

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

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-16-\_\_\_

PREPARED DIRECT TESTIMONY OF

J. STEPHEN GASKE

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

2 A1. My name is J. Stephen Gaske and I am a Senior Vice President of Concentric  
3 Energy Advisors, Inc., 1300 19<sup>th</sup> Street, N.W., Suite 620, Washington, DC  
4 20036.

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

6 A2. I hold a B.A. degree from the University of Virginia and an M.B.A. degree with a  
7 major in finance and investments from George Washington University. I also  
8 earned a Ph.D. degree from Indiana University where my major field of study was  
9 public utilities and my supporting fields were finance and economics. A copy of  
10 my résumé is included as Attachment A to this testimony.

11 **Q3. Have you presented expert testimony in other proceedings?**

12 A3. Yes. I have testified or filed testimony or affidavits in more than 100 regulatory  
13 proceedings. This includes testimony on the cost of capital and capital structure  
14 issues for electric and natural gas distribution and oil and natural gas pipeline  
15 operations on numerous occasions before federal, state, and provincial regulatory  
16 bodies in the United States, Canada and Mexico, including the North Dakota  
17 Public Service Commission. In addition, I have testified or submitted testimony

1 before numerous regulatory bodies on issues such as regulatory principles, market  
2 power, cost allocation, rate design, pricing and generating plant economics.  
3 During the course of my consulting career, I have conducted many studies on  
4 issues related to regulated industries and have served as an advisor to numerous  
5 clients on economic, competitive, and financial matters. I also have spoken and  
6 lectured before many professional groups including the American Gas  
7 Association and the Edison Electric Institute Rate Fundamentals courses. Finally,  
8 I am a member of the American Economic Association, the Financial  
9 Management Association, and the American Finance Association.

10 **I. INTRODUCTION**

11 A. Scope and Overview

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

13 A4. I have been asked by Montana-Dakota Utilities Co. (“Montana-Dakota” or the  
14 “Company”) to estimate the cost of common equity capital for the Company’s  
15 electric utility operations in the state of North Dakota. In this testimony, I  
16 calculate the cost of common equity capital for Montana-Dakota’s North Dakota  
17 electric utility operations based on a Discounted Cash Flow (“DCF”) analysis of a  
18 group of proxy companies that have risks similar to those of Montana-Dakota’s  
19 North Dakota electric utility operations. The results of this DCF study are  
20 supported by various benchmark criteria that I have used to test the  
21 reasonableness of the DCF study results.

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

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

4 **Table 1: Requested Rate of Return – North Dakota Electric Utility Operations<sup>1</sup>**

| Source          | Amount             | Percent        | Cost   | Overall Rate of Return |
|-----------------|--------------------|----------------|--------|------------------------|
| Long-Term Debt  | \$605,441          | 41.31%         | 5.34%  | 2.21%                  |
| Short-Term Debt | \$108,737          | 7.42%          | 2.45%  | 0.18%                  |
| Preferred Stock | \$15,159           | 1.03%          | 4.57%  | 0.05%                  |
| Common Equity   | \$736,149          | 50.23%         | 10.00% | 5.02%                  |
| <b>TOTAL</b>    | <b>\$1,465,486</b> | <b>100.00%</b> |        | <b>7.46%</b>           |

5

6 As my testimony discusses, an overall allowed rate of return of 7.46 percent, with  
7 a 10.00 percent return on common equity, represents the cost of capital for  
8 Montana-Dakota at this time.

9 B. Company Background

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

12 A6. Montana-Dakota is a wholly-owned division of MDU Resources Group, Inc.  
13 ("MDU Resources") that is engaged in the generation, transmission, and  
14 distribution of electricity, and the distribution of natural gas in the states of  
15 Montana, North Dakota, South Dakota, and Wyoming. MDU Resources also  
16 owns Cascade Natural Gas Co., which distributes natural gas in the states of  
17 Oregon and Washington; Intermountain Gas Company, which distributes natural  
18 gas in the state of Idaho; and Great Plains Natural Gas Co., which distributes

<sup>1</sup> Projected average capital structure and rate of return for 2017.

1 natural gas in western Minnesota and southeastern North Dakota. Through other  
2 divisions and subsidiaries, MDU Resources is engaged in utility pipeline and  
3 midstream operations, construction materials and contracting, and construction  
4 services.

5 In 2015, Montana-Dakota provided electric utility service to over 142,000  
6 residential, commercial, industrial, and municipal customers in 177 communities  
7 and adjacent rural areas across four states.<sup>2</sup> In addition, the natural gas utilities  
8 provided natural gas distribution service to over 906,000 residential, commercial,  
9 and industrial customers in 334 communities across eight states.<sup>3</sup> Electric utility  
10 assets comprised 20.0 percent<sup>4</sup> of MDU Resources' total assets in 2015, and  
11 electric revenues comprised 6.7 percent<sup>5</sup> of total operating revenues. North  
12 Dakota accounted for 65.0 percent of the retail electric utility operating revenues,  
13 while Montana (21.0 percent), Wyoming (9.0 percent), and South Dakota (5.0  
14 percent) accounted for the other 35.0 percent of retail electric utility operating  
15 revenues.<sup>6</sup>

16 Montana-Dakota serves its integrated system electric utility customers across  
17 three states through an interconnected electric system consisting of twelve electric  
18 generating facilities and three small portable diesel generators which have an  
19 aggregate nameplate capacity of 735 megawatts. Table 2 below presents details

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<sup>2</sup> MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2015, at 7 and 11.

<sup>3</sup> *Ibid.*, at 11.

<sup>4</sup> *Ibid.*, at 83.

<sup>5</sup> *Ibid.*, at 26.

<sup>6</sup> *Ibid.*, at 7.

1 for Montana-Dakota's integrated system electric generating stations which is  
 2 further discussed in the testimony of Montana-Dakota witness Nicole Kivisto.

3 **Table 2: Montana-Dakota's Electric Generating Stations**

| Generating Station      | State | Fuel       | Nameplate Capacity (MW) <sup>7</sup> | 2015 Net Generation (MWh) <sup>8</sup> | 2016 YTD <sup>9</sup> Generation (MWh) |
|-------------------------|-------|------------|--------------------------------------|--|--|
| Big Stone <sup>10</sup> | SD    | Coal       | 107.3                                | 303,844                                | 270,310                                |
| Cedar Hills             | ND    | Wind       | 19.5                                 | 57,147                                 | 35,236                                 |
| Coyote <sup>11</sup>    | ND    | Coal       | 108.2                                | 481,995                                | 298,369                                |
| Diamond Willow          | MT    | Wind       | 30.0                                 | 89,144                                 | 56,603                                 |
| Diesel Units (3)        | ND    | Oil        | 6.2                                  | 9                                      | 8                                      |
| Glen Ullin              | ND    | Waste Heat | 7.5                                  | 38,248                                 | 22,014                                 |
| Glendive                | MT    | Gas        | 73.9                                 | 1,212                                  | 681                                    |
| Heskett I & II          | ND    | Coal       | 100.1                                | 500,630                                | 260,209                                |
| Heskett III             | ND    | Gas        | 82.4                                 | 1,211                                  | 196                                    |
| Lewis & Clark           | MT    | Coal       | 52.3                                 | 222,192                                | 166,122                                |
| Lewis & Clark (RICE)    | MT    | Gas        | 18.6                                 | 96                                     | 3,638                                  |
| Miles City              | MT    | Gas        | 21.6                                 | 443                                    | 122                                    |
| Thunder Spirit          | ND    | Wind       | 107.5                                | 11,174                                 | 233,918                                |
|                         |       |            | <b>735.4</b>                         | <b>1,707,345</b>                       | <b>1,347,426</b>                       |

4  
 5 Approximately 88 percent of the energy generated by Montana-Dakota's facilities  
 6 came from coal-fired power plants in 2015. In December, 2015, construction was  
 7 completed on the 107.5 MW Thunder Spirit Wind farm and it began commercial  
 8 operation. This project provides energy, capacity, and renewable energy credits  
 9 to Montana-Dakota's electric customers in North Dakota, Montana and South

<sup>7</sup> See testimony of Nicole Kivisto.

<sup>8</sup> MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2015, at 9.

<sup>9</sup> Through June 2016.

<sup>10</sup> Reflects Montana-Dakota's partial ownership interest.

<sup>11</sup> Reflects Montana-Dakota's partial ownership interest.

1 Dakota. The total project cost was approximately \$214 million.<sup>12</sup> In addition, in  
2 December, 2015, the Company completed construction and commissioning of the  
3 18.6 MW reciprocating internal combustion engine generating project at the  
4 Lewis & Clark generating facility.

5 In addition to new generation additions, the Company was also required to  
6 recently invest in environmental controls to comply with federal and state  
7 environmental rules. The Lewis and Clark Station must comply with the  
8 Environmental Protection Agency's ("EPA") Mercury and Air Toxics Standards  
9 ("MATS"), and the Big Stone Plant ("Big Stone") must comply with the South  
10 Dakota Implementation Plan ("SIP") that was developed to comply with the EPA  
11 Regional Haze Rule. Each of these projects required significant capital. Without  
12 the environmental upgrades at Big Stone, the plant would be forced to close.

13 **Q7. Would you please describe Montana-Dakota's North Dakota electric utility**  
14 **service territory?**

15 A7. Montana-Dakota provides electric utility service to approximately 93,000  
16 customers<sup>13</sup> in 117 communities in North Dakota serving most of the western and  
17 south central part of the state.<sup>14</sup> Although Montana-Dakota's North Dakota  
18 electric utility operations tend to be concentrated in cities and towns, including  
19 Bismarck, a large portion of the local economies are based on agriculture and a  
20 volatile "boom and bust" oil production industry. From an economic perspective,

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<sup>12</sup> MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2015, at 8.

<sup>13</sup> Montana-Dakota Utilities Co, Annual Report of the North Dakota Public Service Commission, Dec. 31, 2015.

<sup>14</sup> Montana-Dakota Utilities Co., State of North Dakota Electric Rate Schedule, Volume No. 4, Original Sheet No. 2.

1 the mostly rural nature of North Dakota poses accessibility challenges, resulting  
2 in less access to markets and high transportation costs to larger markets. In  
3 addition, rural county residents lack access to the same variety of goods and  
4 services available in more heavily populated areas of the country. Furthermore,  
5 as the oil industry has declined over the last two years, the local economy has  
6 similarly suffered.

7 Significant investment will continue to be required in coming years to support  
8 customer growth and to replace aging plant so that the Company can continue to  
9 provide safe, reliable and efficient electric utility service to its North Dakota  
10 customers. Montana-Dakota will require an adequate return in order to attract  
11 capital for these projects.

## 12 II. FINANCIAL MARKET STUDIES

### 13 A. Criteria for a Fair Rate of Return

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

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

20 The return should be reasonably sufficient to assure confidence in  
21 the financial soundness of the utility, and should be adequate,  
22 under efficient and economical management, to maintain and  
23 support its credit and enable it to raise the money necessary for the  
24 proper discharge of its public duties. A rate of return may be

1 reasonable at one time and become too high or too low by changes  
2 affecting opportunities for investment, the money market, and  
3 business conditions generally.

4 The Court has further elaborated on this requirement in its decision in *Federal*  
5 *Power Commission v. Hope Natural Gas Company* (320 U.S. 591, 603 (1944)).

6 There the Court described the relevant criteria as follows:

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

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

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

24 These legal criteria will be satisfied best by employing the economic concept of  
25 the "cost of capital" or "opportunity cost" in establishing the allowed rate of  
26 return on common equity. For every investment alternative, investors consider  
27 the risks attached to the investment and attempt to evaluate whether the return  
28 they expect to earn is adequate for the risks undertaken. Investors also consider  
29 whether there might be other investment opportunities that would provide a better

1 return relative to the risk involved. This weighing of alternatives and the highly  
2 competitive nature of capital markets causes the prices of stocks and bonds to  
3 adjust in such a way that investors can expect to earn a return that is just adequate  
4 for the risks involved. Thus, for any given level of risk, there is a return that  
5 investors expect in order to induce them to voluntarily undertake that risk and not  
6 invest their money elsewhere. That return is referred to as the “opportunity cost”  
7 of capital or “investor required” return.

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

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

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

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

1 **Q11. How is the cost of common equity determined?**

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

1 B. Interest Rates and the Economy2 **Q12. What are the general economic factors that affect the cost of capital?**

3 A12. Companies attempting to attract common equity must compete with a variety of  
4 alternative investments. Prevailing interest rates and other measures of economic  
5 trends influence investors' perceptions of the economic outlook and its  
6 implications on both short- and long-term capital markets. Page 1 of Schedule 1  
7 of Exhibit No. \_\_\_(JSG-2) shows various general economic statistics. Real  
8 growth in the Gross Domestic Product ("GDP") has averaged 2.7 percent annually  
9 during the past 30 years, 2.4 percent for the past 20 years, and 1.6 percent for the  
10 past 10 years. Real GDP increased at a rate of 2.5 percent in 2015.<sup>15</sup> According  
11 to Blue Chip Economic Indicators, the consensus forecast for expected growth in  
12 real GDP is 1.5 percent for 2016,<sup>16</sup> and 2.2 percent for 2017, respectively.<sup>17</sup>  
13 Likewise, the U.S. unemployment rate has improved in recent months to 4.9  
14 percent as of August 2016,<sup>18</sup> but the labor force participation rate for civilians 16  
15 years old and over remained around 62.8 percent, one of the lowest rates since the  
16 late 1970s.<sup>19</sup> Improvements in the U.S. unemployment rate are partly attributed to  
17 the reduced U.S. labor force and are not fully explained by job growth. Economic  
18 conditions have improved somewhat and the Federal Open Market Committee  
19 ("FOMC") voted to increase short-term interest rates by 25 basis points in  
20 December 2015, and indicated its intention to gradually raise interest rates in

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<sup>15</sup> U.S. Department of Commerce, Bureau of Economic Analysis, News Release, July 29, 2016.

<sup>16</sup> Blue Chip Economic Indicators, Vol. 41, No. 4, September 10, 2016, at 2.

<sup>17</sup> *Ibid.*, at 3.

<sup>18</sup> U.S. Department of Labor, Bureau of Labor Statistics, News Release, September 2, 2016.

<sup>19</sup> U.S. Department of Labor, Bureau of Labor Statistics, civilian labor force participation rate, 16 years old and over, seasonally adjusted.

1 coming months.<sup>20</sup> The FOMC reiterated those rates in September, 2016 but  
2 noted that,

3 “Information received since the Federal Open Market Committee  
4 met in July indicates that the labor market has continued to  
5 strengthen and growth of economic activity has picked up from the  
6 modest pace seen in the first half of this year. Although the  
7 unemployment rate is little changed in recent months, job gains  
8 have been solid, on average. Household spending has been  
9 growing strongly but business fixed investment has remained soft.  
10 Inflation has continued to run below the Committee's 2 percent  
11 longer-run objective, partly reflecting earlier declines in energy  
12 prices and in prices of non-energy imports. Market-based measures  
13 of inflation compensation remain low; most survey-based  
14 measures of longer-term inflation expectations are little changed,  
15 on balance, in recent months.

16 Consistent with its statutory mandate, the Committee seeks to  
17 foster maximum employment and price stability. The Committee  
18 expects that, with gradual adjustments in the stance of monetary  
19 policy, economic activity will expand at a moderate pace and labor  
20 market conditions will strengthen somewhat further. Inflation is  
21 expected to remain low in the near term, in part because of earlier  
22 declines in energy prices, but to rise to 2 percent over the medium  
23 term as the transitory effects of past declines in energy and import  
24 prices dissipate and the labor market strengthens further. Near-  
25 term risks to the economic outlook appear roughly balanced. The  
26 Committee continues to closely monitor inflation indicators and  
27 global economic and financial developments.

28 Against this backdrop, the Committee decided to maintain the  
29 target range for the federal funds rate at 1/4 to 1/2 percent. The  
30 Committee judges that the case for an increase in the federal funds  
31 rate has strengthened but decided, for the time being, to wait for  
32 further evidence of continued progress toward its objectives. The  
33 stance of monetary policy remains accommodative, thereby  
34 supporting further improvement in labor market conditions and a  
35 return to 2 percent inflation.”

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<sup>20</sup> Statement of the Federal Open Market Committee, December 16, 2015.

1 **Q13. Please discuss how the Federal Reserve’s use of monetary policy has affected**  
2 **markets.**

3 A13. The Federal Reserve’s highly accommodative monetary policy has influenced  
4 capital markets by maintaining the Fed Funds rate at zero or, as of the December  
5 2015 meeting, 25 basis points. Extraordinary and persistent federal intervention in  
6 capital markets has artificially lowered government bond yields since the Great  
7 Recession of 2008-09, as the Federal Reserve has used monetary policy (both  
8 reductions in short-term interest rates and purchases of Treasury bonds and  
9 mortgage backed securities) to stimulate the U.S. economy. This highly  
10 accommodative monetary policy has resulted in government bond yields that have  
11 been artificially suppressed by the Federal Reserve.

12 **Q14. Why do you believe that current market conditions are artificial and not**  
13 **“normal?”**

14 A14. The Federal Reserve’s Open Market Committee (FOMC) continues to refer to its  
15 current policy stance as “accommodative,” including in its most recent policy  
16 statement released on September 21, 2016, and has indicated that it intends to  
17 withdraw its extraordinary support for financial markets and extricate itself from  
18 the market over time. At the September 2014 Federal Open Market Committee  
19 (“FOMC”) meeting, the FOMC published its “Policy Normalization Principles  
20 and Plans”, which outlined the policy tools that would be used to return both the  
21 level of its Fed funds rate target and the size of its balance sheet to normalcy over  
22 time. Its plan is to begin by gradually raising the Fed funds target from its current  
23 accommodative level and, at some point thereafter, begin to reduce the

1 extraordinarily large size of its balance sheet primarily by ceasing its current  
2 practice of reinvesting payments it receives from maturing securities over time.  
3 As the Federal Reserve gradually declines to renew its massive loans in this  
4 manner, the large amount of Treasury and mortgage-backed security borrowings  
5 that will need to find private market lenders, in place of the Fed, will undoubtedly  
6 place upward pressure on interest rates.

7 Speaking at the Federal Reserve's conference in Jackson Hole, Wyoming on  
8 August 26, 2016, Federal Reserve Chair Janet Yellen indicated that the case for  
9 hiking interest rates had strengthened recently. Ms. Yellen stated: "In light of the  
10 continued solid performance of the labor market and our outlook for economic  
11 activity and inflation, I believe the case for an increase in the federal funds rate  
12 has strengthened in recent months."<sup>21</sup>

13 **Q15. What is the financial market's perspective on the likelihood for future**  
14 **increases in interest rates?**

15 A15. The 30-day average yield on the 30-year U.S. Treasury bond as of July 31, 2016  
16 was 2.23 percent, but according to Blue Chip Financial Forecasts, yields on 30-  
17 year Treasury bonds are forecasted to increase to 4.30 percent between 2018 and  
18 2022.<sup>22</sup>

19 Investors also are influenced by both the historical and projected level of inflation.  
20 As also shown on Page 1 of Schedule 1 of Exhibit No.\_\_\_\_(JSG-2), during the past  
21 decade, the Consumer Price Index has increased at an average annual rate of 2.1

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<sup>21</sup> "Fed's Yellen says case for interest rate hike has strengthened," Reuters Business News, August 26, 2016.

<sup>22</sup> Blue Chip Financial Forecasts, Volume 35, No. 6, June 1, 2016, at 14.

