	5.46%	0.0101%	0.0191%
Snap-on Inc	SNA	58.108	133.470	7,756	0.0479%	1.59%	4.40%	0.0008%	0.0021%
Southern Co/The	SO	899.813	47.690	42,912	0.2651%	4.40%	4.10%	0.0117%	0.0109%
Southwest Airlines Co	LUV	678.744	40.500	27,489	0.1698%	0.59%	20.37%	0.0010%	0.0346%
Southwestern Energy Co	SWN	353.115	31.200	11,017	0.0000%	n/a	17.13%	n/a	0.0000%
Spectra Energy Corp	SE	671.000	37.040	24,854	0.1535%	4.00%	8.30%	0.0061%	0.0127%
St Jude Medical Inc	STJ	285.913	67.330	19,251	0.1189%	1.60%	11.61%	0.0019%	0.0138%
Stanley Black & Decker Inc	SWK	156.652	93.550	14,655	0.0905%	2.22%	10.33%	0.0020%	0.0094%
Staples Inc	SPLS	639.802	13.890	8,887	0.0549%	3.46%	2.32%	0.0019%	0.0013%
Starbucks Corp	SBUX	748.300	80.850	60,500	0.3737%	1.58%	18.06%	0.0059%	0.0675%
Starwood Hotels & Resorts Worldwide Inc	HOT	178.575	77.400	13,822	0.0854%	1.81%	9.63%	0.0015%	0.0082%
State Street Corp	STT	417.495	76.020	31,738	0.1960%	1.58%	9.80%	0.0031%	0.0192%
Stericycle Inc	SRCL	84.924	129.610	11,007	0.0000%	n/a	14.92%	n/a	0.0000%
Stryker Corp	SYK	378.321	92.960	35,169	0.2172%	1.31%	10.43%	0.0029%	0.0227%
SunTrust Banks Inc	STI	521.456	38.850	20,259	0.1251%	2.06%	8.16%	0.0026%	0.0102%
Symantec Corp	SYMC	690.147	26.350	18,185	0.1123%	2.28%	7.65%	0.0026%	0.0086%
Sysco Corp	SYY	587.884	40.240	23,656	0.1461%	2.98%	9.84%	0.0044%	0.0144%
T Rowe Price Group Inc	TROW	259.388	82.610	21,428	0.1324%	2.13%	12.36%	0.0028%	0.0164%
Target Corp	TGT	636.964	72.750	46,339	0.2862%	2.86%	11.21%	0.0082%	0.0321%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1]	[2]	[3]	[4]
	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
TE Connectivity Ltd	TEL	406.676	63.580	25,856	0.1597%	1.82%	11.20%	0.0029%	0.0179%
TECO Energy Inc	TE	234.692	19.770	4,640	0.0287%	4.45%	5.77%	0.0013%	0.0017%
Tenet Healthcare Corp	THC	98.280	46.760	4,596	0.0000%	n/a	14.42%	n/a	0.0000%
Teradata Corp	TDC	153.000	44.430	6,798	0.0000%	n/a	10.01%	n/a	0.0000%
Tesoro Corp	TSO	126.245	75.310	9,508	0.0587%	1.59%	18.67%	0.0009%	0.0110%
Texas Instruments Inc	TXN	1,056.300	54.250	57,304	0.3540%	2.51%	10.58%	0.0089%	0.0374%
Textron Inc	TXT	276.049	42.530	11,740	0.0725%	0.19%	17.08%	0.0001%	0.0124%
Thermo Fisher Scientific Inc	TMO	400.025	127.960	51,187	0.3162%	0.47%	11.69%	0.0015%	0.0370%
Tiffany & Co	TIF	129.354	106.800	13,815	0.0853%	1.42%	12.49%	0.0012%	0.0107%
Time Warner Cable Inc	TWC	280.494	148.220	41,575	0.2568%	2.02%	9.16%	0.0052%	0.0235%
Time Warner Inc	TWX	838.486	83.960	70,399	0.4348%	1.51%	11.61%	0.0066%	0.0505%
TJX Cos Inc/The	TJX	692.942	65.230	45,201	0.2792%	1.07%	11.62%	0.0030%	0.0324%
Torchmark Corp	TMK	128.643	53.300	6,857	0.0424%	0.95%	8.05%	0.0004%	0.0034%
Total System Services Inc	TSS	185.898	32.970	6,129	0.0379%	1.21%	11.80%	0.0005%	0.0045%
Tractor Supply Co	TSCO	135.939	76.420	10,388	0.0642%	0.84%	16.53%	0.0005%	0.0106%
Transocean Ltd	RIG	362.242	19.990	7,241	0.0000%	15.01%	-21.00%	0.0000%	0.0000%
Travelers Cos Inc/The	TRV	331.396	104.440	34,611	0.2138%	2.11%	6.44%	0.0045%	0.0138%
TripAdvisor Inc	TRIP	130.124	71.050	9,245	0.0000%	n/a	24.41%	n/a	0.0000%
Twenty-First Century Fox Inc	FOXA	1,357.602	37.280	50,611	0.3126%	0.67%	15.05%	0.0021%	0.0470%
Tyco International Plc	TYC	418.466	42.870	17,940	0.1108%	1.68%	11.50%	0.0019%	0.0127%
Tyson Foods Inc	TSN	305.657	41.310	12,627	0.0780%	0.97%	19.00%	0.0008%	0.0148%
Under Armour Inc	UA	176.022	69.780	12,283	0.0000%	n/a	23.37%	n/a	0.0000%
Union Pacific Corp	UNP	889.099	114.630	101,917	0.6295%	1.74%	13.72%	0.0110%	0.0864%
United Parcel Service Inc	UPS	702.344	109.790	77,110	0.4763%	2.44%	10.71%	0.0116%	0.0510%
United Rentals Inc	URI	99.808	106.370	10,617	0.0000%	n/a	23.71%	n/a	0.0000%
United Technologies Corp	UTX	911.658	109.690	100,000	0.6177%	2.15%	10.77%	0.0133%	0.0665%
UnitedHealth Group Inc	UNH	959.791	99.060	95,077	0.5873%	1.51%	10.49%	0.0089%	0.0616%
Universal Health Services Inc	UHS	91.681	103.880	9,524	0.0588%	0.39%	9.41%	0.0002%	0.0055%
Unum Group	UNM	251.992	32.930	8,298	0.0513%	2.00%	9.00%	0.0010%	0.0046%
Urban Outfitters Inc	URBN	134.336	31.240	4,197	0.0000%	n/a	15.26%	n/a	0.0000%
US Bancorp/MN	USB	1,789.386	43.620	78,053	0.4821%	2.25%	8.25%	0.0108%	0.0398%
Valero Energy Corp	VLO	521.245	48.900	25,489	0.1574%	2.25%	8.07%	0.0035%	0.0127%
Varian Medical Systems Inc	VAR	99.979	88.270	8,825	0.0000%	n/a	9.90%	n/a	0.0000%
Ventas Inc	VTR	294.318	72.420	21,315	0.1317%	4.00%	4.08%	0.0053%	0.0054%
VeriSign Inc	VRSN	121.090	58.710	7,109	0.0000%	n/a	11.00%	n/a	0.0000%
Verizon Communications Inc	VZ	4,149.724	50.030	207,611	1.2824%	4.40%	6.45%	0.0564%	0.0827%
Vertex Pharmaceuticals Inc	VRTX	240.522	116.850	28,105	0.0000%	n/a	22.00%	n/a	0.0000%
VF Corp	VFC	431.872	73.700	31,829	0.1966%	1.74%	13.23%	0.0034%	0.0260%
Viacom Inc	VIAB	359.591	74.160	26,667	0.1647%	1.78%	11.59%	0.0029%	0.0191%
Visa Inc	V	493.202	258.150	127,320	0.7864%	0.74%	17.83%	0.0058%	0.1402%
Vornado Realty Trust	VNO	187.735	112.110	21,047	0.1300%	2.60%	10.86%	0.0034%	0.0141%
Vulcan Materials Co	VMC	131.703	64.500	8,495	0.0525%	0.37%	6.67%	0.0002%	0.0035%
Wal-Mart Stores Inc	WMT	3,223.190	86.220	277,903	1.7165%	2.23%	7.20%	0.0382%	0.1235%
Walgreen Co	WAG	945.496	67.770	64,076	0.3958%	1.99%	14.14%	0.0079%	0.0560%
Walt Disney Co/The	DIS	1,695.711	92.700	157,192	0.9709%	0.93%	10.41%	0.0090%	0.1011%
Waste Management Inc	WM	457.921	48.490	22,205	0.1372%	3.09%	7.25%	0.0042%	0.0099%
Waters Corp	WAT	83.276	115.900	9,652	0.0000%	n/a	9.88%	n/a	0.0000%
WellPoint Inc	WLP	269.941	127.770	34,490	0.2130%	1.37%	9.47%	0.0029%	0.0202%