1 percent and the GDP Implicit Price Deflator, a measure of price changes for all  
2 goods produced in the United States, has increased at an average rate of 1.9  
3 percent. The extraordinary quantitative easing during the past eight years has  
4 pumped trillions of dollars of additional money into the economy without creating  
5 much stimulus in economic activity. Instead, the new money has either been used  
6 to artificially inflate the prices of stocks and bonds, or it has been used to create a  
7 huge increase in the cash held by corporations, individuals and banks. These  
8 enormous increases in cash holdings represent pent up inflation in the economy.  
9 Once the expanded cash holdings begin to be spent there will be “too many dollars  
10 chasing too few goods” – which is the classic definition of inflation. An increase  
11 in inflation rates will adversely affect regulated utility investments more than most  
12 other investments in the economy.

13 **Q16. Are expectations for higher interest rates, wider credit spreads, lower**  
14 **dividend yields, and high stock valuations for utility companies already**  
15 **reflected in the cost of equity produced by the DCF model?**

16 A16. In theory, and during times of general economic and capital market stability, I  
17 believe that the DCF analysis reflects market conditions and investor  
18 expectations. However, in the current market environment, the DCF model  
19 results are being distorted by the uncommonly low level of interest rates. Value  
20 Line recently observed that dividend yields for electric utilities are currently well  
21 below the historical average, that many of these stocks trade at a premium to the

1 market, which is very unusual for utilities, and that high valuations on utility  
2 shares are not expected to be sustained over the three-to-five year period.<sup>23</sup>

3 **Q17. Have other regulatory agencies recognized the effect of anomalous capital**  
4 **market conditions on the DCF model?**

5 A17. Yes. In two recent decisions, the FERC has recognized that recent anomalous  
6 conditions in capital markets have affected the results of the DCF model. In  
7 particular, the FERC has found that 10-year Treasury bond yields are evidence of  
8 anomalous conditions in capital markets, and that the low interest rate  
9 environment is reducing the dividend yield component of the DCF model, stating:

10 As is discussed, *infra*, the level of the dividend yield affects  
11 the reliability of the DCF process when that level is lower than  
12 the level acceptable to investors that value utility stocks based  
13 on their estimated long-term dividend growth. The record  
14 creates cause for concern that during a period including the  
15 Study Period, investors valuing utility stocks based solely or  
16 primarily on their current yield bid the prices of the proxy  
17 group stocks up to levels that rendered their Total Returns  
18 unacceptable to investors that valued such stocks based on  
19 their estimated long-term dividend growth. For reasons set  
20 out below, this record evidence creates further cause for  
21 concern that placement of the MISO TOs' Base ROE at the  
22 Midpoint may not meet the requirements of Hope.<sup>24</sup>

23  
24 The FERC also observed that due to anomalous conditions in capital markets (i.e.,  
25 low Treasury bond yields) the midpoint results of the DCF model are not a  
26 reasonable estimate of the cost of equity at this time, stating:

27 The yields of 10-year Treasury Bonds during the Study Period  
28 continue to reflect economic conditions that could render  
29 inputs to the DCF analysis unrepresentative. During the study  
30 period, the yields of 10-year Treasury Bonds averaged 2.21

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<sup>23</sup> Value Line Investment Survey, Electric Utility (East) Industry, August 19, 2016, at 140.

<sup>24</sup> 155 FERC ¶ 63,030 (June 30, 2016) at para. 128.

1 percent. That yield was 38 basis points higher than the  
2 average yield of those bonds during the Opinion No. 531 study  
3 period, but 79 basis points below the 3.0 percent level that so  
4 concerned the Commission in Opinion No. 531. If the average  
5 10-year Treasury-Bond yields for the Opinion No. 531 study  
6 period reflected economic conditions that could serve to  
7 render financial inputs into the DCF model unrepresentative,  
8 the average bond yields for the study period in this proceeding  
9 are close enough to the earlier yields to reflect the same  
10 conditions. Accordingly, the level of 10-year Treasury Bond  
11 yields during the Study Period create sufficient doubt  
12 regarding the representativeness of DCF inputs to warrant an  
13 examination of alternative metrics prior to making a final  
14 determination as to the level of the MISO TOs' Base ROE.<sup>25</sup>  
15

16 Consequently, the FERC has determined that it is necessary to consider the results  
17 of other Risk Premium models (such as a forward-looking CAPM analysis and a  
18 Bond Yield Plus Risk Premium methodology) and returns in other jurisdictions in  
19 order to assess the reasonableness of the DCF results and to determine where to  
20 set the appropriate return within the range of results.

21 **Q18. What is your conclusion regarding the effect of capital market conditions on**  
22 **the authorized ROE for Montana-Dakota North Dakota?**

23 A18. My primary conclusion is that, under current market conditions, the DCF model is  
24 not adequately reflecting the returns that investors require to justify investment in  
25 new plant and equipment. Investors expect interest rates to increase as the  
26 Federal Reserve withdraws the extraordinary level of monetary stimulus that has  
27 been provided to the U.S. economy since the Great Recession. The DCF model  
28 does not adequately reflect these unusual market conditions and this fact is an  
29 important consideration in determining where the ROE should be set within the  
30 range of results established by the DCF model.

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<sup>25</sup> *Id.*, at paragraph 126.

1 C. Discounted Cash Flow (“DCF”) Method

2 **Q19. Please describe the DCF method of estimating the cost of common equity**  
3 **capital.**

4 A19. The DCF method reflects the assumption that the market price of a share of  
5 common stock represents the discounted present value of the stream of all future  
6 dividends that investors expect the firm to pay. The DCF method suggests that  
7 investors in common stocks expect to realize returns from two sources: a current  
8 dividend yield plus expected growth in the value of their shares as a result of  
9 future dividend increases. Estimating the cost of capital with the DCF method,  
10 therefore, is a matter of calculating the current dividend yield and estimating the  
11 long-term future growth rate in dividends that investors reasonably expect from a  
12 company.

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

1 **Q20. What is the appropriate DCF formula to use in this proceeding?**

2 A20. There can be many different versions of the basic DCF formula, depending on the  
 3 assumptions that are most reasonable regarding the timing of future dividend  
 4 payments. In my opinion, it is most appropriate to use a model that is based on  
 5 the assumptions that dividends are paid quarterly and that the next annual  
 6 dividend increase is a half year away. One version of this quarterly model  
 7 assumes that the next dividend payment will be received in three months, or one  
 8 quarter. This model multiplies the dividend yield by  $(1 + 0.75g)$ . Another  
 9 version assumes that the next dividend payment will be received today. This  
 10 model multiplies the dividend yield by  $(1 + 0.5g)$ . Since, on average, the next  
 11 dividend payment is a half quarter away, the average of the results of these two  
 12 models is a reasonable approximation of the average timing of dividends and  
 13 dividend increases that investors can expect from companies that pay dividends  
 14 quarterly. The average of these two quarterly dividend models is:

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

15

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

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

19  $D_0 =$  the current annual dividend rate; and

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

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

1 D. Flotation Cost Adjustment

2 **Q21. Does the investor return requirement that is estimated by a DCF analysis**  
3 **need to be adjusted for flotation costs in order to estimate the cost of capital?**

4 A21. Yes. There are significant costs associated with issuing new common equity  
5 capital, and these costs must be considered in determining the cost of capital.  
6 Schedule 2 of Exhibit No.\_\_(JSG-2) shows a representative sample of flotation  
7 costs incurred with 41 new common stock issues by electric utilities from May  
8 2006 through May 2016. Flotation costs associated with these new issues  
9 averaged 3.16 percent.

10 This indicates that in order to be able to issue new common stock on reasonable  
11 terms, without diluting the value of the existing stockholders' investment,  
12 Montana-Dakota must have an expected return that places a value on its equity  
13 that is approximately 3.2 percent above book value. The cost of common equity  
14 capital is therefore the investor return requirement multiplied by 1.032.

15 One purpose of a flotation cost adjustment is to compensate common equity  
16 investors for past flotation costs by recognizing that their real investment in the  
17 company exceeds the equity portion of the rate base by the amount of past  
18 flotation costs. For example, the proxy companies generally have incurred  
19 flotation costs in the past and, thus, the cost of capital invested in these companies  
20 is the investor return requirement plus an adjustment for flotation costs. A more  
21 important purpose of a flotation cost adjustment is to establish a return that is  
22 sufficient to enable a company to attract capital on reasonable terms. This

1 fundamental requirement of a fair rate of return is analogous to the well-  
2 understood basic principle that a firm, or an individual, should maintain a good  
3 credit rating even when they do not expect to be borrowing money in the near  
4 future. Regardless of whether a company can confidently predict its need to issue  
5 new common stock several years in advance, it should be in a position to do so on  
6 reasonable terms at all times without dilution of the book value of the existing  
7 investors' common equity. This requires that the flotation cost adjustment be  
8 applied to the entire common equity investment and not just a portion of it.

9 E. DCF Study of Electric Utility Companies

10 **Q22. Would you please describe the overall approach used in your DCF analysis**  
11 **of Montana-Dakota's cost of common equity for its North Dakota electric**  
12 **utility operations?**

13 A22. Because Montana-Dakota's North Dakota electric utility operations must compete  
14 for capital with many other potential projects and investments, it is essential that it  
15 have an allowed return that matches the returns potentially available from other  
16 similarly risky investments. The DCF method usually provides a good measure  
17 of the returns required by investors in the financial markets. However, the DCF  
18 method requires a market price of common stock to compute the dividend yield  
19 component. Since Montana-Dakota is a division of MDU Resources and does not  
20 have publicly-traded common stock, a direct, market-based DCF analysis of  
21 Montana-Dakota's North Dakota electric utility operations as a stand-alone  
22 company is not possible. As an alternative, I have used a group of electric  
23 utilities that have publicly-traded common stock as a proxy group for purposes of

1 estimating the cost of common equity for Montana-Dakota's North Dakota  
2 electric utility operations.

3 **Q23. How did you select a group of electric utility proxy companies?**

4 A23. I started with the 43 companies that Value Line classifies as Electric Utilities to  
5 ensure that the company is considered to be primarily engaged in the electric  
6 utility business and that retention growth rate projections are available. From that  
7 group, I eliminated any companies that did not have investment-grade credit  
8 ratings from either Standard & Poor's ("S&P") or Moody's Investors Service  
9 ("Moody's") because such companies are not sufficiently comparable in terms of  
10 business and financial risk to Montana-Dakota. In order to ensure that the  
11 company is primarily engaged in the electric utility business, I eliminated any  
12 company that did not derive at least 75 percent of its operating income from  
13 regulated electric utility operations in 2015, or that did not have at least 75  
14 percent of its total assets devoted to the provision of electric utility service in  
15 2015. Lastly, in order to ensure that the proxy companies have risks that are most  
16 similar to those of Montana-Dakota I included only companies that own a large  
17 share of their own generation and that also have significant exposure to the risks  
18 of coal-fired generation. For example, Montana-Dakota generated approximately  
19 72 percent of its energy needs in 2014 and 52 percent of its energy needs in 2015.  
20 As shown on Table 2, a return to greater company-owned generation has been  
21 occurring in 2016. Approximately, 88 percent of the generation on Montana-  
22 Dakota's integrated system was from coal-fired power plants.<sup>26</sup> In selecting

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<sup>26</sup> MDU Resources Group, Inc., Form 10-K for the fiscal year ended December 31, 2015, at 9.

1 proxy companies for my analysis, with one exception, I excluded any company  
2 that did not produce at least 50.0 percent of its energy requirements from  
3 company-owned generation in 2015 and I excluded companies that did not use  
4 coal for at least 50.0 percent of its energy production in 2015. I included Otter  
5 Tail Corporation (“Otter Tail”) in my proxy group even though it did not generate  
6 50 percent of its net generation from company owned sources in 2015. Otter Tail,  
7 which also owns a portion of Big Stone and Coyote, saw a decrease in company-  
8 owned generation in 2015 similar to that of Montana-Dakota because those units  
9 were off-line for repairs. Otter Tail’s generation is more than 75 percent coal-fired  
10 and its company-owned generation can be expected to return to normal in future  
11 years.<sup>27</sup> Because it operates in overlapping states and shares ownership in certain  
12 plants, Otter Tail’s risks are similar to those of Montana-Dakota and it should be  
13 included in the proxy group. As shown on page 1 of Schedule 3 of Exhibit  
14 No. \_\_\_(JSG-2), eight companies met these criteria for inclusion in the proxy  
15 group.

16 **Q24. How did you calculate the dividend yields for the companies in your proxy**  
17 **group?**

18 A24. These calculations are shown on pages 1 through 4 of Schedule 4 of Exhibit  
19 No. \_\_\_(JSG-2). For the price component of the calculation, I used the average of  
20 the high and low stock prices for each month during the six-month period from  
21 February 2016 through July 2016. The average monthly dividend yields were  
22 calculated for each company by dividing the prevailing annualized dividend for

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<sup>27</sup> Otter Tail Corporation Form 10Q for the second quarter of fiscal year 2016 at pages 33 and 38.

1 the period by the average of the stock prices for each month. These dividend  
2 yields were then multiplied by the quarterly DCF model factor  $(1 + 0.625g)$  to  
3 arrive at the projected dividend yield component of the DCF model.

4 **Q25. Please describe the method you used to estimate the future growth rate that**  
5 **investors expect from this group of companies.**

6 A25. I developed two different DCF analyses of the proxy companies based on two  
7 different growth rate estimation methods. There are many methods that  
8 reasonably can be employed in formulating a growth rate estimate, but an analyst  
9 must attempt to ensure that the end result is an estimate that fairly reflects the  
10 forward-looking growth rate that investors expect.

11 In the first approach, I conducted a Basic DCF analysis that relied on analysts'  
12 earnings forecasts from Zacks and Yahoo Finance for the growth rate component  
13 of the model. My second approach calculated the retention growth (also known  
14 as "sustainable growth") forecasts using Value Line forecasts of dividends,  
15 earnings, and returns on equity and blended those growth rates with the average  
16 analyst growth rates used in my Basic DCF analysis. In this Blended DCF  
17 analysis I gave the average analyst growth rates a 2/3 weight and the retention  
18 growth rate a 1/3 weight.

1 F. Basic DCF Analysis

2 **Q26. Q25. How did you estimate the expected future growth rate in your Basic**  
3 **DCF analysis?**

4 A26. In my Basic DCF analysis, I have estimated expected future growth based on  
5 long-term earnings per share growth rate forecasts of investment analysts, which  
6 are an important source of information regarding investors' growth rate  
7 expectations. This Basic DCF analysis assumes that the analysts' earnings growth  
8 forecasts incorporate all information required to estimate a long-term expected  
9 growth rate for a company. Zacks is a service that collects earnings growth  
10 estimates by professional investment analysts and publishes a summary of the  
11 consensus forecasts. In addition, Yahoo Finance also publishes earnings growth  
12 estimates from investment analysts. I have used the average of the Zacks and  
13 Yahoo consensus forecasts as the primary source for analysts' forecasts in my  
14 calculations. As shown on page 5 of Schedule 4 of Exhibit No.\_\_(JSG-2), the  
15 average of the analysts' long-term earnings growth rate estimates for the electric  
16 utility proxy companies is 5.80 percent.

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

18 A27. These calculations are shown on page 6 of Schedule 4 of Exhibit No.\_\_(JSG-2).  
19 Again, the annual dividend yield is multiplied by the quarterly dividend  
20 adjustment factor  $(1 + 0.625g)$  and this product is added to the growth rate  
21 estimate to arrive at the investor-required return. Then, the investor return  
22 requirement is multiplied by the flotation cost adjustment factor, 1.032, to arrive  
23 at the Basic DCF estimate of the cost of common equity capital for the proxy

1 companies. The Basic DCF analysis indicates a cost of common equity for the  
2 proxy companies in a range from 7.97 percent to 11.33 percent. In this analysis,  
3 the median for the group is 9.42 percent and the third quartile is 10.18 percent.

4 G. Blended Growth Rate Analysis

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

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

10 **Q29. Please describe the Retention Growth rate component of your analysis.**

11 A29. I have relied upon Value Line projections of the retention growth rates that the  
12 proxy companies are expected to begin maintaining three to five years in the  
13 future. Although companies may experience extended periods of growth for other  
14 reasons, in the long-run, growth in earnings and dividends per share depend in  
15 part on the amount of earnings that is being retained and reinvested in a company.  
16 Thus, the primary determinants of growth for the proxy companies will be (i) their  
17 ability to find and develop profitable opportunities; (ii) their ability to generate  
18 profits that can be reinvested in order to sustain growth; and, (iii) their willingness  
19 and inclination to reinvest available profits. Expected future retention rates  
20 provide a general measure of these determinants of expected growth, particularly  
21 items (ii) and (iii).

1 **Q30. How can a company's earnings retention rate affect its future growth?**

2 A30. Retention of earnings causes an increase in the book value per share and, other  
3 factors being equal, increases the amount of earnings that is generated per share of  
4 common stock. The retention growth rate can be estimated by multiplying the  
5 expected retention rate (*b*) by the rate of return on common equity (*r*) that a  
6 company is expected to earn in the future. For example, a company that is  
7 expected to earn a return of 12 percent and retain 75 percent of its earnings might  
8 be expected to have a growth rate of 9 percent, computed as follows:

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

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

13 
$$0.25 \times 12\% = 3\%$$

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

16 **Q31. How did you calculate the expected future retention rates of the proxy**  
17 **companies?**

18 A31. For most companies, Value Line publishes forecasts of data that can be used to  
19 estimate the retention rates that its analysts expect individual companies to have  
20 three to five years in the future. Since these retention rates are projected to occur  
21 several years in the future, they should be indicative of a normal expectation for a

1 primary underlying determinant of growth that would be sustainable indefinitely  
2 beyond the period covered by analysts' forecasts. While companies may have  
3 either accelerating or decelerating growth rates for extended periods of time, the  
4 retention growth rates expected to be in effect three to five years in the future  
5 generally represent a minimum "cruising speed" that companies can be expected  
6 to maintain indefinitely. The derivation of Value Line's retention growth rate  
7 forecasts for each of the proxy companies is shown on page 4 of Schedule 4 of  
8 Exhibit No.\_\_(JSG-2). The projected earnings per share and projected dividends  
9 per share can be used to calculate the percentage of earnings per share that is  
10 being retained and reinvested in the company. This earnings retention rate is  
11 multiplied by the projected return on common equity to arrive at the projected  
12 retention growth rate. The average retention growth rate for the proxy companies  
13 is 3.86 percent.

14 **Q32. How did you utilize the analysts' projected earnings growth rates and the**  
15 **projected earnings retention growth rates in estimating expected growth for**  
16 **the proxy companies in the Blended Growth Rate Analysis?**

17 A32. As shown on page 5 of Schedule 4 of Exhibit No.\_\_(JSG-2), I calculated a  
18 weighted average of the analysts' projected earnings growth rates and the  
19 projected retention growth rates to derive long-term growth rate estimates for  
20 each of the proxy companies. In these calculations, I gave a two-thirds weighting  
21 to the analysts' earnings growth rate projections and a one-third weighting to the  
22 projected retention growth rates. The average of the blended growth rates for the  
23 proxy companies is 5.16 percent and the median is 4.97 percent.

1 **Q33. How did you utilize these Blended Growth Rate estimates in estimating the**  
2 **return on common equity capital that investors require from the proxy**  
3 **companies?**

4 A33. These calculations are shown on page 7 of Schedule 4 of Exhibit No. \_\_\_(JSG-2).  
5 Again, the annual dividend yield for each company is multiplied by the quarterly  
6 dividend adjustment factor ( $1 + 0.625g$ ), and this product is added to the growth  
7 rate estimate to arrive at the investor-required return. Finally, the investor return  
8 requirement is multiplied by the flotation cost adjustment factor, 1.032, to arrive  
9 at the cost of common equity capital for the proxy companies. This Blended  
10 Growth Rate Analysis indicates that the cost of common equity capital for the  
11 electric utility proxy companies is in a range between 7.68 percent and 9.97  
12 percent. In this analysis, the median for the group is 8.70 percent and the third  
13 quartile is 9.60 percent.