Montana-Dakota Utilities Co.

Market DCF Calculation as of November 30, 2014

	[1]	[2]	[3]	[4]
	Dividend Yield	Dividend Yield x (1 + 0.625g)	Expected Growth Rate (g)	Secondary Market Investor Required Return
S&P 500	**2.26%**	**2.41%**	**10.31%**	**12.72%**

Company	Ticker	[5] Shares Outstanding (million)	[6] Price	[7] Market Capitalization ($million)	[8] Percent of Total Market Capitalization	[9] Current Dividend Yield	[10] BEst Long-Term Growth Estimate	[11] Market Capitalization-Weighted Dividend Yield	[12] Market Capitalization-Weighted BEst Long-Term Growth Estimate
Wells Fargo & Co	WFC	5,187.624	53.820	279,198	1.7245%	2.60%	12.36%	0.0449%	0.2132%
Western Digital Corp	WDC	232.230	102.150	23,722	0.1465%	1.57%	5.00%	0.0023%	0.0073%
Western Union Co/The	WU	522.627	18.150	9,486	0.0586%	2.75%	8.29%	0.0016%	0.0049%
Weyerhaeuser Co	WY	524.364	35.160	18,437	0.1139%	3.30%	4.00%	0.0038%	0.0046%
Whirlpool Corp	WHR	77.871	185.450	14,441	0.0892%	1.62%	23.47%	0.0014%	0.0209%
Whole Foods Market Inc	WFM	359.747	48.700	17,520	0.1082%	1.07%	13.66%	0.0012%	0.0148%
Williams Cos Inc/The	WMB	747.463	50.140	37,478	0.2315%	4.55%	14.00%	0.0105%	0.0324%
Windstream Holdings Inc	WIN	602.763	10.040	6,052	0.0000%	9.96%	-1.00%	0.0000%	0.0000%
Wisconsin Energy Corp	WEC	225.517	49.680	11,204	0.0692%	3.14%	5.10%	0.0022%	0.0035%
WW Grainger Inc	GWW	68.183	242.460	16,532	0.1021%	1.78%	12.88%	0.0018%	0.0132%
Wyndham Worldwide Corp	WYN	123.263	82.460	10,164	0.0628%	1.70%	10.00%	0.0011%	0.0063%
Wynn Resorts Ltd	WYNN	101.350	174.500	17,686	0.1092%	3.44%	13.95%	0.0038%	0.0152%
Xcel Energy Inc	XEL	505.686	34.270	17,330	0.1070%	3.50%	5.25%	0.0037%	0.0056%
Xerox Corp	XRX	1,141.556	13.830	15,788	0.0975%	1.81%	8.65%	0.0018%	0.0084%
Xilinx Inc	XLNX	264.455	45.290	11,977	0.0740%	2.56%	8.66%	0.0019%	0.0064%
XL Group PLC	XL	258.054	35.370	9,127	0.0564%	1.81%	1.12%	0.0010%	0.0006%
Xylem Inc/NY	XYL	181.875	38.440	6,991	0.0432%	1.33%	11.37%	0.0006%	0.0049%
Yahoo! Inc	YHOO	947.351	50.100	47,462	0.0000%	n/a	1.94%	n/a	0.0000%
Yum! Brands Inc	YUM	437.493	77.380	33,853	0.2091%	2.12%	12.26%	0.0044%	0.0256%
Zimmer Holdings Inc	ZMH	169.354	111.470	18,878	0.1166%	0.79%	9.92%	0.0009%	0.0116%
Zions Bancorporation	ZION	202.932	27.260	5,532	0.0342%	0.59%	10.00%	0.0002%	0.0034%
Zoetis Inc	ZTS	501.325	44.370	22,244	0.1374%	0.65%	11.88%	0.0009%	0.0163%
Average for Companies Paying Dividends with Positive BEst Long-Term Growth Estimates						**2.14%**	**10.40%**		