14 H. Risk Premium Analysis

15 **Q34. Have you conducted additional analyses in determining the cost of equity**  
16 **capital for Montana-Dakota?**

17 A34. Yes. The risk premium approach provides a general guideline for determining the  
18 level of returns that investors expect from an investment in common stocks.  
19 Investments in the common stocks of companies carry considerably greater risk  
20 than investments in bonds of those companies since common stockholders receive  
21 only the residual income that is left after the bondholders have been paid. In  
22 addition, in the event of bankruptcy or liquidation of the company, the  
23 stockholders' claims on the assets of a company are subordinate to the claims of

1 bondholders. This priority standing provides bondholders with greater assurances  
2 that they will receive the return on investment that they expect and that they will  
3 receive a return of their investment when the bonds mature. Accompanying the  
4 greater risk associated with common stocks is a requirement by investors that they  
5 can expect to earn, on average, a return that is greater than the return they could  
6 earn by investing in less risky bonds. Thus, the risk premium approach estimates  
7 the return investors require from common stocks by utilizing current market  
8 information that is readily available in bond yields and adding to those yields a  
9 premium for the added risk of investing in common stocks.

10 Investors' expectations for the future are influenced to a large extent by their  
11 knowledge of past experience. Ibbotson Associates annually publishes extensive  
12 data regarding the returns that have been earned on stocks, bonds and U.S.  
13 Treasury bills since 1926. Historically, the annual return on large company  
14 common stocks has exceeded the return on long-term corporate bonds by a  
15 premium of 570 basis points (5.7 percent) per year from 1926-2015.<sup>28</sup> When this  
16 premium is added to the average yield on Moody's corporate bonds for the period  
17 from August 2015 through July 2016 of 4.32 percent<sup>29</sup>, the result is an investor  
18 return requirement for large company stocks of approximately 10.02 percent.  
19 However, investors in smaller companies expect higher returns over the long-  
20 term, due to the additional business and financial risks that smaller companies  
21 face. According to Ibbotson Associates, companies in the same size range as

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<sup>28</sup> Ibbotson SBBI 2015 Classic Yearbook, at 91. Calculation: (12.1 percent – 6.4 percent = 5.7 percent)

<sup>29</sup> Exhibit No.\_\_(JSG-2), Schedule 1, at 4.

1 Montana-Dakota's North Dakota electric operations have had a premium of 995  
 2 basis points (9.95 percent) over the average return on long-term corporate  
 3 bonds.<sup>30</sup> When added to the recent average corporate bond yield, this size-related  
 4 premium suggests an expected return of 14.10 percent. This analysis indicates  
 5 that the rate of return that I am proposing in this proceeding would be low relative  
 6 to the historic risk premiums earned by similarly-sized unregulated companies.

7 **Q35. Did you also perform another risk premium analysis?**

8 A35. Yes, I did. Research studies provide empirical support for the proposition that  
 9 equity risk premia generally increase as interest rates decrease, and vice versa. In  
 10 fact, the data provided in Schedule 5, Exhibit No.\_\_(JSG-02) produce statistical  
 11 results that are consistent with existing research in this area. Using this data, I  
 12 performed a linear regression to estimate the relationship between 30-year U.S.  
 13 Treasury bonds and the risk premium required for regulated electric distribution  
 14 companies. The resulting equation is presented in Schedule 5, Exhibit  
 15 No.\_\_(JSG-02) and re-created below:

16 
$$\text{Intercept} + \text{Coefficient} \times \text{Bond Yield} = \text{Risk Premium}$$

17 
$$0.085266 + (- 0.55691 \times \text{Bond Yield}) = \text{Risk Premium}$$

18 The regression statistics indicate that this equation is statistically significant and  
 19 the R-square reveals that approximately 76 percent of the variation in the risk

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<sup>30</sup> Ibbotson SBBI 2015 Classic Yearbook, at 91 and 109. Ibbotson Associates defines size ranges based on market capitalization. I calculated the implied market capitalization for Montana-Dakota's North Dakota electric operations based on the Company's projected average rate base for 2015 (\$556.6 million) and the projected average equity ratio for 2015 (50.23 percent). This places Montana-Dakota's North Dakota electric operations in Ibbotson Associates' tenth decile. Calculation: 16.35 percent – 6.4 percent = 9.95 percent.

1 premium is explained by the bond yield. The negative coefficient in the above  
2 equation demonstrates the inverse relationship between bond yields and the risk  
3 premium. For every change of 100 basis points in the bond yield, the risk  
4 premium changes by approximately 56 basis points in the opposite direction.

5 This electric utility Risk Premium analysis was conducted using three different  
6 risk-free rates: (1) the current average yield on 30-year Treasury bonds; (2) the  
7 near-term projected yields on 30-year Treasury bonds in 2016 and 2017; and (3)  
8 the longer-term projected yields on 30-year Treasury bonds from 2018-  
9 2022. Based on these three interest rates, the regression equation produces an  
10 average ROE estimate is 9.94 percent.

11 I. Market DCF Analysis

12 **Q36. What other analysis did you conduct in determining the cost of equity capital**  
13 **for Montana-Dakota?**

14 A36. For an additional benchmark of the reasonableness of my DCF results, I  
15 calculated the current required return for the companies contained in the S&P  
16 500. Using data provided by the Bloomberg Professional service, I performed a  
17 market capitalization-weighted DCF calculation on the S&P 500 companies based  
18 on the current dividend yields and long-term growth rate estimates as of July 31,  
19 2016. These calculations are shown in Schedule 6 of Exhibit No. \_\_\_(JSG-2).  
20 The current secondary market required ROE for the S&P 500 is 11.94 percent.  
21 This analysis indicates that the rate of return that I am proposing in this

1 proceeding is low relative to the return required by investors who invest in the  
2 S&P 500.

3 J. Forward-Looking CAPM

4 **Q37. Many analysts would argue that vertically integrated electric companies are**  
5 **less risky than the S&P 500 companies. Does this make the S&P 500 a poor**  
6 **benchmark for evaluating the DCF results?**

7 A37. No. The DCF required return for the S&P 500 is significantly greater than the  
8 return required for the electrics company proxy group, and the large magnitude of  
9 this difference is an indicator that the electric utility proxy company DCF results  
10 may be on the low side. Some analysts use the capital asset pricing model  
11 (“CAPM”) to adjust for differences in risk between the market average and a  
12 particular group of proxy companies. While I do not consider the CAPM to be a  
13 reliable measure of the cost of capital, one could use it to adjust the S&P 500  
14 results to achieve a risk-adjusted benchmark for the electric company proxy  
15 group. For example, Beta is frequently used as the measure of relative risk in the  
16 CAPM. As shown on page 1 of Exhibit No.\_\_(JSG-2), Schedule 7, the betas  
17 estimated by Value Line for the proxy companies are in a range between 0.65 and  
18 0.80. However, financial research has shown that the capital asset pricing model  
19 underestimates the returns required by smaller companies. As a result,  
20 Ibbotson/Morningstar has calculated the amount that CAPM results should be  
21 adjusted to eliminate the bias inherent in CAPM estimates of the cost of common  
22 equity. These adjustments are shown on Exhibit No.\_\_(JSG-2), Schedule 7, page  
23 2. Using the Value Line beta estimates and the Ibbotson adjustments for bias

1 suggests that the CAPM estimate of the cost of common equity is in a range between  
2 8.90 and 11.86 percent.<sup>31</sup> The median unbiased CAPM result for the proxy  
3 companies is 10.48 percent.

4 K. Relative Risk Analysis

5 **Q38. Have you compared the risks faced by Montana-Dakota's North Dakota**  
6 **electric utility operations with the risks faced by the proxy group of**  
7 **companies?**

8 A38. Yes. There are four broad categories of risk that concern investors. These  
9 include:

- 10 1. Business Risk;
- 11 2. Regulatory Risk;
- 12 3. Financial Risk; and,
- 13 4. Market Risk.

14 **Q39. Please describe the business risks inherent in the electric utility industry.**

15 A39. Business risk refers to the ability of the firm to generate revenues that exceed its  
16 cost of operations. Business risk exists because forecasts of both demand and  
17 costs are inherently uncertain. Markets change and the level of demand for the  
18 firm's output may be sufficient to cover its costs at one time and later become  
19 insufficient. Sunk investments in long-lived electric utility assets, for which cost  
20 recovery occurs over a period of thirty years or more, are subject to enormous

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<sup>31</sup> In several recent decisions the U.S. Federal Energy Regulatory Commission has determined that current DCF estimates of the cost of equity are too low as a result of the current abnormal financial market conditions. In those opinions FERC used the CAPM as a benchmark and set the allowed rate of return above the median indicated by a DCF analysis of proxy companies. See, for example, *Martha Coakley, et al. v. Bangor Hydro-Electric Company, et al.*, Opinion No. 531, 147 FERC ¶61,234 (2014); aff'd in Opinion No. 531-B, 150 FERC ¶61,165 (March 3, 2015).

1           uncertainties and risks that demand, costs, supply, and competition may change in  
2           ways that adversely affect the value of the investment.

3   **Q40. Is it appropriate to evaluate the risks of Montana-Dakota's North Dakota**  
4   **electric utility operations on a stand-alone basis for ratemaking purposes?**

5   A40. Yes. The stand-alone principle is widely-recognized in public utility regulation.  
6           This is the principle that regulated rates and the allowed rate of return should be  
7           set at a level that reflects the risks and investment characteristics of the regulated  
8           entity alone, as if it has no affiliates. If a parent company has greater risks, or  
9           lesser risks, than the regulated company, that fact should not affect the allowed  
10          rate of return. Similarly, the risks and financial positions of the parent, affiliates,  
11          subsidiaries or other jurisdictions of the regulated company should not be  
12          considered in setting rates for a regulated company. Many regulators have  
13          adopted the stand-alone principle in part to insulate ratepayers from the higher  
14          risks associated with possibly higher risk activities of the non-jurisdictional  
15          operations of a holding company.

16          In this case, the equity capital used to finance MDU's regulated electric utility  
17          operations in North Dakota is obtained from the parent company, MDU Resources  
18          Group. However, the North Dakota electric operation must compete for equity  
19          capital with other divisions, subsidiaries and jurisdictions within the MDU  
20          organization, and therefore must offer a return on a stand-alone basis that is  
21          competitive with the return available to other investments. For these reasons,  
22          Montana-Dakota's North Dakota electric operation should be evaluated as a stand-  
23          alone entity.

1 **Q41. Do Montana-Dakota’s North Dakota electric operations operate in a local**  
2 **economy that poses unusually high risks relative to the proxy companies?**

3 A41. Yes. The economy of western North Dakota experienced rapid growth earlier in  
4 this decade due to technological advances that led to a boom in shale oil  
5 production. However, a precipitous decline in oil prices has caused the local  
6 economy to contract during the past year. A prolonged period of low oil prices  
7 will adversely affect the local economy and Montana-Dakota’s ability to recover  
8 its costs in the long run. Other utilities in the proxy group also face cost recovery  
9 risks, but Montana-Dakota’s North Dakota operation is more exposed to a volatile  
10 “boom and bust” economy than any of the proxy companies.

11 **Q42. What are some of the other business risks faced by Montana-Dakota’s North**  
12 **Dakota electric utility operations?**

13 A42. The Company’s electric utility operations in North Dakota face many of the same  
14 business risks that are associated with other electric utilities. However, as shown  
15 on page 1 of Schedule 3 of Exhibit No.\_\_(JSG-2), Montana-Dakota’s North  
16 Dakota electric utility operations are considerably smaller than the operations of  
17 any of the proxy companies and a small fraction of the size of the typical proxy  
18 company. For example, Montana-Dakota’s North Dakota electric utility total  
19 assets are equal to only 3.1 percent of the assets of the median proxy company.  
20 Similarly, Montana-Dakota’s North Dakota electric utility operating revenues and  
21 operating income are only 3.9 percent and 3.7 percent of the level for the median  
22 proxy company, respectively. Thus, depending upon the measure of size, the  
23 typical proxy company is somewhere between 26 and 32 times the size of

1 Montana-Dakota's North Dakota electric utility operations. The Company's  
2 smaller size has significant implications for business risks. As noted earlier,  
3 Ibbotson Associates has documented the significantly higher returns that have been  
4 associated with small companies. Considering only its smaller size, Montana-  
5 Dakota's North Dakota electric utility operations might require a return that is  
6 more than 100 basis points higher than the return required for the typical proxy  
7 company.

8 In addition, Montana-Dakota's generation portfolio is heavily reliant on coal. In  
9 2015, 88 percent of its generation was fueled by coal. Montana-Dakota has the  
10 highest proportion of coal-fired generation of my entire proxy group of electric  
11 companies. Utilities with generation that is heavily weighted toward one fuel  
12 source face greater risks that adverse circumstances will arise that render much of  
13 their generating capacity uneconomic. Montana-Dakota's customers have  
14 benefited greatly from the company's use of low-cost coal, but there is an element  
15 of risk associated with its current generating mix. In August, 2015 the  
16 Environmental Protection Agency issued final rules for the Clean Power Plan  
17 ("CPP"), which is a plan to cut carbon emissions from existing power plants.  
18 Then in February, 2016, the Supreme Court granted a stay to the CPP halting its  
19 implementation. Arguments at the U.S. Court of Appeals are under way.  
20 Nonetheless, complying with this regulation poses additional business risk as  
21 sizable future capital expenditures may be required and existing plants may be  
22 forced to close. This burden could weigh heavily on companies like Montana-  
23 Dakota that own a significant amount of coal-fired generation assets.

1 In addition, as natural gas prices remain at historically low levels, coal-fired  
2 generation faces an increased risk of becoming uneconomic. In fact, most new  
3 generation constructed in recent years has been fueled with natural gas as a result  
4 of low natural gas prices and new generating technologies, or wind power due to  
5 various subsidies and mandates for renewable generating technologies.

6 **Q43. How do these risks affect the cost of capital?**

7 A43. The effect of size on required returns is well-established in the finance literature.  
8 For example, Fama and French found that firm size (with smaller companies  
9 requiring higher returns) and market-to-book ratio are the two variables that best  
10 explain the returns for common stocks.<sup>32</sup> The higher rate of return required by  
11 smaller utility operations also has been demonstrated empirically.<sup>33</sup>

12 In addition, Moody's Investors Service ("Moody's") has described how it  
13 considers the size and diversity of utility operations, as well as the local economy,  
14 in its evaluation of risks. Specifically, in "Rating Methodology for Regulated  
15 Electric and Gas Utilities" Moody's stated:

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<sup>32</sup> Fama and French, "The Cross-Section of Expected Stock Returns," *Journal of Finance*, Vol. XLVII, No. 2, June 1992, 427-465.

<sup>33</sup> Michael Annin, *Equity and the Small-Stock Effect*, Public Utilities Fortnightly, October 15, 1995.

1 We also consider the diversity of utility operations (e.g., regulated  
2 electric, gas, water, steam) when there are material operations in  
3 more than one area. Economic diversity is a typically a function of  
4 the population, size and breadth of the territory and the businesses  
5 that drive its GDP and employment. For the size of the territory,  
6 we typically consider the number of customers and the  
7 volumes of generation and/or throughput. For breadth, we  
8 consider the number of sizeable metropolitan areas served, the  
9 economic diversity and vitality in those metropolitan areas,  
10 and any concentration in a particular area or industry.<sup>34</sup>

11 Montana-Dakota's North Dakota electric service territory is characterized by the  
12 small size and the undiversified local economy described by Moody's. In fact, the  
13 heavy dependence on the "boom and bust" oil production industry places  
14 Montana-Dakota's North Dakota operation at the high end of this risk described by  
15 Moody's.

16 **Q44. What are the regulatory risks faced by Montana-Dakota's North Dakota**  
17 **electric utility operations?**

18 A44. Regulatory risk is closely related to business risk and might be considered just  
19 another aspect of business risk. To the extent that the market demand for an  
20 electric utility's services is sufficiently strong that the company could conceivably  
21 recover all of its costs, regulators may nevertheless set the rates at a level that will  
22 not allow for full cost recovery. In effect, the binding constraint on electric  
23 utilities is often posed by regulation rather than by the working of market forces.  
24 One purpose of regulation is to provide a substitute for competition where  
25 markets are not workably competitive. As such, regulation often attempts to

---

<sup>34</sup> Moody's Investors Service, "Rating Methodology: Regulated Electric and Gas Utilities,"  
December 23, 2013, p. 19, emphasis added.

1 replicate the type of cost discipline and risks that might typically be found in  
2 highly competitive industries.

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

10 The regulatory environment can significantly affect both the access to, and cost of  
11 capital in several ways. As noted by Moody's, "the predictability and  
12 supportiveness of the regulatory framework in which it [a regulated utility]  
13 operates is a key credit consideration and the one that differentiates the industry  
14 from most other corporate sectors."<sup>35</sup> Moody's further noted that:

15 Utility rates are set in a political/regulatory process rather than a  
16 competitive or free-market process; thus, the Regulatory  
17 Framework is a key determinant of the success of a utility. The  
18 Regulatory Framework has many components: the governing body  
19 and the utility legislation or decrees it enacts, the manner in which  
20 regulators are appointed or elected, the rules and procedures  
21 promulgated by those regulators, the judiciary that interprets the  
22 laws and rules and that arbitrates disagreements, and the manner in  
23 which the utility manages the political and regulatory process. In  
24 many cases, utilities have experienced credit stress or default  
25 primarily or at least secondarily because of a break-down or  
26 obstacle in the Regulatory Framework – for instance, laws that  
27 prohibited regulators from including investments in uncompleted  
28 power plants or plants not deemed "used and useful" in rates, or a

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<sup>35</sup> Moody's Investors Service, *Regulated Electric and Gas Utilities*, December 23, 2013, at 9.

1 disagreement about rate-making that could not be resolved until  
2 after the utility had defaulted on its debts.<sup>36</sup>

3 Regulatory Research Associates assigns a rating of Average / 1 to the North  
4 Dakota Public Service Commission. This rating suggests average regulatory risk  
5 for Montana-Dakota's North Dakota electric utility operations.

6 **Q45. Would you please describe Montana-Dakota's relative financial risks?**

7 A45. Financial risk exists to the extent that a company incurs fixed obligations in  
8 financing its operations. These fixed obligations increase the level of income  
9 which must be generated before common stockholders receive any return and  
10 serve to magnify the effects of business and regulatory risks. Fixed financial  
11 obligations also increase the probability of bankruptcy by reducing the company's  
12 financial flexibility and ability to respond to adverse circumstances. One possible  
13 indicator of investors' perceptions of relative financial risk in this case might be  
14 obtained from credit ratings. Because Montana-Dakota, as a division of MDU  
15 Resources, does not have its own bonds outstanding, it is difficult to make direct  
16 comparisons between the ratings of Montana-Dakota and the proxy group.  
17 However, page 2 of Schedule 3 of Exhibit No. \_\_\_(JSG-2) shows the credit ratings  
18 assigned by S&P and Moody's to each of the companies in the comparison group  
19 and MDU Resources.