Notes:
[1] Equals sum of Column [11]
[2] Equals Column [1] x (1 + 0.625 x Column [3])
[3] Equals sum of Column [12]
[4] Equals Column [2] + Column [3]
[5] Source: Bloomberg Finance L.P.
[6] Source: Bloomberg Finance L.P.
[7] Equals Column [5] x Column [6]
[8] Equals percent of sum of Column [7] if Current Dividend Yield does not equal "n/a" and BEst Long-Term Growth Estimate does not equal "n/a" and is greater than 0%
[9] Source: Bloomberg Finance L.P.
[10] Source: Bloomberg Finance L.P.
[11] Equals Column [8] x Column [9]
[12] Equals Column [8] x Column [10]

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Decoupling Mechanisms

Company	Ticker	Utility	State	Decoupling	# of Customers	% of Total Customers
AGL Resources Inc.	GAS	Atlanta Gas Light Company	GA	Y	1,541,000	11.3%
AGL Resources Inc.	GAS	Northern Illinois Gas Company	IL	N	2,188,000	16.0%
AGL Resources Inc.	GAS	Elizabethtown Gas	NJ	N	277,000	2.0%
AGL Resources Inc.	GAS	Florida City Gas	FL	N	104,000	0.8%
AGL Resources Inc.	GAS	Elkton Gas	MD	Y	6,000	0.0%
AGL Resources Inc.	GAS	Chattanooga Gas Company	TN	Y	62,000	0.5%
AGL Resources Inc.	GAS	Virginia Natural Gas, Inc.	VA	Y	281,000	2.1%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	CO	N	111,354	0.8%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	KS	N	129,468	0.9%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	KY	N	170,608	1.3%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	LA	Y	352,766	2.6%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	MS	Y	263,302	1.9%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	TN	Y	134,927	1.0%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	TX	N	1,867,122	13.7%
Atmos Energy Corp.	ATO	Atmos Energy Corp.	VA	N	23,335	0.2%
Laclede Group, Inc.	LG	Laclede Gas Company	MO	Y	642,703	4.7%
New Jersey Resources Corp.	NJR	New Jersey Natural Gas Company	NJ	Y	497,073	3.6%
Northwest Natural Gas Company	NWN	Northwest Natural Gas Company	OR	Y	611,997	4.5%
Northwest Natural Gas Company	NWN	Northwest Natural Gas Company	WA	N	70,730	0.5%
Piedmont Natural Gas Company, Inc.	PNY	Piedmont Natural Gas Company, Inc.	NC	Y	675,088	5.0%
Piedmont Natural Gas Company, Inc.	PNY	Piedmont Natural Gas Company, Inc.	SC	Y	133,548	1.0%
Piedmont Natural Gas Company, Inc.	PNY	Piedmont Natural Gas Company, Inc.	TN	Y	167,617	1.2%
South Jersey Industries, Inc.	SJI	South Jersey Gas Company	NJ	Y	357,306	2.6%
Southwest Gas Corp.	SWX	Southwest Gas Corp.	AZ	Y	1,010,000	7.4%
Southwest Gas Corp.	SWX	Southwest Gas Corp.	CA	Y	185,000	1.4%
Southwest Gas Corp.	SWX	Southwest Gas Corp.	NV	Y	681,000	5.0%
WGL Holdings, Inc.	WGL	WGL Holdings, Inc.	DC	N	154,818	1.1%
WGL Holdings, Inc.	WGL	WGL Holdings, Inc.	MD	Y	443,201	3.2%
WGL Holdings, Inc.	WGL	WGL Holdings, Inc.	VA	Y	496,090	3.6%
Total Number of Customers					**13,638,053**	
Percent with Decoupling						**62.6%**

Montana-Dakota Utilities Co.