20 The median S&P credit rating for companies in the proxy group is BBB+. By  
21 comparison, MDU Resources' senior unsecured debt also carries an S&P rating of

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<sup>36</sup> *Ibid.*

1 BBB+. This suggests that the perceived business and financial risk of MDU  
2 Resources' bonds is equal to that of the typical company in the comparison group.

3 The capital structure data on Schedule 8 of Exhibit No.\_\_(JSG-2) show that  
4 Montana-Dakota's filed common equity ratio of 50.23 percent is slightly greater  
5 than, but close to, the 47.54 percent median for the proxy companies as of July  
6 31, 2016. This approximately average common equity ratio, suggests average  
7 financial risk for Montana-Dakota's North Dakota electric utility operations.

8 **Q46. Would you please describe Montana-Dakota's market risks?**

9 A46. Market risk is associated with the changing value of all investments because of  
10 business cycles, inflation, and fluctuations in the general cost of capital  
11 throughout the economy. Different companies are subject to different degrees of  
12 market risk largely as a result of differences in their business and financial risks.  
13 Overall, the market risk of Montana-Dakota's North Dakota electric utility  
14 business is comparable to that of the companies in the electric utility comparison  
15 group.

16 **Q47. How do the overall risks of the proxy companies compare with the risks  
17 faced by Montana-Dakota's North Dakota electric utility operations?**

18 A47. Montana-Dakota's North Dakota electric utility operations face overall risks that  
19 are near the top of the range relative to those of the proxy companies. Although it  
20 has financial and regulatory risks that are average relative to the proxy companies,  
21 Montana-Dakota's North Dakota electric utility operations have business risks  
22 that are well above average due to its exceptionally small size, the heavy

1 concentration of volatile oil and gas production operations in its service territory,  
 2 and its greater reliance on coal-fired generation than all of the proxy companies.  
 3 These considerations lead me to conclude that investors appraise the overall risks  
 4 of Montana-Dakota's North Dakota electric utility operations to be well above  
 5 average relative to those of the proxy companies. Consequently, Montana-  
 6 Dakota's North Dakota electric utility business requires an allowed rate of return  
 7 that is in the upper portion of the range for the companies in the proxy group  
 8 indicated by my DCF analyses.

### 9 III. SUMMARY AND CONCLUSIONS

10 **Q48. Please summarize the results of your cost of capital study.**

11 A48. I conducted two DCF analyses on a group of electric utilities that have a range of  
 12 risks that is roughly comparable to those of Montana-Dakota's North Dakota  
 13 electric utility operations. These results are summarized as follows:

14 **Table 3: Summary of DCF Results**

|                          | Basic DCF<br>Analysis | Blended<br>Growth<br>Rate DCF<br>Analysis |
|--------------------------|-----------------------|---|
| High                     | 11.33%                | 9.97%                                     |
| 3 <sup>rd</sup> Quartile | 10.18%                | 9.60%                                     |
| Median                   | <b>9.42%</b>          | <b>8.70%</b>                              |
| 1 <sup>st</sup> Quartile | 9.11%                 | 8.52%                                     |
| Low                      | 7.97%                 | 7.68%                                     |

15  
 16 In addition, I conducted three risk premium analyses and a market DCF analysis  
 17 of the S&P 500 to test the reasonableness of my DCF analyses. Those results are  
 18 summarized as follows:

**Table 4: Benchmark Risk Premium and Market DCF Analyses**

|  | Return |
|--|--------|
| Risk Premium (Long-Term Corporate Bonds) |        |
| vs. Large Company Stocks                 | 10.02  |
| vs. Small Company Stocks                 | 14.10  |
| Electric Utility Risk Premium            | 9.94   |
| Market DCF (S&P 500)                     | 11.94  |
| Forward Looking CAPM                     | 10.48  |

Because the Federal Reserve policies have created an artificially low interest rate environment, the results of DCF and risk premium based analyses are artificially low at this time. This is another reason why the return should be set at or near the top of the range of reasonableness indicated by the DCF analysis at this time.

My risk premium, market DCF, and CAPM 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 14.10 percent risk premium return benchmark for companies in Montana-Dakota's relative size range. Similarly, the DCF estimates for the electric utility proxy companies are well below the 11.94 percent market DCF estimate for the S&P 500 companies, and are generally below the 10.48 percent CAPM estimate of the cost of equity for the proxy companies.

**Q49. What rate of return on common equity do you recommend for Montana-Dakota's North Dakota electric utility operations in this proceeding?**

A49. My analyses indicate that an appropriate rate of return on common equity for Montana-Dakota's North Dakota electric utility operations at this time is 10.0

1 percent, which is above the median, but below the third quartile of the range for  
2 my Basic DCF analysis. It is also equal to the top of the range for my Blended  
3 DCF analysis. This recommended return reflects my assessment that the overall  
4 risks of Montana-Dakota's North Dakota electric utility operations are near the  
5 top of the range relative to those of the proxy companies. Although the Company  
6 has average financial risks relative to the proxy companies, it has business risks  
7 that are well above average. In addition to its exceptionally small size relative to  
8 the proxy companies, its service territory is heavily dependent on the oil and gas  
9 production industry, and Montana-Dakota's North Dakota electric utility  
10 operations are more heavily reliant on coal-fired generation than all but one of the  
11 proxy companies and the economics of coal-fired generation is threatened by  
12 proposed environmental regulations and other federal initiatives. Thus, my  
13 recommended return of 10 percent is appropriately positioned to reflect the  
14 current risks faced by Montana-Dakota's North Dakota electric utility operations  
15 relative to the risks faced by the proxy companies.

16 **Q50. Does this conclude your Prepared Direct Testimony?**

17 A50. Yes.

**J. Stephen Gaske, Ph.D.**  
**Senior Vice President**

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Steve Gaske has more than 30 years of experience as an economic consultant, researcher, and professor in the fields of public utility economics, finance, and regulation. Dr. Gaske has provided consulting services in more than 300 regulatory, antitrust, tax, and civil proceedings. In addition, he has presented expert testimony in more than 100 state, provincial, and federal regulatory commission hearings in Canada, the U.S. and Mexico.

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**AREAS OF EXPERTISE**

His specialty is the application to regulated industries of inter-related principles from economics, finance and regulatory theory. His areas of expertise include:

- Finance, cost of capital, and risk analysis;
- Rate design, cost allocation, cost of service, and pricing of services;
- Energy markets and the economics of public utilities and energy infrastructure;
- Competition and antitrust principles; and
- Regulatory economics, rules, and policies.

**INDUSTRY EXPERTISE**

His work has involved:

- Most of the major natural gas pipelines in North America;
- Many electric utilities;
- Many natural gas distribution companies;
- Several major oil pipelines;
- Railroads;
- Postal Service;
- Telephone and satellite telecommunications companies; and
- Sewer and water companies.

**REPRESENTATIVE PROJECT EXPERIENCE**

Some of the projects on which Dr. Gaske has worked include:

- Advisor to numerous U.S. and Canadian pipelines on economics, pricing strategies and regulatory matters;
- Development of computerized cost of service models for calculating both traditional and levelized rates for gas and oil pipelines, and rates for electric utilities;
- On behalf of a new, greenfield pipeline designed to carry Canadian gas to U.S. New England markets he served as the rate and financial advisor during the development, permitting and financing stages.
- A variety of White Papers on technical aspects of calculating the allowed rate of return for regulated companies, including white papers submitted in proceedings involving FERC

- generic rate of return for electric utilities, FERC rate of return for gas and oil pipelines, Canadian rate of return for pipelines and utilities;
- An analysis of the applicability of various finance theories to telephone ratemaking by the U. S. Federal Communications Commission;
- A study of the economic structure, risks and cost of capital of the satellite telecommunications industry;
- Author of several issues of the H. Zinder & Associates Summary of Natural Gas Pipeline Rates;
- Several studies of regional natural gas market competition, market power, pricing and capacity needs;
- An evaluation of Federal Energy Regulatory Commission policies designed to promote liquidity in the natural gas commodity markets;
- Numerous studies of electric rate, regulatory and market issues such as canceled plant treatment, time-differentiated rates, non-utility generation, competitive bidding, and open-access transmission;
- Author of two updates of the Edison Electric Institute Glossary of Electric Utility Terms;
- Several studies of pricing, contract provisions, competitive bidding programs, and transmission practices for independent electric generation; and,
- Several reports and projects on incentive regulation and the application of price cap regulation to both electric and natural gas companies.

**LITIGATION SUPPORT AND EXPERT TESTIMONY**

Dr. Gaske has testified or filed testimony or affidavits in more than 100 regulatory proceedings on the following topics:

| <b>Commission</b>                          | <b>Topic</b>   |
|--|--|
| Alaska Regulatory Commission               | Oil Pipeline Rate of Return/Rate Base  |
| Alberta Energy and Utilities Board         | Gas Pipeline Cost Allocation/Rate  |
| Design<br>Alberta Utilities Commission     | Utility Cost of Capital; Gas Pipeline Contracts and Market Power   |
| Colorado Board of Assessment Appeals       | Property Tax Discount Rate   |
| U.S. Economic Regulatory Administration    | Gas Distribution Rate Design   |
| U. S. Federal Energy Regulatory Commission | Electric Transmission Rate of Return; Gas Pipeline Cost Allocation and Rate Design, Rate of Return and Capital Structure, Competition, Revenue Requirements; Oil Pipeline Rate of Return, Pricing and Tariff Provision |
| Idaho Public Service Commission            | Gas Distribution Rate of Return  |

**ATTACHMENT A**  
**RÉSUMÉ OF J. STEPHEN GASKE**

|          |   |   |
|----------|---|---|
| Electric | Indiana Utilities Regulatory Commission       | Electric Cost Allocation/Rate Design  |
|          | Iowa Utilities Board                          | Electric Avoided Costs/Externalities  |
|          | Maine Public Utilities Commission             | Electric Rate Design/Demand Management  |
|          | Comision Reguladora de Energia de México      | Gas Pipeline Rate of Return   |
|          | Montana Public Service Commission             | Electric/Gas Distribution Rate of Return;<br>Cost Allocation and Rate Design                                      |
|          | Minnesota Public Utilities Commission         | Gas Distribution Rate of Return   |
|          | National Energy Board of Canada               | Gas Pipeline Cost Allocation and Rate Design; Oil Pipeline Service Structure and Rates                            |
|          | New Mexico Regulatory Commission              | Electric Rate of Return   |
|          | New York Public Service Commission            | Gas Pipeline Capital Structure  |
|          | New Brunswick Energy and Utilities Board      | Gas Distribution Ratemaking   |
|          | North Dakota Public Service Commission        | Electric/Gas Distribution Rate of Return;<br>Natural Gas Market Pricing; Electric Cost Allocation and Rate Design |
|          | Nova Scotia Utility and Review Board          | Cost Allocation and Pricing of Bridge Access  |
|          | Ontario Energy Board                          | Rate of Return; Access to and Pricing of Gas Pipeline Expansions; LNG Regulation                                  |
|          | U.S. Postal Rate Commission                   | Postal Pricing/Rate Design  |
|          | Régie de l'énergie du Québec                  | Rate of Return/Regulatory Principles  |
|          | South Dakota Public Utilities Commission      | Gas Distribution Rate of Return   |
|          | Texas Public Utilities Commission             | Electric Cost Allocation and Rate Design  |
|          | Texas Railroad Commission                     | Gas Pipeline Cost Allocation/Rate Design  |
|          | Washington Utilities and Transportation Comm. | Gas Distribution Rate of Return   |
|          | Wisconsin Public Service Commission           | Electric Generation Economics   |
|          | Wyoming Public Service Commission             | Electric/Gas Distribution Rate of Return  |
|          | Wyoming Board of Equalization                 | Property Tax Discount Rate  |

## TEACHING/SPEAKING ENGAGEMENTS

Dr. Gaske has spoken on utility finance and economic issues before numerous professional groups. From 1983-1986, he served as Coordinator of the Edison Electric Institute Electric Rate Fundamentals Course. He has lectured on marginal cost estimation for electric utilities at the EEI rate course, and on both low-income rates and natural gas pipeline cost allocation and rate design before the American Gas Association Gas Rate Fundamentals Course. In addition, Dr. Gaske has taught college courses in Public Utility Economics, Transportation, Physical Distribution, Financial Management, Investments, Corporate Finance, and Corporate Financial Theory.

## PROFESSIONAL HISTORY

### CONSULTING

**Concentric Energy Advisors, Inc. (2008 – present)**  
Senior Vice President

**H. Zinder & Associates (1988 – 2008)**  
President/Senior Vice-President/Consultant

**Independent Consulting on Public Utility Issues (1982 - 1988)**

**Olson & Company, Inc. (1980 – 1981)**  
Public Utility Consultant

**H. Zinder & Associates (1977 – 1980)**  
Research Assistant and Supervisor of Regulatory Research

### ACADEMIC/TEACHING

**Trinity University (1986 – 1988)**  
Assistant Professor of Finance

**Indiana University School of Business (1982 - 1986)**  
Associate Instructor of Public Utilities and Transportation

**Northern Virginia Community College (1978)**  
Lecturer in Accounting

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## EDUCATION

Ph.D., Indiana University School of Business, 1987  
M.B.A., George Washington University, 1977  
B.A., University of Virginia, 1975

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## PROFESSIONAL ASSOCIATIONS

American Economic Association  
American Finance Association

**ATTACHMENT A**  
**RÉSUMÉ OF J. STEPHEN GASKE**

American Gas Association Rate Committee (1989-2001)  
Energy Bar Association  
Financial Management Association

Montana-Dakota Utilities Co.

General Economic Statistics  
 1984-2015

| Year | [1]                        | [2]                               | [3]                   | [4]                             | [5]                      |
|------|----------------------------|-----------------------------------|-----------------------|---------------------------------|--------------------------|
|      | Percentage Price Changes   |                                   | Real<br>GDP<br>Growth | Nominal<br>GDP<br>(\$ billions) | Nominal<br>GDP<br>Growth |
|      | Consumer<br>Price<br>Index | GDP<br>Implicit Price<br>Deflator |                       |                                 |                          |
| 1984 | 4.3%                       | 3.5%                              | 7.3%                  | 4,040.7                         |                          |
| 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%                              | 2.2%                  | 16,155.3                        | 4.1%                     |
| 2013 | 1.5%                       | 1.6%                              | 1.7%                  | 16,691.5                        | 3.3%                     |
| 2014 | 1.6%                       | 1.8%                              | 2.4%                  | 17,393.1                        | 4.2%                     |
| 2015 | 0.1%                       | 1.1%                              | 2.6%                  | 18,036.6                        | 3.7%                     |

Average Rate of Change [6]:

|           |      |      |      |      |      |
|-----------|------|------|------|------|------|
| 1984-2015 | 2.7% | 2.2% | 2.7% | 5.1% | 5.0% |
| 1994-2015 | 2.3% | 1.9% | 2.4% | 4.6% | 4.4% |
| 2004-2015 | 2.1% | 1.9% | 1.6% | 3.9% | 3.6% |

Notes:

- [1] U.S. Department of Labor, Bureau of Labor Statistics;
- [1] U.S. city average, all urban consumers, all items, not seasonally adjusted
- [2] U.S. Department of Commerce, Bureau of Economic Analysis,
- [2] National Income and Product Accounts Tables, Table 1.1.9, Revised on July 29, 2016
- [3] U.S. Department of Commerce, Bureau of Economic Analysis,
- [3] National Income and Product Accounts Tables, Table 1.1.1, Revised on July 29, 2016
- [4] U.S. Department of Commerce, Bureau of Economic Analysis,
- [4] National Income and Product Accounts Tables, Table 1.1.5, Revised on July 29, 2016
- [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 2007 - July 2016*

|      |     | [1]                                 | [2]                  | [3]                  | [4]       | [5]            | [6]       |
|------|-----|-------------------------------------|----------------------|----------------------|-----------|----------------|-----------|
|      |     | 30-year<br>U.S.<br>Treasury<br>Bond | Average<br>Corporate | Public Utility Bonds |           | Credit Spreads |           |
|      |     |                                     |                      | A-Rated              | Baa-Rated | A-Rated        | Baa-Rated |
| 2007 | JAN | 4.85                                | 5.92                 | 5.96                 | 6.16      | 1.10           | 1.31      |
|      | FEB | 4.82                                | 5.88                 | 5.90                 | 6.10      | 1.08           | 1.28      |
|      | MAR | 4.72                                | 5.84                 | 5.85                 | 6.10      | 1.13           | 1.38      |
|      | APR | 4.87                                | 5.99                 | 5.97                 | 6.24      | 1.10           | 1.37      |
|      | MAY | 4.90                                | 6.00                 | 5.99                 | 6.23      | 1.08           | 1.33      |
|      | JUN | 5.20                                | 6.32                 | 6.30                 | 6.54      | 1.10           | 1.34      |
|      | JUL | 5.11                                | 6.26                 | 6.25                 | 6.49      | 1.14           | 1.38      |
|      | AUG | 4.93                                | 6.26                 | 6.24                 | 6.51      | 1.30           | 1.58      |
|      | SEP | 4.79                                | 6.21                 | 6.18                 | 6.45      | 1.39           | 1.66      |
|      | OCT | 4.77                                | 6.12                 | 6.11                 | 6.36      | 1.34           | 1.59      |
|      | NOV | 4.52                                | 5.97                 | 5.97                 | 6.27      | 1.45           | 1.75      |
|      | DEC | 4.53                                | 6.15                 | 6.16                 | 6.51      | 1.63           | 1.98      |
| 2008 | JAN | 4.33                                | 6.02                 | 6.02                 | 6.35      | 1.68           | 2.01      |
|      | FEB | 4.51                                | 6.24                 | 6.21                 | 6.60      | 1.70           | 2.08      |
|      | MAR | 4.38                                | 6.23                 | 6.21                 | 6.68      | 1.83           | 2.30      |
|      | APR | 4.44                                | 6.29                 | 6.29                 | 6.81      | 1.85           | 2.37      |
|      | MAY | 4.60                                | 6.31                 | 6.28                 | 6.79      | 1.68           | 2.20      |
|      | JUN | 4.68                                | 6.43                 | 6.38                 | 6.93      | 1.70           | 2.24      |
|      | JUL | 4.56                                | 6.44                 | 6.40                 | 6.97      | 1.84           | 2.41      |
|      | AUG | 4.50                                | 6.42                 | 6.37                 | 6.98      | 1.87           | 2.48      |
|      | SEP | 4.27                                | 6.50                 | 6.49                 | 7.15      | 2.22           | 2.88      |
|      | OCT | 4.16                                | 7.56                 | 7.56                 | 8.58      | 3.40           | 4.42      |
|      | NOV | 3.98                                | 7.65                 | 7.60                 | 8.98      | 3.62           | 5.00      |
|      | DEC | 2.85                                | 6.71                 | 6.52                 | 8.11      | 3.68           | 5.27      |
| 2009 | JAN | 3.10                                | 6.59                 | 6.39                 | 7.90      | 3.29           | 4.80      |
|      | FEB | 3.59                                | 6.64                 | 6.30                 | 7.74      | 2.71           | 4.15      |
|      | MAR | 3.64                                | 6.84                 | 6.42                 | 8.00      | 2.79           | 4.36      |
|      | APR | 3.76                                | 6.85                 | 6.48                 | 8.03      | 2.73           | 4.27      |
|      | MAY | 4.24                                | 6.79                 | 6.49                 | 7.76      | 2.25           | 3.52      |
|      | JUN | 4.51                                | 6.52                 | 6.20                 | 7.30      | 1.69           | 2.79      |
|      | JUL | 4.40                                | 6.17                 | 5.97                 | 6.87      | 1.56           | 2.47      |
|      | AUG | 4.37                                | 5.83                 | 5.71                 | 6.36      | 1.34           | 1.99      |
|      | SEP | 4.19                                | 5.61                 | 5.53                 | 6.12      | 1.34           | 1.93      |
|      | OCT | 4.19                                | 5.63                 | 5.55                 | 6.14      | 1.36           | 1.95      |
|      | NOV | 4.31                                | 5.68                 | 5.63                 | 6.17      | 1.32           | 1.86      |
|      | DEC | 4.50                                | 5.78                 | 5.79                 | 6.26      | 1.29           | 1.76      |
| 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 | 4.65                                | 5.81                 | 5.84                 | 6.22      | 1.20           | 1.58      |
|      | APR | 4.69                                | 5.80                 | 5.81                 | 6.19      | 1.12           | 1.50      |
|      | MAY | 4.28                                | 5.52                 | 5.50                 | 5.97      | 1.22           | 1.69      |
|      | JUN | 4.12                                | 5.52                 | 5.46                 | 6.18      | 1.34           | 2.06      |
|      | JUL | 3.99                                | 5.32                 | 5.26                 | 5.98      | 1.27           | 1.99      |
|      | AUG | 3.80                                | 5.05                 | 5.01                 | 5.55      | 1.21           | 1.75      |
|      | SEP | 3.77                                | 5.05                 | 5.01                 | 5.53      | 1.23           | 1.76      |
|      | OCT | 3.87                                | 5.15                 | 5.10                 | 5.62      | 1.24           | 1.75      |
|      | NOV | 4.19                                | 5.37                 | 5.37                 | 5.85      | 1.18           | 1.66      |
|      | DEC | 4.42                                | 5.55                 | 5.56                 | 6.04      | 1.14           | 1.62      |