Selected Natural Gas Distribution Companies
Capital Structures as of September 30, 2014
$ millions

Company	Ticker	Short-Term Debt	%	Long-Term Debt	%	Preferred Stock	%	Common Equity	%	Total Capital	
AGL Resources Inc.	GAS	$ 681.0	8.46%	$ 3,805.0	47.24%	$ -	0.00%	3,568.0	44.30%	$ 8,054.0	1/
Atmos Energy Corporation	ATO	196.7	3.43%	2,456.5	42.80%	-	0.00%	3,086.2	53.77%	5,739.4	1/
Laclede Group, Inc.	LG	287.1	7.87%	1,851.1	50.76%	-	0.00%	1,508.4	41.36%	3,646.6	1/
New Jersey Resources Corporation	NJR	301.0	15.84%	632.7	33.30%	-	0.00%	966.2	50.85%	1,899.9	1/
Northwest Natural Gas Company	NWN	190.0	11.85%	661.7	41.26%	-	0.00%	751.9	46.89%	1,603.6	1/
Piedmont Natural Gas Company, Inc	PNY	490.0	17.17%	1,174.9	41.17%	-	0.00%	1,188.6	41.65%	2,853.5	2/
South Jersey Industries, Inc.	SJI	149.4	7.52%	1,009.4	50.83%	-	0.00%	827.0	41.65%	1,985.8	1/
Southwest Gas Corporation	SWX	-	0.00%	1,449.0	50.60%	-	0.00%	1,414.5	49.40%	2,863.5	1/
WGL Holdings, Inc.	WGL	453.5	18.90%	699.2	29.14%	-	0.00%	1,246.6	51.96%	2,399.3	1/
Median			**8.46%**		**42.80%**		**0.00%**		**46.89%**		
Montana-Dakota Utilities Co.											
- North Dakota Natural Gas Dist. Operations		99.6	8.11%	505.5	41.14%	15.3	1.24%	608.4	49.52%	1,228.8	3/

1/ Source: SNL Financial LC; data as of September 30, 2014
2/ Source: SNL Financial LC; data as of October 31, 2014
3/ Source: Montana-Dakota Utilities Co. Requested Rate of Return - North Dakota Natural Gas Operations

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

Before the Public Service Commission of North Dakota

Case No. PU-15-___

Direct Testimony
of
Sara J. Cardwell

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

A. My name is Sara J. Cardwell, and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Manager, Regulatory Affairs–Pricing & Tariff for Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

Q. What are your responsibilities as Manager, Regulatory Affairs-Pricing & Tariff?

A. My responsibilities include the preparation of the embedded class cost of service study, rate design and miscellaneous tariff revision filings to ensure that the applicable revenue requirements are properly recovered from various customer classes via applicable rate forms. I also administer utility tariffs and rules and regulations effective in each of the jurisdictions in which Montana-Dakota provides utility service.

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

A. I graduated from the University of Wisconsin-Stout with a Bachelor of Science degree in Business Administration and received my Masters in Business Administration from the University of Portland. I have worked for PacifiCorp, Portland General Electric Company, Xcel Energy and the North Dakota Public Service Commission. I started working in my current position at Montana-Dakota in 2014.

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

A. I have previously presented testimony before the Public Service Commissions of North Dakota and Montana as well as the California and Idaho Public Utilities Commissions, the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission.

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

A. The purpose of my testimony is to present the Projected 2014 and 2015 sales and transportation revenues and the results of the embedded class cost of service study.

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

A. I am sponsoring Page 2 of Statement G, Pages 3 through 7 of Statement M and Statement O.

Q. Would you please explain how the Projected 2014 and 2015 sales and transportation service revenues were developed?

A. Yes. The starting point for developing the projected billing determinants and revenues was the normalized sales and transportation service billing determinants set forth on Statement G, page 2. The firm sales under the residential, firm general service and air force rate classes as recorded for the twelve months ended December 31, 2013 were adjusted to reflect normal weather based on regression models for each class of service. The direct or linear relationship between a respective service class' gas use (a dependent variable) and actual heating degree days (an independent variable) allows Montana-Dakota to calculate a use per customer that reflects this relationship on a go forward basis.

The statistical functions used by the Company in its regression models, based on a 36-month time frame for actual sales and degree days, provided a baseload use (or constant) per customer, as well as a dekatherm use per degree day. The normalized volumes for the twelve months ended December 31, 2013, were developed by applying the actual customer levels and normal degree days for each month of 2013 to this baseload and use per degree day. The normalized use per customer was then applied to the projected customer levels to derive projected volumes. The Projected 2014 number of customers and dk for the firm classes was based on the actual average customers for the year and the normalized actual dk for the year. Customer projections for 2014 and 2015 for the non-firm classes are based on the actual average customers for the 12 months ended October 2014. The 2015 customer projections for the residential and small firm general classes were determined based on applying growth factor to the actual 2014 consumption.

Q. What are the effective growth factors?

A. For the residential customer class and small general service class, the historical growth factor used was 3.2 percent for residential and 4.92 percent for small general service to develop the 2014 and 2015 estimated customers and usage. However, after updating 2014 values to actuals, the growth factor between 2014 and 2015 for residential was 3.4 percent and for the small general service class, the growth factor was 6.72 percent. The large firm general service class is estimated to remain flat from year end 2014 customer counts and dk.

Q. What was the basis for the projected interruptible service volumes?

A. Separate regression models were run for interruptible customers by location. If a customer was determined to be non-heat sensitive, due to the customer's operating characteristics, volumes were determined for each individual customer based on a review of monthly historical usage over the last three to four years and current operating conditions. Grain drying customers served under the interruptible service rates were excluded because of the margin sharing adjustment that provides a credit to all other customers through the PGA mechanism at 90 percent of actual margins received from grain drying customers on an annual basis as authorized in Case No. PU-13-803.

Q. Please explain the calculation of revenues shown on Statement M, Page 4.

A. The actual 2014 billing units for the residential, and small and large general firm classes and the actual normalized 2014 Dk were used in the development of the 2014 revenues by applying the current rates to the billing units and Dk. A similar process was applied to the projected 2015 billing units to derive the values. For the interruptible classes, the Dk was calculated based on a 3 or 4 year average or the results of the regression analyses for the heat sensitive customers. To the resulting Dk and number of customers, the existing rates were applied in order to develop the resulting revenues shown on Page 4 of Statement M.

Q. Would you please explain the embedded class cost of service study contained in Statement O?

A. Statement O contains a summary of the results of the embedded class cost of service study by the major rate classifications, Residential, Small Firm General, Large Firm General, Air Force Delivery (Rate 64), Small Interruptible Sales and Transportation, Large Interruptible Sales and Transportation and the Minot Air Force Base Distribution. Statement O, pages 1 through 4 provides a report entitled "Cost of Service by Component." This report shows the total dollars and unit cost required under each rate if the Pro Forma rate of return of 7.588 percent were to be earned for the demand, energy and customer cost components of each rate schedule.

Statement O, pages 5 through 24, is a report of the rate base, income statement and Pro Forma adjustments as allocated to each rate schedule. The allocator factors are provided in Statement O, Pages 25 through 36.

The embedded class cost of service study is based on the projected natural gas operations results for the 12 months ended December 31, 2015 as sponsored by Mr. Jacobson.

Q. What were the results of the embedded class cost of service study?

A. The overall North Dakota natural gas rate of return based on projected 2015 results is 5.255 percent. The returns by customer class are as shown below:

Customer Class	ROR
Residential Service	3.421%
Small Firm General Service	8.512%
Large Firm General Service	8.170%
Air Force Delivery Service	55.856%
Small Interruptible Sales & Transportation	3.789%
Large Interruptible Sales & Transportation	12.411%

Q. How did you determine what costs should be assigned to each class of customers?

A. The starting point was classifying the functionalized costs by

FERC account for all rate base and income statement items as demand, energy or customer related based on the component of service being provided. Demand-related costs are costs that vary with the demand imposed by the customer, energy-related costs are costs that vary with the amount of natural gas used by the customer and customer-related costs are fixed costs driven by the number of customers served.

Next the plant, expense and revenue items that were identified as directly related to a specific class of customers were directly assigned to the appropriate class. Finally, the remaining costs were allocated using the various allocation factors shown in Statement O, pages 25-36, on the basis of cost responsibility.

Q. Would you please provide an overview of the allocation process including the rationale underlying the choice of allocation factors?

A. Yes. I will start with the plant in service items from the Gas Utility Plant in Service, Statement C starting on Statement O, Page 5. The allocation of distribution plant serves as the basis for allocating many of the rate base items.

Turning now to the distribution plant investment; each distribution plant account is analyzed and allocated based on the cause for the investment. Distribution mains, services and meters represent approximately 75 percent of the total gross distribution investment and therefore the allocation of these three accounts drives the allocation of the remaining distribution investment. The investment in distribution mains has been assigned 75 percent to the demand component and 25 percent to the customer component. The amount classified as demand related was allocated to each rate class based on the design day demand attributed to each class and the amount classified as customer related was allocated to each rate class based on the average number of customers in each rate class.

The investment in services, service regulators and meters is related solely to a customer connection and therefore classified as customer related. Service regulators and meters were allocated to the rate classes based on Factor 9 which represents a meter weight for each customer class. The meter weights were derived by comparing the installed cost per meter for each rate class to the cost necessary to serve residential customers with the residential class weighted as one. The remainder of the rate base items is self explanatory with the allocation factor noted for each line item.

Q. Can you elaborate on why the investment in distribution mains was assigned 75 percent to the demand component and 25 percent to the customer component?

A. If all customer classes had equal but minimal gas service needs, the Company would install a system comprised of only two inch mains. Seeing that two inch mains would be the minimal size of a system, it is appropriate to assign a portion of the main costs to the customer component to reflect the system design the Company would employ if all customers were to use little or no gas. In actuality a two inch main system would comprise about 50 percent of the total cost of the system that the Company does have in place. To reflect customer needs, or demands on the system, the Company installs larger mains when customers use more gas than can be served from a two inch main system. The larger mains comprise approximately 50 percent of the Company's system costs.

Q. Would you please continue your discussion of the embedded class cost of service study with an explanation of the income statement items in the study?

A. The allocation of the income statement items starts on Statement O, Page 13 with the allocation of revenues. As shown, sales and transportation service revenues are directly assigned based on the revenues produced by each rate class. The other revenues are allocated based on the source of the revenue item. Each item is shown along with the allocation factor applied.

Operation and maintenance expenses consisting of cost of purchased gas, production, distribution customer accounts, customer service and information, sales and administrative and general expenses are shown starting in Statement O, Page 13 as well. The cost of purchased gas is directly assigned to each class based on the gas costs included in the Pro Forma revenues. The cost of purchased gas is recovered through the gas cost tracking adjustment and is not recovered through the rates that will be established in this rate case. The remaining operation and maintenance expenses are allocated based on cost causation and typically follow the plant investment previously described in the rate base section. The remainder of the income statement reflects the allocation of depreciation expense, taxes other than income and income taxes as denoted by each line item.

Q. Can you please explain the rate class labeled as Minot Air Force Distribution found on Statement O?

A. The Minot Air Force Distribution rate class represents the cost of service associated with the Minot Air Force Distribution system Montana-Dakota purchased in 2008. The costs associated with Montana-Dakota's ownership of this system are recovered under a contract with the Minot Air Force Base and set forth on the Air Force Distribution System Rate 65 rate schedule authorized by the North Dakota Public Service Commission in Case No. PU-06-470. Montana-Dakota has included an updated cost of service analysis in this case to demonstrate that other customers are not subsidizing this investment under the currently effective contract rate applicable to the Minot Air Force Distribution system.