**Montana-Dakota Utilities Co.**

**Bond Yield Averages**  
*January 2007 - July 2016*

|      |     | [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 |
| 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 | 4.28          | 5.30              | 5.27                 | 5.70      | 0.99           | 1.42      |
|      | 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 | 3.12          | 4.60              | 4.52                 | 5.24      | 1.39           | 2.12      |
|      | NOV | 3.01          | 4.39              | 4.25                 | 4.93      | 1.24           | 1.92      |
|      | DEC | 2.99          | 4.47              | 4.33                 | 5.07      | 1.35           | 2.08      |
| 2012 | JAN | 3.01          | 4.45              | 4.34                 | 5.06      | 1.32           | 2.05      |
|      | 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 | 2.92          | 4.33              | 4.20                 | 4.97      | 1.28           | 2.04      |
|      | JUN | 2.70          | 4.22              | 4.08                 | 4.91      | 1.39           | 2.21      |
|      | JUL | 2.60          | 4.03              | 3.93                 | 4.85      | 1.33           | 2.25      |
|      | AUG | 2.77          | 4.09              | 4.00                 | 4.88      | 1.23           | 2.11      |
|      | SEP | 2.87          | 4.09              | 4.02                 | 4.81      | 1.16           | 1.94      |
|      | OCT | 2.91          | 3.97              | 3.91                 | 4.54      | 1.01           | 1.64      |
|      | NOV | 2.80          | 3.92              | 3.84                 | 4.42      | 1.04           | 1.61      |
|      | DEC | 2.89          | 4.05              | 4.00                 | 4.56      | 1.11           | 1.67      |
| 2013 | JAN | 3.07          | 4.19              | 4.15                 | 4.66      | 1.07           | 1.59      |
|      | FEB | 3.16          | 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           | 1.56      |
|      | 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 | 3.60          | 4.76              | 4.68                 | 5.21      | 1.08           | 1.61      |
|      | AUG | 3.76          | 4.89              | 4.73                 | 5.28      | 0.97           | 1.52      |
|      | SEP | 3.78          | 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      |
|      | DEC | 2.83          | 4.17              | 3.95                 | 4.70      | 1.11           | 1.86      |

**Montana-Dakota Utilities Co.**

**Bond Yield Averages**  
*January 2007 - July 2016*

|      |     | [1]                                 | [2]                  | [3]                  | [4]       | [5]            | [6]       |
|------|-----|-------------------------------------|----------------------|----------------------|-----------|----------------|-----------|
|      |     | 30-year<br>U.S.<br>Treasury<br>Bond | Average<br>Corporate | Public Utility Bonds |           | Credit Spreads |           |
|      |     |                                     |                      | A-Rated              | Baa-Rated | A-Rated        | Baa-Rated |
| 2015 | JAN | 2.46                                | 3.84                 | 3.58                 | 4.39      | 1.13           | 1.94      |
|      | FEB | 2.57                                | 3.93                 | 3.67                 | 4.44      | 1.11           | 1.87      |
|      | MAR | 2.63                                | 3.98                 | 3.74                 | 4.51      | 1.12           | 1.88      |
|      | APR | 2.59                                | 3.93                 | 3.75                 | 4.51      | 1.16           | 1.92      |
|      | MAY | 2.96                                | 4.35                 | 4.17                 | 4.91      | 1.22           | 1.95      |
|      | JUN | 3.11                                | 4.56                 | 4.39                 | 5.13      | 1.28           | 2.01      |
|      | JUL | 3.07                                | 4.57                 | 4.40                 | 5.22      | 1.33           | 2.16      |
|      | AUG | 2.86                                | 4.48                 | 4.25                 | 5.23      | 1.39           | 2.37      |
|      | SEP | 2.95                                | 4.59                 | 4.39                 | 5.42      | 1.43           | 2.47      |
|      | OCT | 2.89                                | 4.52                 | 4.29                 | 5.47      | 1.40           | 2.58      |
|      | NOV | 3.03                                | 4.62                 | 4.40                 | 5.57      | 1.37           | 2.54      |
|      | DEC | 2.97                                | 4.58                 | 4.35                 | 5.55      | 1.38           | 2.58      |
| 2016 | JAN | 2.86                                | 4.56                 | 4.27                 | 5.49      | 1.41           | 2.63      |
|      | FEB | 2.62                                | 4.44                 | 4.11                 | 5.28      | 1.49           | 2.66      |
|      | MAR | 2.68                                | 4.33                 | 4.16                 | 5.12      | 1.47           | 2.44      |
|      | APR | 2.62                                | 4.09                 | 4.00                 | 4.75      | 1.37           | 2.12      |
|      | MAY | 2.63                                | 4.04                 | 3.93                 | 4.60      | 1.30           | 1.97      |
|      | JUN | 2.45                                | 3.91                 | 3.78                 | 4.47      | 1.32           | 2.01      |
|      | JUL | 2.23                                | 3.67                 | 3.57                 | 4.16      | 1.35           | 1.93      |
| 2016 | AVG | 2.59                                | 4.15                 | 3.97                 | 4.84      | 1.39           | 2.25      |

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  
Electric Distribution Companies  
2006-2016**

| Issuer  | Date of Offering | Number of Shares | Issue Price | Gross Spread | Net Proceeds Per Share | Financing Costs as a Percent of Net Proceeds |
|---|------------------|------------------|-------------|--------------|------------------------|--|
| Consolidated Edison, Inc.                           | 5/10/2016        | 10,120,000       | 71.5000     | 2.15         | \$69.355               | 3.09%  |
| Duke Energy Corporation                             | 3/1/2016         | 10,637,500       | 72.0000     | 2.16         | \$69.840               | 3.09%  |
| Black Hills Corporation                             | 11/17/2015       | 6,325,000        | 40.2500     | 1.41         | \$38.841               | 3.63%  |
| NorthWestern Corporation                            | 11/4/2014        | 7,766,990        | 51.5000     | 1.80         | \$49.698               | 3.63%  |
| Exelon Corporation                                  | 6/11/2014        | 57,500,000       | 35.0000     | 1.05         | \$33.950               | 3.09%  |
| ALLETE, Inc.  | 2/26/2014        | 3,220,000        | 49.7500     | 1.74         | \$48.009               | 3.63%  |
| Westar Energy, Inc.                                 | 9/24/2013        | 8,916,000        | 31.1500     | 1.09         | \$30.060               | 3.63%  |
| Portland General Electric Company                   | 6/11/2013        | 12,765,000       | 29.5000     | 0.96         | \$28.541               | 3.36%  |
| Hawaiian Electric Industries, Inc.                  | 3/19/2013        | 7,000,000        | 26.7500     | 1.00         | \$25.747               | 3.90%  |
| PG&E Corporation                                    | 2/27/2013        | 7,200,000        | 41.7100     | 0.05         | \$41.660               | 0.12%  |
| PG&E Corporation                                    | 3/15/2012        | 5,900,000        | 43.0900     | 0.08         | \$43.010               | 0.19%  |
| PPL Corporation                                     | 4/11/2011        | 92,000,000       | 25.3000     | 0.76         | \$24.541               | 3.09%  |
| Black Hills Corporation                             | 11/10/2010       | 4,413,519        | 29.7500     | 1.04         | \$28.709               | 3.63%  |
| Westar Energy, Inc.                                 | 11/4/2010        | 8,625,000        | 25.5400     | 0.89         | \$24.646               | 3.63%  |
| Xcel Energy Inc.                                    | 8/3/2010         | 21,850,000       | 21.5000     | 0.65         | \$20.855               | 3.09%  |
| PPL Corporation                                     | 6/22/2010        | 103,500,000      | 24.0000     | 0.72         | \$23.280               | 3.09%  |
| CenterPoint Energy, Inc.                            | 6/9/2010         | 25,300,000       | 12.9000     | 0.45         | \$12.449               | 3.63%  |
| SCANA Corporation                                   | 5/11/2010        | 8,222,500        | 37.0000     | 1.30         | \$35.705               | 3.63%  |
| Pinnacle West Capital Corporation                   | 4/8/2010         | 6,900,000        | 38.0000     | 1.33         | \$36.670               | 3.63%  |
| CenterPoint Energy, Inc.                            | 9/10/2009        | 24,150,000       | 12.0000     | 0.42         | \$11.580               | 3.63%  |
| Ameren Corporation                                  | 9/9/2009         | 21,850,000       | 25.2500     | 0.76         | \$24.493               | 3.09%  |
| Great Plains Energy Inc.                            | 5/12/2009        | 11,500,000       | 14.0000     | 0.49         | \$13.510               | 3.63%  |
| American Electric Power Company, Inc.               | 4/1/2009         | 69,000,000       | 24.5000     | 0.74         | \$23.765               | 3.09%  |
| Eversource Energy                                   | 3/16/2009        | 18,975,000       | 20.2000     | 0.66         | \$19.544               | 3.36%  |
| Portland General Electric Company                   | 3/5/2009         | 12,477,500       | 14.1000     | 0.49         | \$13.607               | 3.63%  |
| SCANA Corporation                                   | 12/31/2008       | 2,875,000        | 35.5000     | 0.53         | \$34.968               | 1.52%  |
| Hawaiian Electric Industries, Inc.                  | 12/2/2008        | 5,000,000        | 23.0000     | 0.86         | \$22.138               | 3.90%  |
| Offer Tail Corporation                              | 9/18/2008        | 5,175,000        | 30.0000     | 1.09         | \$28.913               | 3.76%  |
| Westar Energy, Inc.                                 | 5/29/2008        | 6,000,000        | 24.2800     | 0.85         | \$23.430               | 3.63%  |
| ITC Holdings Corp.                                  | 1/18/2008        | 6,420,737        | 50.1500     | 2.13         | \$48.019               | 4.44%  |
| Empire District Electric Company                    | 12/6/2007        | 3,000,000        | 23.0000     | 0.98         | \$22.023               | 4.44%  |
| Westar Energy, Inc.                                 | 11/15/2007       | 8,215,000        | 25.2500     | 0.88         | \$24.366               | 3.63%  |
| Portland General Electric Company                   | 6/12/2007        | 23,658,106       | 26.0000     | 0.78         | \$25.220               | 3.09%  |
| Consolidated Edison, Inc.                           | 5/10/2007        | 11,000,000       | 50.7800     | 0.05         | \$50.730               | 0.10%  |
| Vectren Corporation                                 | 2/22/2007        | 4,600,000        | 28.3300     | 0.99         | \$27.340               | 3.62%  |
| Avista Corporation                                  | 12/12/2006       | 3,162,500        | 25.0500     | 0.48         | \$24.570               | 1.95%  |
| PNM Resources, Inc.                                 | 12/6/2006        | 5,750,000        | 30.7900     | 1.08         | \$29.712               | 3.63%  |
| ITC Holdings Corp.                                  | 10/4/2006        | 12,937,500       | 31.9100     | 1.44         | \$30.474               | 4.71%  |
| Consolidated Edison, Inc.                           | 9/20/2006        | 9,715,000        | 46.1000     | 0.14         | \$45.960               | 0.30%  |
| Empire District Electric Company                    | 6/15/2006        | 3,795,000        | 20.2500     | 0.86         | \$19.390               | 4.44%  |
| Great Plains Energy Inc.                            | 5/18/2006        | 7,002,450        | 27.5000     | 0.89         | \$26.606               | 3.36%  |
| <b>Average 2006-2016:</b>                           |                  |                  |             |              |                        | <b>3.16%</b>                                 |
| <b>Selected Flotation Costs for Cost of Equity:</b> |                  |                  |             |              |                        | <b>3.20%</b>                                 |

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
Fiscal Year 2015 Operating Data**

| Company                                    | Ticker | Total Assets<br>(\$million) | Operating<br>Revenues<br>(\$million) | Operating<br>Income<br>(\$million) |
|--|--------|-----------------------------|--------------------------------------|------------------------------------|
| ALLETE, Inc.                               | ALE    | \$4,895                     | \$1,486                              | \$211 1/                           |
| Alliant Energy Corporation                 | LNT    | \$12,495                    | \$3,254                              | \$577 1/                           |
| Ameren Corporation                         | AEE    | \$23,640                    | \$6,098                              | \$1,259 1/                         |
| American Electric Power Company, Inc.      | AEP    | \$61,683                    | \$16,453                             | \$3,334 1/                         |
| DTE Energy Company                         | DTE    | \$28,662                    | \$10,337                             | \$1,239 1/                         |
| Otter Tail Corporation                     | OTTR   | \$1,818                     | \$780                                | \$109 1/                           |
| PNM Resources, Inc.                        | PNM    | \$6,009                     | \$1,439                              | \$124 1/                           |
| Xcel Energy Inc.                           | XEL    | \$38,962                    | \$11,024                             | \$2,001 1/                         |
| High                                       |        | \$61,683                    | \$16,453                             | \$3,334                            |
| <b>Average</b>                             |        | <b>\$22,271</b>             | <b>\$6,359</b>                       | <b>\$1,107</b>                     |
| <b>Median</b>                              |        | <b>\$18,068</b>             | <b>\$4,676</b>                       | <b>\$908</b>                       |
| Low  |        | \$1,818                     | \$780                                | \$109                              |
| Montana-Dakota Utilities Co.               |        |                             |                                      |                                    |
| - North Dakota Electric Operation          |        | \$557 2/                    | \$181 3/                             | \$33 3/                            |
| MDU Resources Group, Inc.                  |        | \$6,622 1/                  | \$4,192 1/                           | \$254 1/                           |
| Montana-Dakota North Dakota Electric % of: |        |                             |                                      |                                    |
| - Proxy Company Median                     |        | 3.08%                       | 3.87%                                | 3.66%                              |
| - MDU Resources Group, Inc.                |        | 8.41%                       | 4.32%                                | 13.06%                             |

Notes:

1/ Source: 2015 10K

2/ Montana-Dakota Utilities Co. Index of Statements, page 42

3/ 2015 Montana-Dakota Utilities, Annual Report, State of North Dakota, Electric Operations, 2015

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
 Credit Ratings**

| Company                               | Ticker | Standard & Poor's | Moody's     |
|---------------------------------------|--------|-------------------|-------------|
| ALLETE, Inc.                          | ALE    | BBB+              | A3          |
| Alliant Energy Corporation            | LNT    | A-                | Baa1        |
| Ameren Corporation                    | AEE    | BBB+              | Baa1        |
| American Electric Power Company, Inc. | AEP    | BBB               | Baa1        |
| DTE Energy Company                    | DTE    | BBB+              | A3          |
| Otter Tail Corporation                | OTTR   | BBB               | Baa2        |
| PNM Resources, Inc.                   | PNM    | BBB+              | Baa3        |
| Xcel Energy Inc.                      | XEL    | A-                | A3          |
| <b>Average</b>                        |        | <b>BBB+</b>       | <b>Baa1</b> |
| <b>Median</b>                         |        | <b>BBB+</b>       | <b>Baa1</b> |
| MDU Resources Group, Inc.             |        | BBB+              | -           |

Notes:

Source: SNL Financial as of July 31, 2016.

## Montana-Dakota Utilities Co.

### Selected Electric Distribution Companies Dividend Yields

*February 2016 - July 2016*

| Company                               | Ticker | Average<br>Dividend<br>Yield |
|---------------------------------------|--------|------------------------------|
| ALLETE, Inc.                          | ALE    | 3.64%                        |
| Alliant Energy Corporation            | LNT    | 3.22%                        |
| Ameren Corporation                    | AEE    | 3.47%                        |
| American Electric Power Company, Inc. | AEP    | 3.44%                        |
| DTE Energy Company                    | DTE    | 3.24%                        |
| Otter Tail Corporation                | OTTR   | 4.19%                        |
| PNM Resources, Inc.                   | PNM    | 2.66%                        |
| Xcel Energy Inc.                      | XEL    | 3.22%                        |
| <b>Average</b>                        |        | <b>3.39%</b>                 |
| <b>Median</b>                         |        | <b>3.34%</b>                 |

|                            |     |        | Price    |          |          | Annualized<br>Dividend | Dividend<br>Yield |
|----------------------------|-----|--------|----------|----------|----------|------------------------|-------------------|
|                            |     |        | Low      | High     | Average  |                        |                   |
| ALLETE, Inc.               | ALE | Feb-16 | \$ 50.83 | \$ 54.96 | \$ 52.89 | \$ 2.08                | 3.93%             |
|                            |     | Mar-16 | 51.29    | 58.34    | 54.82    | 2.08                   | 3.79%             |
|                            |     | Apr-16 | 53.47    | 56.80    | 55.14    | 2.08                   | 3.77%             |
|                            |     | May-16 | 54.03    | 58.49    | 56.26    | 2.08                   | 3.70%             |
|                            |     | Jun-16 | 57.32    | 64.69    | 61.01    | 2.08                   | 3.41%             |
|                            |     | Jul-16 | 62.50    | 65.41    | 63.96    | 2.08                   | 3.25%             |
|                            |     |        |          |          |          |                        |                   |
| Alliant Energy Corporation | LNT | Feb-16 | \$ 32.38 | \$ 35.13 | \$ 33.75 | \$ 1.18                | 3.48%             |
|                            |     | Mar-16 | 33.26    | 37.18    | 35.22    | 1.18                   | 3.34%             |
|                            |     | Apr-16 | 34.08    | 37.59    | 35.83    | 1.18                   | 3.28%             |
|                            |     | May-16 | 35.09    | 37.21    | 36.15    | 1.18                   | 3.25%             |
|                            |     | Jun-16 | 36.92    | 40.24    | 38.58    | 1.18                   | 3.05%             |
|                            |     | Jul-16 | 39.07    | 40.99    | 40.03    | 1.18                   | 2.94%             |
|                            |     |        |          |          |          |                        |                   |
| Ameren Corporation         | AEE | Feb-16 | \$ 44.69 | \$ 48.22 | \$ 46.46 | \$ 1.70                | 3.66%             |
|                            |     | Mar-16 | 45.56    | 50.16    | 47.86    | 1.70                   | 3.55%             |
|                            |     | Apr-16 | 46.29    | 51.06    | 48.68    | 1.70                   | 3.49%             |
|                            |     | May-16 | 46.30    | 49.74    | 48.02    | 1.70                   | 3.54%             |
|                            |     | Jun-16 | 48.69    | 53.59    | 51.14    | 1.70                   | 3.32%             |
|                            |     | Jul-16 | 50.65    | 54.08    | 52.37    | 1.70                   | 3.25%             |
|                            |     |        |          |          |          |                        |                   |

## Montana-Dakota Utilities Co.

### Selected Electric Distribution Companies Dividend Yields

*February 2016 - July 2016*

| Company                               | Ticker | Average<br>Dividend<br>Yield |
|---------------------------------------|--------|------------------------------|
| ALLETE, Inc.                          | ALE    | 3.64%                        |
| Alliant Energy Corporation            | LNT    | 3.22%                        |
| Ameren Corporation                    | AEE    | 3.47%                        |
| American Electric Power Company, Inc. | AEP    | 3.44%                        |
| DTE Energy Company                    | DTE    | 3.24%                        |
| Otter Tail Corporation                | OTTR   | 4.19%                        |
| PNM Resources, Inc.                   | PNM    | 2.66%                        |
| Xcel Energy Inc.                      | XEL    | 3.22%                        |
| <b>Average</b>                        |        | <b>3.39%</b>                 |
| <b>Median</b>                         |        | <b>3.34%</b>                 |

|                                       |      |        | Price    |          |          | Annualized<br>Dividend | Dividend<br>Yield |
|---------------------------------------|------|--------|----------|----------|----------|------------------------|-------------------|
|                                       |      |        | Low      | High     | Average  |                        |                   |
| American Electric Power Company, Inc. | AEP  | Feb-16 | \$ 60.33 | \$ 63.90 | \$ 62.12 | \$ 2.24                | 3.61%             |
|                                       |      | Mar-16 | 60.15    | 66.49    | 63.32    | 2.24                   | 3.54%             |
|                                       |      | Apr-16 | 61.42    | 67.19    | 64.31    | 2.24                   | 3.48%             |
|                                       |      | May-16 | 62.61    | 65.97    | 64.29    | 2.24                   | 3.48%             |
|                                       |      | Jun-16 | 64.04    | 70.10    | 67.07    | 2.24                   | 3.34%             |
|                                       |      | Jul-16 | 68.25    | 71.32    | 69.79    | 2.24                   | 3.21%             |
|                                       |      |        |          |          |          |                        |                   |
| DTE Energy Company                    | DTE  | Feb-16 | \$ 82.93 | \$ 87.84 | \$ 85.39 | \$ 2.92                | 3.42%             |
|                                       |      | Mar-16 | 81.75    | 91.00    | 86.38    | 2.92                   | 3.38%             |
|                                       |      | Apr-16 | 84.77    | 91.23    | 88.00    | 2.92                   | 3.32%             |
|                                       |      | May-16 | 86.81    | 92.32    | 89.57    | 2.92                   | 3.26%             |
|                                       |      | Jun-16 | 90.02    | 99.13    | 94.58    | 2.92                   | 3.09%             |
|                                       |      | Jul-16 | 96.57    | 100.45   | 98.51    | 2.92                   | 2.96%             |
|                                       |      |        |          |          |          |                        |                   |
| Otter Tail Corporation                | OTTR | Feb-16 | \$ 26.09 | \$ 29.39 | \$ 27.74 | \$ 1.25                | 4.51%             |
|                                       |      | Mar-16 | 26.50    | 29.73    | 28.12    | 1.25                   | 4.45%             |
|                                       |      | Apr-16 | 28.02    | 29.80    | 28.91    | 1.25                   | 4.32%             |
|                                       |      | May-16 | 27.77    | 31.15    | 29.46    | 1.25                   | 4.24%             |
|                                       |      | Jun-16 | 29.44    | 33.50    | 31.47    | 1.25                   | 3.97%             |
|                                       |      | Jul-16 | 32.89    | 35.37    | 34.13    | 1.25                   | 3.66%             |
|                                       |      |        |          |          |          |                        |                   |

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
 Dividend Yields**

*February 2016 - July 2016*

| Company                               | Ticker | Average Dividend Yield |
|---------------------------------------|--------|------------------------|
| ALLETE, Inc.                          | ALE    | 3.64%                  |
| Alliant Energy Corporation            | LNT    | 3.22%                  |
| Ameren Corporation                    | AEE    | 3.47%                  |
| American Electric Power Company, Inc. | AEP    | 3.44%                  |
| DTE Energy Company                    | DTE    | 3.24%                  |
| Otter Tail Corporation                | OTTR   | 4.19%                  |
| PNM Resources, Inc.                   | PNM    | 2.66%                  |
| Xcel Energy Inc.                      | XEL    | 3.22%                  |
| <b>Average</b>                        |        | <b>3.39%</b>           |
| <b>Median</b>                         |        | <b>3.34%</b>           |

|                     |     |        | Price    |          |          | Annualized Dividend | Dividend Yield |
|---------------------|-----|--------|----------|----------|----------|---------------------|----------------|
|                     |     |        | Low      | High     | Average  |                     |                |
| PNM Resources, Inc. | PNM | Feb-16 | \$ 31.24 | \$ 33.34 | \$ 32.29 | \$ 0.88             | 2.73%          |
|                     |     | Mar-16 | 31.30    | 34.07    | 32.69    | 0.88                | 2.69%          |
|                     |     | Apr-16 | 30.62    | 33.93    | 32.28    | 0.88                | 2.73%          |
|                     |     | May-16 | 31.20    | 33.49    | 32.35    | 0.88                | 2.72%          |
|                     |     | Jun-16 | 32.79    | 35.46    | 34.13    | 0.88                | 2.58%          |
|                     |     | Jul-16 | 33.61    | 36.15    | 34.88    | 0.88                | 2.52%          |
|                     |     |        |          |          |          |                     |                |
| Xcel Energy Inc.    | XEL | Feb-16 | \$ 36.25 | \$ 40.43 | \$ 38.34 | \$ 1.28             | 3.34%          |
|                     |     | Mar-16 | 38.26    | 41.85    | 40.06    | 1.28                | 3.20%          |
|                     |     | Apr-16 | 38.43    | 42.04    | 40.24    | 1.28                | 3.18%          |
|                     |     | May-16 | 39.69    | 41.98    | 40.84    | 1.36                | 3.33%          |
|                     |     | Jun-16 | 40.99    | 44.78    | 42.88    | 1.36                | 3.17%          |
|                     |     | Jul-16 | 43.10    | 45.42    | 44.26    | 1.36                | 3.07%          |
|                     |     |        |          |          |          |                     |                |

Source: Bloomberg Finance

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
 Projected Earnings Retention Growth Rates**

| Company                               | Ticker | Value Line Forecast 2019-2021 |        |        | Retention Rate | Retention Growth |
|---------------------------------------|--------|-------------------------------|--------|--------|----------------|------------------|
|                                       |        | EPS                           | DPS    | ROE    |                |                  |
| ALLETE, Inc.                          | ALE    | \$3.75                        | \$2.40 | 8.50%  | 36.00%         | 3.06%            |
| Alliant Energy Corporation            | LNT    | \$2.45                        | \$1.50 | 12.50% | 38.78%         | 4.85%            |
| Ameren Corporation                    | AEE    | \$3.25                        | \$2.05 | 9.50%  | 36.92%         | 3.51%            |
| American Electric Power Company, Inc. | AEP    | \$4.25                        | \$2.75 | 9.50%  | 35.29%         | 3.35%            |
| DTE Energy Company                    | DTE    | \$6.00                        | \$3.70 | 10.00% | 38.33%         | 3.83%            |
| Otter Tail Corporation                | OTTR   | \$2.10                        | \$1.33 | 10.50% | 36.67%         | 3.85%            |
| PNM Resources, Inc.                   | PNM    | \$2.35                        | \$1.30 | 9.50%  | 44.68%         | 4.24%            |
| Xcel Energy Inc.                      | XEL    | \$2.75                        | \$1.70 | 11.00% | 38.18%         | 4.20%            |
| <b>Average</b>                        |        |                               |        |        |                | <b>3.86%</b>     |
| <b>Median</b>                         |        |                               |        |        |                | <b>3.84%</b>     |

Source: Value Line, as of June 17, 2016 and July 29, 2016.

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
Blended Growth Rate Estimates**

| Company                               | Ticker | 1/2                                   | 1/2                                     | 67%  | 33%                 | Weighted<br>Average |
|---------------------------------------|--------|---------------------------------------|---|--|---------------------|---------------------|
|                                       |        | Zacks 5-Yr<br>Earnings<br>Growth Est. | Yahoo!<br>Finance<br>Earnings<br>Growth | Average<br>Analysts'<br>Earnings<br>Growth | Retention<br>Growth |                     |
| ALLETE, Inc.                          | ALE    | 5.50%                                 | 5.00%                                   | 5.25%                                      | 3.06%               | 4.53%               |
| Alliant Energy Corporation            | LNT    | 6.10%                                 | 6.60%                                   | 6.35%                                      | 4.85%               | 5.85%               |
| Ameren Corporation                    | AEE    | 6.10%                                 | 5.20%                                   | 5.65%                                      | 3.51%               | 4.94%               |
| American Electric Power Company, Inc. | AEP    | 4.70%                                 | 3.67%                                   | 4.19%                                      | 3.35%               | 3.91%               |
| DTE Energy Company                    | DTE    | 5.80%                                 | 5.35%                                   | 5.58%                                      | 3.83%               | 5.00%               |
| Otter Tail Corporation                | OTTR   | n/a                                   | 6.00%                                   | 6.00%                                      | 3.85%               | 5.29%               |
| PNM Resources, Inc.                   | PNM    | 7.60%                                 | 8.76%                                   | 8.18%                                      | 4.24%               | 6.88%               |
| Xcel Energy Inc.                      | XEL    | 5.20%                                 | 5.26%                                   | 5.23%                                      | 4.20%               | 4.89%               |
| <b>Average</b>                        |        | <b>5.86%</b>                          | <b>5.73%</b>                            | <b>5.80%</b>                               | <b>3.86%</b>        | <b>5.16%</b>        |
| <b>Median</b>                         |        | <b>5.80%</b>                          | <b>5.31%</b>                            | <b>5.61%</b>                               | <b>3.84%</b>        | <b>4.97%</b>        |

Source: Zacks.com and Yahoo Finance, as of July 29, 2016

**Montana-Dakota Utilities Co.**  
**Selected Electric Distribution Companies**  
**Basic DCF Calculation**

| Company                                 | Ticker | Dividend Yield | Dividend Yield x<br>(1 + 0.625g) | Expected Growth Rate (g) | Secondary Market:        | Primary Market:           |                 |
|---|--------|----------------|----------------------------------|--------------------------|--------------------------|---------------------------|-----------------|
|   |        |                |                                  |                          | Investor Required Return | Flotation Cost Adjustment | Cost of Capital |
| ALLETE, Inc.                            | ALE    | 3.64%          | 3.76%                            | 5.25%                    | 9.01%                    | 1.0320                    | 9.30%           |
| Alliant Energy Corporation              | LNT    | 3.22%          | 3.35%                            | 6.35%                    | 9.70%                    | 1.0320                    | 10.01%          |
| Ameren Corporation                      | AEE    | 3.47%          | 3.59%                            | 5.65%                    | 9.24%                    | 1.0320                    | 9.54%           |
| American Electric Power Company, Inc.   | AEP    | 3.44%          | 3.53%                            | 4.19%                    | 7.72%                    | 1.0320                    | 7.97%           |
| DTE Energy Company                      | DTE    | 3.24%          | 3.35%                            | 5.58%                    | 8.93%                    | 1.0320                    | 9.21%           |
| Otter Tail Corporation                  | OTTR   | 4.19%          | 4.35%                            | 6.00%                    | 10.35%                   | 1.0320                    | 10.68%          |
| PNM Resources, Inc.                     | PNM    | 2.66%          | 2.80%                            | 8.18%                    | 10.98%                   | 1.0320                    | 11.33%          |
| Xcel Energy Inc.                        | XEL    | 3.22%          | 3.32%                            | 5.23%                    | 8.55%                    | 1.0320                    | 8.82%           |
| High                                    |        |                |                                  |                          | 10.98%                   |                           | 11.33%          |
| 3 <sup>rd</sup> Quartile                |        |                |                                  |                          | 9.86%                    |                           | 10.18%          |
| <b>2<sup>nd</sup> Quartile (Median)</b> |        |                |                                  |                          | <b>9.13%</b>             |                           | <b>9.42%</b>    |
| 1 <sup>st</sup> Quartile                |        |                |                                  |                          | 8.83%                    |                           | 9.11%           |
| Low                                     |        |                |                                  |                          | 7.72%                    |                           | 7.97%           |

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
 Blended Growth Rate DCF Calculation**

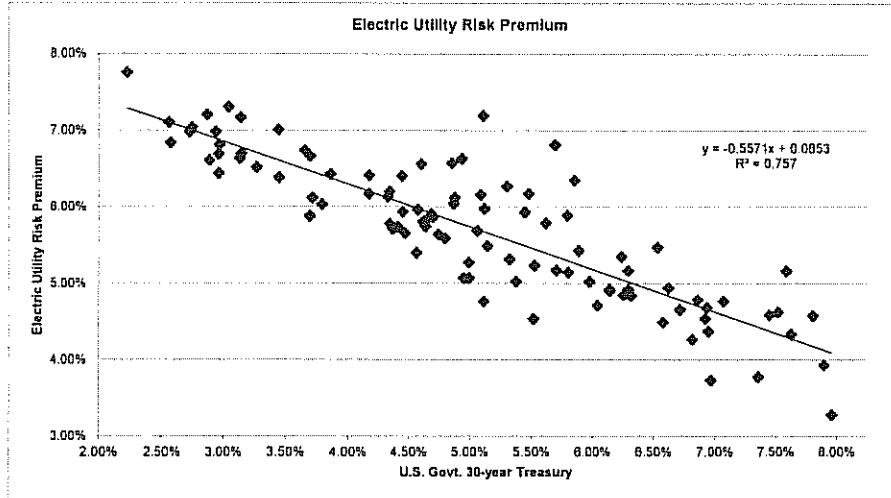
| Company                                 | Ticker | Dividend Yield | Dividend Yield x<br>(1 + 0.625g) | Expected Growth Rate (g) | Secondary Market:        | Primary Market:           |                 |
|---|--------|----------------|----------------------------------|--------------------------|--------------------------|---------------------------|-----------------|
|   |        |                |                                  |                          | Investor Required Return | Flotation Cost Adjustment | Cost of Capital |
| ALLETE, Inc.                            | ALE    | 3.64%          | 3.75%                            | 4.53%                    | 8.27%                    | 1.0320                    | 8.54%           |
| Alliant Energy Corporation              | LNT    | 3.22%          | 3.34%                            | 5.85%                    | 9.19%                    | 1.0320                    | 9.49%           |
| Ameren Corporation                      | AEE    | 3.47%          | 3.58%                            | 4.94%                    | 8.52%                    | 1.0320                    | 8.79%           |
| American Electric Power Company, Inc.   | AEP    | 3.44%          | 3.53%                            | 3.91%                    | 7.44%                    | 1.0320                    | 7.68%           |
| DTE Energy Company                      | DTE    | 3.24%          | 3.34%                            | 5.00%                    | 8.34%                    | 1.0320                    | 8.61%           |
| Otter Tail Corporation                  | OTTR   | 4.19%          | 4.33%                            | 5.29%                    | 9.62%                    | 1.0320                    | 9.93%           |
| PNM Resources, Inc.                     | PNM    | 2.66%          | 2.78%                            | 6.88%                    | 9.66%                    | 1.0320                    | 9.97%           |
| Xcel Energy Inc.                        | XEL    | 3.22%          | 3.31%                            | 4.89%                    | 8.20%                    | 1.0320                    | 8.47%           |
| High                                    |        |                |                                  |                          | 9.66%                    |                           | 9.97%           |
| 3 <sup>rd</sup> Quartile                |        |                |                                  |                          | 9.30%                    |                           | 9.60%           |
| <b>2<sup>nd</sup> Quartile (Median)</b> |        |                |                                  |                          | <b>8.43%</b>             |                           | <b>8.70%</b>    |
| 1 <sup>st</sup> Quartile                |        |                |                                  |                          | 8.26%                    |                           | 8.52%           |
| Low                                     |        |                |                                  |                          | 7.44%                    |                           | 7.68%           |

ELECTRIC UTILITY BOND YIELD PLUS RISK PREMIUM

|        | [1]                                      | [2]                               | [3]                                 |    |
|--------|--|-----------------------------------|-------------------------------------|----|
|        | Average<br>Authorized<br>Electric<br>ROE | U.S. Govt.<br>30-year<br>Treasury | Electric<br>Utility Risk<br>Premium |    |
| 1992.1 | 12.38%                                   | 7.80%                             | 4.58%                               | 10 |
| 1992.2 | 11.83%                                   | 7.89%                             | 3.93%                               | 12 |
| 1992.3 | 12.03%                                   | 7.45%                             | 4.59%                               | 8  |
| 1992.4 | 12.14%                                   | 7.52%                             | 4.62%                               | 15 |
| 1993.1 | 11.84%                                   | 7.07%                             | 4.77%                               | 7  |
| 1993.2 | 11.64%                                   | 6.86%                             | 4.79%                               | 9  |
| 1993.3 | 11.15%                                   | 6.31%                             | 4.84%                               | 6  |
| 1993.4 | 11.04%                                   | 6.14%                             | 4.90%                               | 6  |
| 1994.1 | 11.07%                                   | 6.57%                             | 4.49%                               | 10 |
| 1994.2 | 11.13%                                   | 7.35%                             | 3.78%                               | 5  |
| 1994.3 | 12.75%                                   | 7.58%                             | 5.17%                               | 1  |
| 1994.4 | 11.24%                                   | 7.96%                             | 3.28%                               | 12 |
| 1995.1 | 11.96%                                   | 7.63%                             | 4.34%                               | 8  |
| 1995.2 | 11.32%                                   | 6.94%                             | 4.37%                               | 8  |
| 1995.3 | 11.37%                                   | 6.71%                             | 4.66%                               | 5  |
| 1995.4 | 11.58%                                   | 6.23%                             | 5.35%                               | 7  |
| 1996.1 | 11.46%                                   | 6.29%                             | 5.17%                               | 2  |
| 1996.2 | 11.46%                                   | 6.92%                             | 4.54%                               | 9  |
| 1996.3 | 10.70%                                   | 6.96%                             | 3.74%                               | 2  |
| 1996.4 | 11.56%                                   | 6.62%                             | 4.94%                               | 5  |
| 1997.1 | 11.08%                                   | 6.81%                             | 4.27%                               | 4  |
| 1997.2 | 11.62%                                   | 6.93%                             | 4.68%                               | 3  |
| 1997.3 | 12.00%                                   | 6.53%                             | 5.47%                               | 1  |
| 1997.4 | 11.06%                                   | 6.14%                             | 4.92%                               | 2  |
| 1998.1 | 11.31%                                   | 5.88%                             | 5.43%                               | 4  |
| 1998.2 | 12.20%                                   | 5.85%                             | 6.35%                               | 1  |
| 1998.3 | 11.65%                                   | 5.47%                             | 6.18%                               | 2  |
| 1998.4 | 12.30%                                   | 5.10%                             | 7.20%                               | 3  |
| 1999.1 | 10.40%                                   | 5.37%                             | 5.03%                               | 2  |
| 1999.2 | 10.94%                                   | 5.79%                             | 5.15%                               | 1  |
| 1999.3 | 10.75%                                   | 6.04%                             | 4.71%                               | 2  |
| 1999.4 | 11.10%                                   | 6.25%                             | 4.85%                               | 1  |
| 2000.1 | 11.21%                                   | 6.29%                             | 4.92%                               | 4  |
| 2000.2 | 11.00%                                   | 5.97%                             | 5.03%                               | 1  |
| 2000.3 | 11.68%                                   | 5.79%                             | 5.89%                               | 2  |
| 2000.4 | 12.50%                                   | 5.69%                             | 6.81%                               | 2  |
| 2001.1 | 11.38%                                   | 5.44%                             | 5.93%                               | 2  |
| 2001.2 | 10.88%                                   | 5.70%                             | 5.18%                               | 2  |
| 2001.3 | 10.76%                                   | 5.52%                             | 5.23%                               | 7  |
| 2001.4 | 11.57%                                   | 5.30%                             | 6.27%                               | 4  |
| 2002.1 | 10.05%                                   | 5.51%                             | 4.54%                               | 2  |
| 2002.2 | 11.41%                                   | 5.61%                             | 5.79%                               | 6  |
| 2002.3 | 11.25%                                   | 5.08%                             | 6.17%                               | 3  |
| 2002.4 | 11.57%                                   | 4.93%                             | 6.64%                               | 3  |
| 2003.1 | 11.43%                                   | 4.85%                             | 6.58%                               | 6  |
| 2003.2 | 11.16%                                   | 4.60%                             | 6.56%                               | 4  |
| 2003.3 | 9.88%                                    | 5.11%                             | 4.76%                               | 4  |
| 2003.4 | 11.09%                                   | 5.11%                             | 5.98%                               | 6  |
| 2004.1 | 11.00%                                   | 4.88%                             | 6.12%                               | 3  |
| 2004.2 | 10.64%                                   | 5.32%                             | 5.32%                               | 7  |
| 2004.3 | 10.75%                                   | 5.06%                             | 5.69%                               | 3  |
| 2004.4 | 10.91%                                   | 4.86%                             | 6.04%                               | 8  |
| 2005.1 | 10.56%                                   | 4.69%                             | 5.87%                               | 5  |
| 2005.2 | 10.13%                                   | 4.47%                             | 5.66%                               | 6  |
| 2005.3 | 10.85%                                   | 4.44%                             | 6.41%                               | 4  |
| 2005.4 | 10.59%                                   | 4.68%                             | 5.91%                               | 9  |
| 2006.1 | 10.38%                                   | 4.63%                             | 5.75%                               | 3  |
| 2006.2 | 10.63%                                   | 5.14%                             | 5.49%                               | 5  |