Q. For what purpose has the embedded class cost of service study been used?

A. The study results have been used to guide the allocation of the revenue requirement to the various classes as well as the rate designs applicable to each customer class.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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

Before the Public Service Commission of North Dakota

Case No. PU-15-_____

Direct Testimony
of
Tamie A. Aberle

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

A. My name is Tamie A. Aberle, and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Director of Regulatory Affairs for Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

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

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

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

A. I graduated from Minnesota State University Moorhead in 1982 with a Bachelor of Science degree in Accounting. I began my career with Montana-Dakota in 1983 in the Regulatory Affairs Department, holding several positions within the Department before attaining my current position in 2014.

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

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

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

A. The purpose of my testimony is to discuss the effect of the proposed revenue requirement, as identified by Mr. Jacobson in his direct testimony, on each of the Company's natural gas rate classes, including how the revenue requirement was allocated to the various customer classes served based on the embedded class cost of service study sponsored by Ms. Cardwell. I will also discuss the proposed changes in rate design and tariff conditions, including the Company's proposed Rate Stabilization Mechanism designated as Rate 89.

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

A. I am sponsoring Statement P and Exhibit No. __ (TAA-1) through Exhibit No. ___ (TAA-3). I also sponsor the proposed rate schedules to be effective on a final basis provided in Appendix B to the Application and the proposed interim rate schedules appended to the Application for Interim Rate Relief.

Q. What is the total revenue effect of the proposed gas rate changes?

A. The proposed interim rates will produce additional revenues of $4,303,978 or 3.4 percent annually based on the interim level of test period sales, while the final proposed rates will produce additional revenues of $4,301,515 or 3.4 percent annually based on Projected 2015 throughput. The revenue requirement is the same for both the interim and final rates. The difference noted above is due to rounding in the rate design process. Exhibit No. __ (TAA-1) represents summaries by rate classification of the proposed interim and final revenue increase on pages 1 and 2 respectively. The exhibit shows the rate number and a description along with the revenues calculated under the present and proposed rates. The amount and percentage increase are also shown for the proposed revenue increase.

Q. Would you please explain Exhibit No. ____(TAA-2)?

A. Yes. Exhibit No. ____ (TAA-2) depicts a bill comparison based on typical monthly consumption levels for an annual period for Residential customers. As shown in the comparison, the proposed rate structure will result in an average increase, based on final proposed rates, of approximately $3.54 per month for the typical Residential customer using 94 dk on an annual basis.

Q. What is the percentage of the proposed increase by class of customer?

A. The proposed increase to each of the classes is shown in the table below:

Class	***Increase***
Residential	**5.8%**
Firm General	**0.0%**
Air Force Delivery	**0.0%**
Small Interruptible	**6.8%**
Large Interruptible	**0.0%**
Overall	**3.4%**

Q. What are the objectives underlying the allocation of the increase and the rates proposed to recover the revenue requirement?

A. The embedded class cost of service study and proposed revenue allocation embody several of the recognized ratemaking objectives by their effectiveness in yielding the total revenue requirement under the fair-return standard, fairness of the specific rates in the apportionment of the total costs of service among the different consumers, and efficiency of the rate classes. Because current rates yield returns in excess of the proposed rate of return in this case for many of the schedules, it appeared that the residential and small interruptible classes were the only classes that required increases to move these classes towards cost of service. Combined with the fact that the request in this case was minimal, the

Company proposes to move these classes to cost of service at this time.

Q. How are you proposing to collect the allocated increase from the residential and small interruptible classes?

A. First, I am proposing to collect the entire amount of distribution revenues assigned to the residential class (Rates 60 and 90) through the Basic Service Charge thereby eliminating the need for a Distribution Delivery Charge.

Most of the other rates now have Basic Service Charges that collect the appropriate levels. As a result, I propose to assign the additional revenue requirement for the small interruptible class to the Distribution Delivery Charge.

The rate design calculations supporting the final rate levels are included in Statement P, Pages 4-9.

Q. Would you please explain the rationale for increasing Basic Service Charges?

A. Yes. Collecting distribution revenues assigned to a class through a fixed charge provides customers with the correct price signal as distribution costs are primarily fixed in nature. Recovering fixed costs through fixed charges also minimizes subsidies within the classes and minimizes the under-recovery of fixed costs when customers take measures to conserve energy and more efficiently utilize natural gas. There are three factors that result in a signification under collection of revenues from the residential class. The first is conservation that results in lower use. This inequity may be addressed through tracking mechanisms or more simply by adjusting the rate components to more closely match costs.

The second issue is seasonality. Residential customers use significantly more gas in the winter than in the summer. And, if a customer only uses natural gas for space heating, the system is still there for the customer's use in the summertime but is unused. Having a higher fixed charge, reflects the fact that even if a customer is not using any natural gas, the system is still there and available for the customer.

The last issue is the variability in recovering fixed costs when weather is colder or warmer than normal. The Commission recognized this fact when they authorized the DDSM for Montana-Dakota's residential and firm general service customers in 2004, authorizing a flat fixed charge rate for Northern States Power Company's residential natural gas customers and allowing for an increase to the Company's Basic Service Charges in the Company's last rate case. If the Basic Service Charges are cost based, it will minimize the need to have Distribution Delivery Charges and the Distribution Delivery Stabilization Mechanism (DDSM) as it will no longer be necessary to adjust a volumetric charge to reflect variations in weather from the normal weather assumed in the rate case process.

Q. What are the benefits to Montana-Dakota and to its customers of implementing a single fixed charge component applicable to the Residential Rate Schedules (60 and 90)?