|                |               |              |              |            |
|----------------|---------------|--------------|--------------|------------|
| 2006.3         | 10.06%        | 4.99%        | 5.07%        | 7          |
| 2006.4         | 10.39%        | 4.74%        | 5.65%        | 10         |
| 2007.1         | 10.39%        | 4.80%        | 5.59%        | 9          |
| 2007.2         | 10.27%        | 4.99%        | 5.28%        | 11         |
| 2007.3         | 10.02%        | 4.95%        | 5.07%        | 4          |
| 2007.4         | 10.43%        | 4.61%        | 5.81%        | 12         |
| 2008.1         | 10.15%        | 4.41%        | 5.75%        | 8          |
| 2008.2         | 10.54%        | 4.57%        | 5.97%        | 8          |
| 2008.3         | 10.38%        | 4.44%        | 5.94%        | 11         |
| 2008.4         | 10.39%        | 3.65%        | 6.74%        | 8          |
| 2009.1         | 10.45%        | 3.44%        | 7.01%        | 9          |
| 2009.2         | 10.58%        | 4.17%        | 6.42%        | 9          |
| 2009.3         | 10.46%        | 4.32%        | 6.14%        | 3          |
| 2009.4         | 10.54%        | 4.34%        | 6.21%        | 17         |
| 2010.1         | 10.45%        | 4.62%        | 5.82%        | 15         |
| 2010.2         | 10.08%        | 4.36%        | 5.71%        | 14         |
| 2010.3         | 10.29%        | 3.86%        | 6.43%        | 12         |
| 2010.4         | 10.34%        | 4.17%        | 6.17%        | 17         |
| 2011.1         | 9.96%         | 4.56%        | 5.40%        | 11         |
| 2011.2         | 10.12%        | 4.34%        | 5.78%        | 10         |
| 2011.3         | 10.36%        | 3.69%        | 6.67%        | 8          |
| 2011.4         | 10.34%        | 3.04%        | 7.31%        | 11         |
| 2012.1         | 10.30%        | 3.14%        | 7.17%        | 7          |
| 2012.2         | 9.92%         | 2.93%        | 6.98%        | 13         |
| 2012.3         | 9.78%         | 2.74%        | 7.04%        | 8          |
| 2012.4         | 10.07%        | 2.86%        | 7.21%        | 23         |
| 2013.1         | 9.77%         | 3.13%        | 6.64%        | 8          |
| 2013.2         | 9.84%         | 3.14%        | 6.70%        | 7          |
| 2013.3         | 9.83%         | 3.71%        | 6.12%        | 6          |
| 2013.4         | 9.82%         | 3.79%        | 6.04%        | 19         |
| 2014.1         | 9.57%         | 3.69%        | 5.88%        | 5          |
| 2014.2         | 9.83%         | 3.44%        | 6.39%        | 5          |
| 2014.3         | 9.79%         | 3.26%        | 6.52%        | 9          |
| 2014.4         | 9.78%         | 2.96%        | 6.81%        | 13         |
| 2015.1         | 9.66%         | 2.55%        | 7.11%        | 5          |
| 2015.2         | 9.50%         | 2.88%        | 6.61%        | 5          |
| 2015.3         | 9.40%         | 2.96%        | 6.44%        | 2          |
| 2015.4         | 9.65%         | 2.96%        | 6.69%        | 11         |
| 2016.1         | 9.70%         | 2.72%        | 6.98%        | 3          |
| 2016.2         | 9.41%         | 2.57%        | 6.84%        | 5          |
| 2016.3         | 9.98%         | 2.22%        | 7.76%        | 1          |
| <b>AVERAGE</b> | <b>10.77%</b> | <b>5.05%</b> | <b>5.71%</b> | <b>663</b> |
| <b>MEDIAN</b>  | <b>10.64%</b> | <b>4.99%</b> | <b>5.79%</b> |            |

ELECTRIC UTILITY BOND YIELD PLUS RISK PREMIUM



SUMMARY OUTPUT

| Regression Statistics |             |
|-----------------------|-------------|
| Multiple R            | 0.869985031 |
| R Square              | 0.756873954 |
| Adjusted R Square     | 0.7543675   |
| Standard Error        | 0.004576374 |
| Observations          | 99          |

ANOVA

|            | df | SS          | MS          | F          | Significance F |
|------------|----|-------------|-------------|------------|----------------|
| Regression | 1  | 0.006324217 | 0.006324217 | 301.970005 | 1.5113E-31     |
| Residual   | 97 | 0.00203149  | 2.09432E-05 |            |                |
| Total      | 98 | 0.008355707 |             |            |                |

|                             | Coefficients | Standard Error | t Stat      | P-value    | Lower 95%    | Upper 95%   | Lower 95.0% | Upper 95.0% |
|-----------------------------|--------------|----------------|-------------|------------|--------------|-------------|-------------|-------------|
| Intercept                   | 0.085265739  | 0.00168395     | 50.63436596 | 1.4466E-71 | 0.081923564  | 0.088607914 | 0.081923564 | 0.088607914 |
| U.S. Govt. 30-year Treasury | -0.55691261  | 0.032048311    | -17.3772842 | 1.5113E-31 | -0.620519633 | -0.49330558 | -0.62051963 | -0.49330558 |

|  | [7]                               | [8]             | [9]    |
|--|-----------------------------------|-----------------|--------|
|  | U.S. Govt.<br>30-year<br>Treasury | Risk<br>Premium | RQE    |
| Current 30-day average of 30-year U.S. Treasury bond yield [4]               | 2.29%                             | 7.25%           | 9.54%  |
| Near-term projected 30-year U.S. Treasury bond yield (Q3 2016 - Q4 2017) [5] | 3.00%                             | 6.86%           | 9.86%  |
| Projected 30-year U.S. Treasury bond yield (2018 - 2022) [6]                 | 4.30%                             | 6.13%           | 10.43% |
| MEAN   |                                   |                 | 9.94%  |

Notes:

- [1] Source: Regulatory Research Associates
- [2] Source: Bloomberg Professional, quarterly bond yields are the average of the last price of each trading day in the quarter
- [3] Equals Column [1] - Column [2]
- [4] Source: Bloomberg Professional
- [5] Source: Blue Chip Financial Forecasts, Vol. 35, No. 7, July 1, 2016, at 2
- [6] Source: Blue Chip Financial Forecasts, Vol. 35, No. 6, June 1, 2016, at 14
- [7] See notes [4], [5] & [6]
- [8] Equals 0.085266 + (-0.55691 x Column [7])
- [9] Equals Column [7] + Column [8]

Montana-Dakota Utilities Co.