A. There are several significant benefits from implementing Montana-Dakota's fixed residential rate proposal, including:

1. The proposed mechanism will mitigate the impact of significantly colder-than-normal weather on customers' bills, without the application of the DDSM, while also mitigating the impact warmer than normal weather has on the Company's ability to recover fixed costs.
2. The proposed charge reduces fluctuations in Montana-Dakota's earnings, both up and down, as the result of weather fluctuations and customers' conservation efforts.
3. Customers' bills will be more stable as approximately 29 percent of the total bill will be fixed each month and not dependent on changes in weather.
4. Customers will continue to have incentive to conserve as the Cost of Gas, representing approximately 71 percent of a typical customer's bill, will continue to be billed on a volumetric basis.
5. Provides a better match of revenues to the investment made to serve each residential customer with a typical service line, meter and regulator at the same average cost. Under a

volumetric distribution rate structure, customers using less than average use are being subsidized by customers using more than average use. The use of natural gas is not proven to be dependent on a customer's income. If fixed costs are not recovered from fixed charges, high use customers subsidize low use customers regardless of the reason a customer uses less natural gas than average.

6. The fixed rate will address the inequities caused by customers using natural gas as a backup energy source during peak periods.

Q. Would you please describe the Rate Stabilization Mechanism designated as Rate 89 and also provided as Exhibit No. ____(TAA-3)?

A. Yes. As discussed by Ms. Kivisto, the Company proposes to implement a Rate Stabilization Mechanism (RSM) starting in 2016 and effective for a five year period with a review of the mechanism at the end of the third year. The initial evaluation under the RSM is proposed to be the 12-month period ending December 31, 2015. Under the RSM, the ROE established in this rate case shall be the effective ROE for the five year period unless modified by the Commission in a specific proceeding and designated as the Company's Allowed Return on Equity (AROE) under the RSM. A base level of operating and maintenance expenses, excluding the cost of gas, shall also be established as the Base O&M in this rate case proceeding.

A range of +/- 50 basis points around the AROE will represent an acceptable range or dead-band of earnings performance. Actual Company reported ROEs that fall within this dead-band are considered reasonable and will not trigger any RSM rate changes. In the event the Company's reported earnings fall below 9.50 percent, a rate adjustment shall be submitted to provide sufficient revenues to reach the AROE. However, the O&M expenses, excluding the cost of gas, used to determine the actual ROE for purposes of calculating a RSM rate adjustment shall be limited to a five percent increase each year above the Base O&M Expense established in the rate case. The Company has the right to request a change in the base O&M level throughout the 5-year plan.

In the event the Company's reported earnings exceed 10.5 percent, fifty percent of the revenues contributing to the ROE above 10.0 percent will be returned to customers.

Montana-Dakota proposes to file an annual RSM Application at least 60 days prior to the proposed effective date. The filing will include a report demonstrating the Company's financial performance for the previous calendar year and shall be accompanied by detailed computations, which clearly show the derivation of the relevant amounts, a concise statement of the reasons for any change and copies of any relevant supporting workpapers.

At the time of the true up for the prior calendar year, the Company shall provide a projected earnings level based on projected rate base and income statement for the current calendar year. An adjustment may be made to provide revenues sufficient to meet the AROE on a projected basis, subject to the O&M adjustment. The projections shall be subject to the annual true-up described above.

Montana-Dakota proposes to allocate the revenue adjustment authorized each year to the rate classes on an equal percentage basis to the non-gas rate components applicable under each rate schedule. Any adjustments shall be set forth as a separate line on customers' bills. The proposed tariff also includes a provision for force majeure.

Q. What are the benefits of implementing a Rate Stabilization Mechanism?

A. The implementation of a Rate Stabilization mechanism provides a better means of recognizing changes in system growth, customer usage and the potential for increased conservation than traditional ratemaking principles provide. Customers benefit by allowing the Company to share efficiency savings on a timely basis while eliminating the need for multiple rate cases resulting in less regulatory costs.

Q. Has the Company made other changes to its gas tariff?

A. Yes. The Company has made a change to the Reconnection Fee for Seasonal Disconnects. Historically the Company has charged the Basic Service Charge for each month the seasonal customer was not taking service as the Reconnection Fee. The Company also incurs costs for the service call to reconnect the service. The Company proposes to collect both the Basic Service Charge and a Reconnection Charge from customers that disconnect on a seasonal basis in order to better reflect the actual costs of reconnecting service.

The Company has made other minor changes which are self-explanatory. These changes are clearly denoted on the tariff sheets reflecting the legislative format.

Q. Does this conclude your direct testimony?

A. Yes, it does.

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
REVENUES UNDER CURRENT AND PROPOSED RATES - INTERIM
Proposed Interim Rates

	Projected 2015			Total	Proposed	
Customer Class/Rate	Customers	Dk	Revenues	Proposed Revenue	Revenue Increase	Percent Increase
Residential - Rate 60	92,478	8,667,437	$67,865,050	$70,499,792	$2,634,742	3.9%
Firm General Service - Rate 70	14,551	7,163,947	50,612,589	52,049,196	1,436,607	2.8%
Air Force - Rate 64						
Firm	1	32,506	194,243	195,973	1,730	
Interruptible	2	479,120	2,247,300	2,267,675	20,375	
Total Air Force	3	511,626	2,441,543	2,463,648	22,105	0.9%
Small Interruptible						
Sales - Rate 71	135	920,446	4,776,197	4,874,904	98,707	2.1%
Transportation - Rate 81	73	1,098,432	686,040	778,813	92,773	13.5%
Total Small IT	208	2,018,878	5,462,237	5,653,717	191,480	3.5%
Large Interruptible						
Sales - Rate 85	1	32,084	162,570	165,481	2,911	1.8%
Transportation - Rate 82	6	4,307,330	1,321,302	1,337,435	16,133	1.2%
Total Large IT	7	4,339,414	1,483,872	1,502,916	19,044	1.3%
Total North Dakota	107,247	22,701,302	$127,865,291	$132,169,269	$4,303,978	3.4%

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA
Proposed Final Rates

Customer Class/Rate	Projected 2015 Customers	Projected 2015 Dk	Projected 2015 Revenue	Total Proposed Revenue	Proposed Revenue Increase	Percent Increase
Residential - Rate 60	92,478	8,667,437	$67,865,050	$71,797,110	$3,932,060	5.8%
Firm General Service - Rate 70	14,551	7,163,947	50,612,589	50,612,589	0	0.0%
Air Force - Rate 64						
Firm	1	32,506	194,243	194,243	0	0.0%
Interruptible	2	479,120	2,247,300	2,247,300	0	0.0%
Total Air Force	3	511,626	2,441,543	2,441,543	0	0.0%
Small Interruptible						
Sales - Rate 71	135	920,446	4,776,197			0.0%
Transport - Rate 81	73	1,098,432	686,040			0.0%
Total Small Interruptible	208	2,018,878	5,462,237	5,831,692	369,455	6.8%
Large Interruptible						
Sales - Rate 85	1	32,084	162,570			
Transport - Rate 82	6	4,307,330	1,321,302			
Total Large Interruptible	7	4,339,414	1,483,872	1,483,872	0	0.0%
Total North Dakota	107,247	22,701,302	$127,865,291	$132,166,806	$4,301,515	3.4%

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
RATE 60 BILL COMPARISON
RESIDENTIAL GAS SERVICE

Month	Dk	Present Rate	Proposed Rate	Amount of Increase	% Increase
January	17	$115.73	$116.40	$0.67	0.58%
February	17	114.25	114.32	0.07	0.06%
March	12	86.19	88.49	2.30	2.67%
April	9	67.98	71.05	3.07	4.52%
May	5	44.84	49.41	4.57	10.19%
June	2	26.62	31.98	5.36	20.14%
July	2	27.11	32.67	5.56	20.51%
August	2	27.11	32.67	5.56	20.51%
September	2	26.62	31.98	5.36	20.14%
October	4	38.93	43.83	4.90	12.59%
November	10	73.89	76.63	2.74	3.71%
December	12	86.19	88.49	2.30	2.67%
Total	94	$735.46	$777.92	$42.46	5.77%

Average Increase per Month $3.54

RATE 60	Current 1/	Proposed 2/
Basic Delivery Charge	$0.4935	$0.6937
Distribution Delivery	$0.326	$0.000
Cost of Gas	5.582	$5.582

1/ Rate effective May 1, 2014
2/ Includes projected cost of gas.

RATE STABILIZATION MECHANISM Rate 89

1. **Applicability:**
This rate schedule describes the Company's Rate Stabilization Mechanism (RSM) and applies to the Company's gas sales and transportation service rate schedules.

2. **Initial Evaluation and Term of RSM:**
The Company filed a general rate case Application reflecting a 12-month test year ending December 31, 2015 on February 6, 2015. The initial evaluation under this Rate Schedule will be the 12-month period ending December 31, 2015. The RSM shall remain in effect for a period of five years unless modified by the Commission.

3. **Time and Manner of Filing:**
Montana-Dakota shall file an annual RSM Application at least 60 days prior to the proposed effective date. The filing by Montana-Dakota shall be made by means of a report demonstrating the Company's financial performance and a revised tariff sheet identifying the amount of the adjustment, if applicable.

   Each filing shall be accompanied by detailed computations, which clearly show the derivation of the relevant amounts, a concise statement of the reasons for any change and copies of any relevant supporting workpapers.

4. **True Up to Allowed Return on Equity:**
   a. The Company's Allowed Return on Equity (AROE) shall be 10 percent as established in the rate case referenced in Section 2. This AROE shall be the effective ROE for the five year period unless modified by the Commission in a specific proceeding. A range of +/- 50 basis points around the AROE will represent an acceptable range or dead-band of earnings performance. Actual Company reported ROEs that fall within this dead-band are considered reasonable and will not trigger any RSM rate changes.

   b. In the event the Company's reported earnings fall below 9.50 percent ROE, a rate adjustment shall be submitted to provide sufficient revenues to reach a 10 percent ROE subject to the operation and maintenance provision set forth in Paragraph 5.

RATE STABILIZATION MECHANISM Rate 89

c. In the event the Company's reported earnings exceed 10.5 percent, fifty percent of the revenues contributing to the ROE above 10.0 percent will be returned to customers.

5. **Operation and Maintenance Expense Adjustments:**
For purposes of determining the RSM rate applicable under Paragraph 4, Operation and Maintenance Expenses (O&M Expenses) excluding the Cost of Gas shall be limited to a five percent increase each year above the base O&M Expense established in the rate case referenced in Paragraph 2. The Company has the right to request a change in the base O&M level throughout the 5-year plan.

6. **Projected Earnings:**
At the time of the true up for the prior calendar year, the Company shall provide a projected earnings level based on a projected rate base and income statement for the current calendar year. An adjustment may be made to provide revenues sufficient to meet the AROE on a projected basis, subject to the O&M adjustment prescribed in Paragraph 5. The projections shall be subject to the annual true-up prescribed in Paragraph 4.

7. **Allocation of RSM Adjustments:**
The revenue adjustment authorized each year shall be allocated to the rate classes on an equal percentage basis to the non-gas rate components applicable under each rate schedule. Rate credits shall be applied in the same manner under a time period to be determined at the time of filing. Any adjustments shall be set forth as a separate line on customers' bills.

8. **Force Majeure Provision:**
If any cause beyond the reasonable control of the Company, such as natural disaster, orders or acts of civil or military authority, terrorist attacks, or government mandates, which results in a deficiency in distribution revenues which are not readily capable of being addressed in a timely manner under the RSM, the Company may file a general rate case.