Market DCF Calculation

|                                      | [1]            | [2]                           | [3]                      | [4]                                       |  |                        |                                |   |   |
|--------------------------------------|----------------|-------------------------------|--------------------------|---|--|------------------------|--------------------------------|---|---|
|                                      | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |  |                        |                                |   |   |
| S&P 500 As of 7/29/2016              | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |  |                        |                                |   |   |
|                                      | [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 |
| Alcoa Inc                            | AA             | 1315.375                      | 10.62                    | 13,969                                    | 0.09%                                  | 1.13%                  | 5.00%                          | 0.0967%                                       | 0.4278%   |
| LyondellBasell Industries NV         | LYB            | 415.722                       | 75.260                   | 31,287                                    | 0.19%                                  | 4.52%                  | 4.20%                          | 0.8656%                                       | 0.8048%   |
| American Express Co                  | AXP            | 923.781                       | 64.460                   | 59,547                                    | 0.36%                                  | 1.80%                  | 8.67%                          | 0.6563%                                       | 3.1607%   |
| Verizon Communications Inc           | VZ             | 4,076.302                     | 55.410                   | 225,868                                   | 1.38%                                  | 4.08%                  | 5.24%                          | 5.6420%                                       | 7.2484%   |
| Broadcom Ltd                         | AVGO           | 395.519                       | 161.980                  | 64,066                                    | 0.39%                                  | 1.23%                  | 15.70%                         | 0.4844%                                       | 6.1593%   |
| Boeing Co/The                        | BA             | 623.826                       | 133.660                  | 83,381                                    | 0.51%                                  | 3.26%                  | 12.70%                         | 1.6657%                                       | 6.4852%   |
| Caterpillar Inc                      | CAT            | 583.892                       | 82.760                   | 48,323                                    | 0.30%                                  | 3.72%                  | 7.23%                          | 1.1014%                                       | 2.1382%   |
| JPMorgan Chase & Co                  | JPM            | 3,656.659                     | 63.970                   | 233,916                                   | 1.43%                                  | 3.00%                  | 4.38%                          | 4.2997%                                       | 6.2675%   |
| Chevron Corp                         | CVX            | 1,884.702                     | 102.480                  | 193,144                                   | 1.18%                                  | 4.18%                  | 7.53%                          | 4.9402%                                       | 8.9070%   |
| Coca-Cola Co/The                     | KO             | 4,316.029                     | 43.630                   | 188,308                                   | 1.15%                                  | 3.21%                  | 5.41%                          | 3.7006%                                       | 6.2334%   |
| AbbVie Inc                           | ABBV           | 1,617.359                     | 66.230                   | 107,118                                   | 0.66%                                  | 3.44%                  | 11.25%                         | 2.2584%                                       | 7.3822%   |
| Walt Disney Co/The                   | DIS            | 1,622.441                     | 95.950                   | 155,673                                   | 0.95%                                  | 1.48%                  | 9.92%                          | 1.4109%                                       | 9.4595%   |
| Extra Space Storage Inc              | EXR            | 125.208                       | 86.020                   | 10,770                                    | 0.07%                                  | 3.63%                  | 7.58%                          | 0.2392%                                       | 0.4998%   |
| EI du Pont de Nemours & Co           | DD             | 874.325                       | 69.170                   | 60,477                                    | 0.37%                                  | 2.20%                  | 7.85%                          | 0.8139%                                       | 2.9075%   |
| Exxon Mobil Corp                     | XOM            | 4,146.611                     | 88.950                   | 368,841                                   | 2.26%                                  | 3.37%                  | 13.40%                         | 7.6186%                                       | 30.2692%  |
| Phillips 66                          | PSX            | 522.849                       | 76.060                   | 39,768                                    | 0.24%                                  | 3.31%                  | 7.76%                          | 0.8069%                                       | 1.8887%   |
| General Electric Co                  | GE             | 9,195.657                     | 31.140                   | 286,353                                   | 1.75%                                  | 2.95%                  | 9.98%                          | 5.1812%                                       | 17.5020%  |
| HP Inc                               | HPQ            | 1,710.607                     | 14.010                   | 23,966                                    | 0.15%                                  | 3.54%                  | 2.83%                          | 0.5196%                                       | 0.4151%   |
| Home Depot Inc/The                   | HD             | 1,244.007                     | 138.240                  | 171,972                                   | 1.05%                                  | 2.00%                  | 13.47%                         | 2.1027%                                       | 14.1856%  |
| International Business Machines Corp | IBM            | 955.844                       | 160.620                  | 153,528                                   | 0.94%                                  | 3.49%                  | 3.66%                          | 3.2782%                                       | 3.4385%   |
| Concho Resources Inc                 | CXO            | 131.551                       | 124.200                  | 16,339                                    | 0.00%                                  | n/a                    | 25.00%                         | n/a   | 0.0000%   |
| Johnson & Johnson                    | JNJ            | 2,750.644                     | 125.230                  | 344,463                                   | 2.11%                                  | 2.56%                  | 6.45%                          | 5.3907%                                       | 13.6069%  |
| McDonald's Corp                      | MCD            | 877.858                       | 117.650                  | 103,280                                   | 0.63%                                  | 3.03%                  | 9.99%                          | 1.9139%                                       | 6.3163%   |
| Merck & Co Inc                       | MRK            | 2,768.025                     | 58.660                   | 162,372                                   | 0.99%                                  | 3.14%                  | 5.71%                          | 3.1192%                                       | 5.6821%   |
| 3M Co                                | MMM            | 606.515                       | 178.360                  | 108,178                                   | 0.66%                                  | 2.49%                  | 8.88%                          | 1.6492%                                       | 5.8831%   |
| American Water Works Co Inc          | AWK            | 177.714                       | 82.580                   | 14,676                                    | 0.09%                                  | 1.82%                  | 7.34%                          | 0.1633%                                       | 0.6597%   |
| Bank of America Corp                 | BAC            | 10,271.916                    | 14.490                   | 148,840                                   | 0.91%                                  | 2.07%                  | 8.25%                          | 1.8873%                                       | 7.5202%   |
| CSRA Inc                             | CSRA           | 163.424                       | 26.920                   | 4,399                                     | 0.03%                                  | 1.49%                  | 10.00%                         | 0.0400%                                       | 0.2694%   |
| Pfizer Inc                           | PFE            | 6,064.849                     | 36.890                   | 223,732                                   | 1.37%                                  | 3.25%                  | 6.26%                          | 4.4571%                                       | 8.5734%   |
| Procter & Gamble Co/The              | PG             | 2,661.852                     | 85.590                   | 227,828                                   | 1.40%                                  | 3.13%                  | 6.05%                          | 4.3657%                                       | 8.4387%   |
| AT&T Inc                             | T              | 6,156.000                     | 43.290                   | 266,493                                   | 1.63%                                  | 4.44%                  | 4.40%                          | 7.2386%                                       | 7.1812%   |
| Travelers Cos Inc/The                | TRV            | 288.281                       | 116.220                  | 33,504                                    | 0.21%                                  | 2.31%                  | 8.33%                          | 0.4732%                                       | 1.7098%   |
| United Technologies Corp             | UTX            | 836.927                       | 107.650                  | 90,095                                    | 0.55%                                  | 2.45%                  | 9.54%                          | 1.3532%                                       | 5.2617%   |
| Analog Devices Inc                   | ADI            | 307.350                       | 63.830                   | 19,618                                    | 0.12%                                  | 2.63%                  | 8.92%                          | 0.3162%                                       | 1.0717%   |
| Wal-Mart Stores Inc                  | WMT            | 3,116.647                     | 72.970                   | 227,422                                   | 1.39%                                  | 2.74%                  | 2.87%                          | 3.8175%                                       | 3.9973%   |
| Cisco Systems Inc                    | CSCO           | 5,029.712                     | 30.530                   | 153,557                                   | 0.94%                                  | 3.41%                  | 8.77%                          | 3.2036%                                       | 8.2448%   |
| Intel Corp                           | INTC           | 4,722.000                     | 34.860                   | 164,609                                   | 1.01%                                  | 2.98%                  | 8.48%                          | 3.0076%                                       | 8.5518%   |
| General Motors Co                    | GM             | 1,561.922                     | 31.540                   | 49,263                                    | 0.30%                                  | 4.82%                  | 9.41%                          | 1.4540%                                       | 2.8399%   |
| Microsoft Corp                       | MSFT           | 7,792.516                     | 56.680                   | 441,680                                   | 2.70%                                  | 2.54%                  | 7.52%                          | 6.8723%                                       | 20.3523%  |
| Dollar General Corp                  | DG             | 283.778                       | 94.740                   | 26,885                                    | 0.16%                                  | 1.06%                  | 14.14%                         | 0.1738%                                       | 2.3274%   |
| Kinder Morgan Inc/DE                 | KMI            | 2,232.323                     | 20.330                   | 45,383                                    | 0.28%                                  | 2.46%                  | 14.65%                         | 0.6836%                                       | 4.0718%   |
| Citigroup Inc                        | C              | 2,934.929                     | 43.810                   | 128,579                                   | 0.79%                                  | 1.46%                  | 6.47%                          | 1.1504%                                       | 5.0972%   |
| American International Group Inc     | AIG            | 1,119.032                     | 54.440                   | 60,920                                    | 0.37%                                  | 2.35%                  | 9.50%                          | 0.8772%                                       | 3.5444%   |
| Honeywell International Inc          | HON            | 760.875                       | 116.330                  | 88,513                                    | 0.54%                                  | 2.05%                  | 9.30%                          | 1.1090%                                       | 5.0413%   |
| Altria Group Inc                     | MO             | 1,953.855                     | 67.700                   | 132,276                                   | 0.81%                                  | 3.34%                  | 7.61%                          | 2.7044%                                       | 6.1616%   |
| HCA Holdings Inc                     | HCA            | 391.054                       | 77.130                   | 30,162                                    | 0.00%                                  | n/a                    | 11.00%                         | n/a   | 0.0000%   |
| Under Armour Inc                     | UA             | 183.141                       | 39.460                   | 7,227                                     | 0.00%                                  | n/a                    | 23.97%                         | n/a   | 0.0000%   |
| International Paper Co               | IP             | 411.174                       | 45.810                   | 18,836                                    | 0.12%                                  | 3.84%                  | 6.18%                          | 0.4432%                                       | 0.7129%   |
| Hewlett Packard Enterprise Co        | HPE            | 1,661.715                     | 21.020                   | 34,929                                    | 0.21%                                  | 1.05%                  | 6.42%                          | 0.2239%                                       | 1.3727%   |
| Abbott Laboratories                  | ABT            | 1,469.152                     | 44.750                   | 65,745                                    | 0.40%                                  | 2.32%                  | 11.15%                         | 0.9357%                                       | 4.4894%   |
| Aflac Inc                            | AFL            | 413.987                       | 72.280                   | 29,923                                    | 0.00%                                  | 2.27%                  | n/a                            | 0.0000%                                       | n/a   |
| Air Products & Chemicals Inc         | APD            | 216.550                       | 149.420                  | 32,357                                    | 0.20%                                  | 2.30%                  | 8.79%                          | 0.4562%                                       | 1.7413%   |
| Royal Caribbean Cruises Ltd          | RCL            | 215.241                       | 72.440                   | 15,592                                    | 0.10%                                  | 2.07%                  | 18.42%                         | 0.1977%                                       | 1.7589%   |
| American Electric Power Co Inc       | AEP            | 491.709                       | 69.300                   | 34,075                                    | 0.21%                                  | 3.23%                  | 4.88%                          | 0.6745%                                       | 1.0188%   |
| Hess Corp                            | HES            | 316.719                       | 53.650                   | 16,992                                    | 0.00%                                  | 1.86%                  | -19.88%                        | 0.0000%                                       | 0.0000%   |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                                    | [1]            | [2]                           | [3]                      | [4]                                       |         |        |                              |         |                                   |  |                        |                                |   |  |
|------------------------------------|----------------|-------------------------------|--------------------------|---|---------|--------|------------------------------|---------|-----------------------------------|--|------------------------|--------------------------------|---|--|
|                                    | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return | 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 Long-Term Growth Estimate |
| S&P 500 As of 7/29/2016            | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |         |        |                              |         |                                   |  |                        |                                |   |  |
|                                    | [5]            | [6]                           | [7]                      | [8]                                       | [9]     | [10]   | [11]                         | [12]    |                                   |  |                        |                                |   |  |
| Anadarko Petroleum Corp            | APC            | 510.457                       | 54.530                   | 27,835                                    | 0.17%   | 0.37%  | 8.33%                        | 0.0625% | 1.4205%                           |  |                        |                                |   |  |
| Aon PLC                            | AON            | 265.600                       | 107.070                  | 28,438                                    | 0.17%   | 1.23%  | 11.31%                       | 0.2147% | 1.9698%                           |  |                        |                                |   |  |
| Apache Corp                        | APA            | 378.534                       | 52.500                   | 19,873                                    | 0.12%   | 1.90%  | 8.50%                        | 0.2318% | 1.0345%                           |  |                        |                                |   |  |
| Archer-Daniels-Midland Co          | ADM            | 587.582                       | 45.080                   | 26,488                                    | 0.16%   | 2.66%  | 7.15%                        | 0.4318% | 1.1599%                           |  |                        |                                |   |  |
| Automatic Data Processing Inc      | ADP            | 455.535                       | 88.950                   | 40,520                                    | 0.25%   | 2.38%  | 10.57%                       | 0.5915% | 2.6233%                           |  |                        |                                |   |  |
| Verisk Analytics Inc               | VRSK           | 168.166                       | 85.280                   | 14,341                                    | 0.00%   | n/a    | 12.67%                       | n/a     | 0.0000%                           |  |                        |                                |   |  |
| AutoZone Inc                       | AZO            | 29.232                        | 813.970                  | 23,794                                    | 0.00%   | n/a    | 12.72%                       | n/a     | 0.0000%                           |  |                        |                                |   |  |
| Avery Dennison Corp                | AVY            | 89.176                        | 77.890                   | 6,946                                     | 0.04%   | 2.11%  | 8.50%                        | 0.0896% | 0.3616%                           |  |                        |                                |   |  |
| Baker Hughes Inc                   | BHI            | 427.901                       | 47.830                   | 20,467                                    | 0.13%   | 1.42%  | 32.00%                       | 0.1782% | 4.0110%                           |  |                        |                                |   |  |
| Ball Corp                          | BLL            | 174.062                       | 70.670                   | 12,301                                    | 0.08%   | 0.74%  | 4.60%                        | 0.0554% | 0.3465%                           |  |                        |                                |   |  |
| Bank of New York Mellon Corp/The   | BK             | 1,077.083                     | 39.400                   | 42,437                                    | 0.26%   | 1.93%  | 14.98%                       | 0.5013% | 3.8933%                           |  |                        |                                |   |  |
| CR Bard Inc                        | BCR            | 73.455                        | 223.730                  | 16,434                                    | 0.10%   | 0.46%  | 21.62%                       | 0.0468% | 2.1760%                           |  |                        |                                |   |  |
| Baxter International Inc           | BAX            | 552.263                       | 48.020                   | 26,520                                    | 0.16%   | 1.08%  | 12.03%                       | 0.1759% | 1.9543%                           |  |                        |                                |   |  |
| Becton Dickinson and Co            | BDX            | 212.202                       | 176.000                  | 37,348                                    | 0.23%   | 1.50%  | 11.20%                       | 0.3431% | 2.5617%                           |  |                        |                                |   |  |
| Berkshire Hathaway Inc             | BRK/B          | 1,255.599                     | 144.270                  | 181,145                                   | 0.00%   | n/a    | 7.10%                        | n/a     | 0.0000%                           |  |                        |                                |   |  |
| Best Buy Co Inc                    | BBY            | 322.753                       | 33.600                   | 10,845                                    | 0.07%   | 3.33%  | 10.51%                       | 0.2214% | 0.6980%                           |  |                        |                                |   |  |
| H&R Block Inc                      | HRB            | 221.082                       | 23.790                   | 5,260                                     | 0.03%   | 3.70%  | 11.00%                       | 0.1191% | 0.3543%                           |  |                        |                                |   |  |
| Boston Scientific Corp             | BSX            | 1,356.867                     | 24.280                   | 32,945                                    | 0.00%   | n/a    | 12.40%                       | n/a     | 0.0000%                           |  |                        |                                |   |  |
| Bristol-Myers Squibb Co            | BMJ            | 1,670.859                     | 74.810                   | 124,997                                   | 0.77%   | 2.03%  | 23.17%                       | 1.5554% | 17.7348%                          |  |                        |                                |   |  |
| Fortune Brands Home & Security Inc | FBHS           | 153.376                       | 63.270                   | 9,704                                     | 0.06%   | 1.01%  | 18.63%                       | 0.0601% | 1.1074%                           |  |                        |                                |   |  |
| Brown-Forman Corp                  | BF/B           | 112.418                       | 98.190                   | 11,038                                    | 0.07%   | 1.39%  | 11.50%                       | 0.0936% | 0.7774%                           |  |                        |                                |   |  |
| Cabot Oil & Gas Corp               | COG            | 465.148                       | 24.670                   | 11,475                                    | 0.07%   | 0.32%  | 38.64%                       | 0.0228% | 2.7152%                           |  |                        |                                |   |  |
| Campbell Soup Co                   | CPB            | 308.647                       | 62.270                   | 19,219                                    | 0.12%   | 2.00%  | 7.01%                        | 0.2359% | 0.8255%                           |  |                        |                                |   |  |
| Kansas City Southern               | KSU            | 107.983                       | 96.110                   | 10,378                                    | 0.06%   | 1.37%  | 9.22%                        | 0.0873% | 0.5860%                           |  |                        |                                |   |  |
| Carnival Corp                      | CCL            | 550.891                       | 46.720                   | 25,738                                    | 0.16%   | 3.00%  | 16.75%                       | 0.4723% | 2.6402%                           |  |                        |                                |   |  |
| Qorvo Inc                          | QRVO           | 127.808                       | 63.230                   | 8,081                                     | 0.00%   | n/a    | 14.70%                       | n/a     | 0.0000%                           |  |                        |                                |   |  |
| CenturyLink Inc                    | CTL            | 546.052                       | 31.440                   | 17,168                                    | 0.00%   | 6.87%  | -1.52%                       | 0.0000% | 0.0000%                           |  |                        |                                |   |  |
| Cigna Corp                         | CI             | 256.570                       | 128.960                  | 33,087                                    | 0.20%   | 0.03%  | 9.05%                        | 0.0063% | 1.8339%                           |  |                        |                                |   |  |
| UDR Inc                            | UDR            | 267.058                       | 37.230                   | 9,943                                     | 0.06%   | 3.17%  | 6.53%                        | 0.1930% | 0.3976%                           |  |                        |                                |   |  |
| Frontier Communications Corp       | FTR            | 1,173.076                     | 5.200                    | 6,100                                     | 0.04%   | 8.08%  | 11.55%                       | 0.3017% | 0.4315%                           |  |                        |                                |   |  |
| Clorox Co/The                      | CLX            | 129.340                       | 131.070                  | 16,953                                    | 0.10%   | 2.44%  | 6.47%                        | 0.2535% | 0.6712%                           |  |                        |                                |   |  |
| CMS Energy Corp                    | CMS            | 279.829                       | 45.180                   | 12,643                                    | 0.08%   | 2.74%  | 6.03%                        | 0.2125% | 0.4665%                           |  |                        |                                |   |  |
| Colgate-Palmolive Co               | CL             | 891.493                       | 74.430                   | 66,354                                    | 0.41%   | 2.10%  | 8.41%                        | 0.8517% | 3.4168%                           |  |                        |                                |   |  |
| Comerica Inc                       | CMA            | 175.134                       | 45.240                   | 7,923                                     | 0.05%   | 2.03%  | 0.80%                        | 0.0987% | 0.0388%                           |  |                        |                                |   |  |
| CA Inc                             | CA             | 418.949                       | 34.650                   | 14,517                                    | 0.09%   | 2.94%  | 7.60%                        | 0.2617% | 0.6757%                           |  |                        |                                |   |  |
| ConAgra Foods Inc                  | CAG            | 438.720                       | 46.760                   | 20,515                                    | 0.13%   | 2.14%  | 8.00%                        | 0.2687% | 1.0051%                           |  |                        |                                |   |  |
| Consolidated Edison Inc            | ED             | 304.160                       | 80.080                   | 24,357                                    | 0.15%   | 3.35%  | 3.07%                        | 0.4992% | 0.4575%                           |  |                        |                                |   |  |
| SL Green Realty Corp               | SLG            | 100.237                       | 117.820                  | 11,810                                    | 0.07%   | 2.44%  | 4.81%                        | 0.1768% | 0.3479%                           |  |                        |                                |   |  |
| Corning Inc                        | GLW            | 1,036.877                     | 22.220                   | 23,039                                    | 0.14%   | 2.43%  | 12.70%                       | 0.3429% | 1.7920%                           |  |                        |                                |   |  |
| Cummins Inc                        | CMJ            | 170.360                       | 122.770                  | 20,915                                    | 0.13%   | 3.34%  | 4.26%                        | 0.4278% | 0.5457%                           |  |                        |                                |   |  |
| Danaher Corp                       | DHR            | 690.538                       | 81.440                   | 56,237                                    | 0.34%   | 0.79%  | 8.53%                        | 0.2707% | 2.9379%                           |  |                        |                                |   |  |
| Target Corp                        | TGT            | 589.275                       | 75.330                   | 44,390                                    | 0.27%   | 3.19%  | 10.35%                       | 0.8661% | 2.8143%                           |  |                        |                                |   |  |
| Deere & Co                         | DE             | 314.259                       | 77.710                   | 24,421                                    | 0.15%   | 3.09%  | 7.76%                        | 0.4619% | 1.1606%                           |  |                        |                                |   |  |
| Dominion Resources Inc/VA          | D              | 616.218                       | 78.020                   | 48,077                                    | 0.29%   | 3.59%  | 6.25%                        | 1.0567% | 1.8403%                           |  |                        |                                |   |  |
| Dover Corp                         | DOV            | 155.216                       | 71.430                   | 11,087                                    | 0.07%   | 2.35%  | 10.85%                       | 0.1597% | 0.7367%                           |  |                        |                                |   |  |
| Dow Chemical Co/The                | DOW            | 1,126.830                     | 53.670                   | 60,477                                    | 0.37%   | 3.43%  | 6.00%                        | 1.2698% | 2.2223%                           |  |                        |                                |   |  |
| Duke Energy Corp                   | DUK            | 688.793                       | 85.590                   | 58,954                                    | 0.36%   | 4.00%  | 4.71%                        | 1.4427% | 1.7005%                           |  |                        |                                |   |  |
| Eaton Corp PLC                     | ETN            | 458.000                       | 63.410                   | 29,042                                    | 0.18%   | 3.60%  | 8.50%                        | 0.6395% | 1.5118%                           |  |                        |                                |   |  |
| Ecolab Inc                         | ECL            | 293.305                       | 118.380                  | 34,721                                    | 0.21%   | 1.18%  | 12.36%                       | 0.2515% | 2.6276%                           |  |                        |                                |   |  |
| PerkinElmer Inc                    | PKI            | 109.030                       | 56.920                   | 6,206                                     | 0.04%   | 0.49%  | 19.67%                       | 0.0187% | 0.7477%                           |  |                        |                                |   |  |
| EMC Corp                           | EMC            | 1,954.667                     | 28.280                   | 55,278                                    | 0.34%   | 1.63%  | 10.58%                       | 0.5507% | 3.5817%                           |  |                        |                                |   |  |
| Emerson Electric Co                | EMR            | 643.351                       | 55.900                   | 35,963                                    | 0.22%   | 3.40%  | 7.33%                        | 0.7486% | 1.6133%                           |  |                        |                                |   |  |
| EOG Resources Inc                  | EOG            | 550.277                       | 81.700                   | 44,958                                    | 0.28%   | 0.82%  | 10.50%                       | 0.2258% | 2.8910%                           |  |                        |                                |   |  |
| Entergy Corp                       | ETR            | 178.741                       | 81.390                   | 14,548                                    | 0.09%   | 4.18%  | 1.56%                        | 0.3722% | 0.1390%                           |  |                        |                                |   |  |
| Equifax Inc                        | EFX            | 119.335                       | 132.460                  | 15,807                                    | 0.10%   | 1.00%  | 9.21%                        | 0.0965% | 0.8911%                           |  |                        |                                |   |  |

Montana-Dakota Utilities Co.

Market DCF Calculation

|   | [1]            | [2]                           | [3]                      | [4]                                       |  |                        |                                |   |  |  |  |
|---|----------------|-------------------------------|--------------------------|---|--|------------------------|--------------------------------|---|--|--|--|
|   | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |  |                        |                                |   |  |  |  |
| S&P 500 As of 7/29/2016                 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |  |                        |                                |   |  |  |  |
|   | [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 Long-Term Growth Estimate |  |  |
| EQT Corp                                | EQT            | 172.747                       | 72.860                   | 12,586                                    | 0.08%                                  | 0.16%                  | 25.00%                         | 0.0127%                                       | 1.9271%  |  |  |
| XL Group Ltd                            | XL             | 283.369                       | 34.610                   | 9,807                                     | 0.06%                                  | 2.31%                  | 12.50%                         | 0.1388%                                       | 0.7508%  |  |  |
| FedEx Corp                              | FDX            | 265.524                       | 161.900                  | 42,988                                    | 0.26%                                  | 0.99%                  | 12.00%                         | 0.2602%                                       | 3.1593%  |  |  |
| Macy's Inc                              | M              | 308.395                       | 35.830                   | 11,050                                    | 0.07%                                  | 4.21%                  | 9.67%                          | 0.2852%                                       | 0.6542%  |  |  |
| FMC Corp                                | FMC            | 133.752                       | 47.540                   | 6,359                                     | 0.04%                                  | 1.39%                  | 9.53%                          | 0.0541%                                       | 0.3712%  |  |  |
| Ford Motor Co                           | F              | 3,902.389                     | 12.660                   | 49,404                                    | 0.30%                                  | 4.74%                  | 4.58%                          | 1.4340%                                       | 1.3867%  |  |  |
| NextEra Energy Inc                      | NEE            | 461.973                       | 128.290                  | 59,267                                    | 0.36%                                  | 2.71%                  | 6.28%                          | 0.9846%                                       | 2.2776%  |  |  |
| Franklin Resources Inc                  | BEN            | 576.121                       | 36.190                   | 20,850                                    | 0.13%                                  | 1.99%                  | 5.44%                          | 0.2540%                                       | 0.6950%  |  |  |
| Freeport-McMoRan Inc                    | FCX            | 1,317.877                     | 12.960                   | 17,080                                    | 0.00%                                  | n/a                    | n/a                            | n/a   | n/a  |  |  |
| TEGNA Inc                               | TGNA           | 217.588                       | 21.900                   | 4,765                                     | 0.03%                                  | 2.56%                  | 6.28%                          | 0.0746%                                       | 0.1831%  |  |  |
| Gap Inc/The                             | GPS            | 397.964                       | 25.790                   | 10,263                                    | 0.06%                                  | 3.57%                  | 5.63%                          | 0.2242%                                       | 0.3538%  |  |  |
| General Dynamics Corp                   | GD             | 305.279                       | 146.890                  | 44,842                                    | 0.27%                                  | 2.07%                  | 7.59%                          | 0.5684%                                       | 2.0844%  |  |  |
| General Mills Inc                       | GIS            | 597.021                       | 71.890                   | 42,920                                    | 0.26%                                  | 2.67%                  | 7.96%                          | 0.7020%                                       | 2.0923%  |  |  |
| Genuine Parts Co                        | GPC            | 148.914                       | 102.240                  | 15,225                                    | 0.09%                                  | 2.57%                  | 6.19%                          | 0.2399%                                       | 0.5770%  |  |  |
| WW Grainger Inc                         | GWV            | 60.423                        | 218.850                  | 13,224                                    | 0.08%                                  | 2.23%                  | 12.33%                         | 0.1806%                                       | 0.9981%  |  |  |
| Halliburton Co                          | HAL            | 859.265                       | 43.660                   | 37,516                                    | 0.23%                                  | 1.65%                  | 12.53%                         | 0.3789%                                       | 2.8779%  |  |  |
| Harley-Davidson Inc                     | HOG            | 181.090                       | 52.920                   | 9,583                                     | 0.06%                                  | 2.65%                  | 10.33%                         | 0.1553%                                       | 0.6060%  |  |  |
| Harman International Industries Inc     | HAR            | 70.555                        | 82.640                   | 5,831                                     | 0.04%                                  | 1.69%                  | 20.00%                         | 0.0605%                                       | 0.7142%  |  |  |
| Harris Corp                             | HRS            | 124.726                       | 86.620                   | 10,804                                    | 0.00%                                  | 2.31%                  | n/a                            | 0.0000%                                       | n/a  |  |  |
| HCP Inc                                 | HCP            | 467.088                       | 39.230                   | 18,324                                    | 0.11%                                  | 5.86%                  | 2.81%                          | 0.6579%                                       | 0.3153%  |  |  |
| Helmerich & Payne Inc                   | HP             | 108.039                       | 61.970                   | 6,695                                     | 0.00%                                  | 4.52%                  | -11.46%                        | 0.0000%                                       | 0.0000%  |  |  |
| Fortive Corp                            | FTV            | 345.238                       | 48.210                   | 16,644                                    | 0.00%                                  | n/a                    | 8.10%                          | n/a   | 0.0000%  |  |  |
| Hershey Co/The                          | HSY            | 152.570                       | 110.760                  | 16,899                                    | 0.10%                                  | 2.23%                  | 9.18%                          | 0.2310%                                       | 0.9495%  |  |  |
| Synchrony Financial                     | SYF            | 833.925                       | 27.880                   | 23,250                                    | 0.14%                                  | 1.87%                  | 6.48%                          | 0.2656%                                       | 0.9223%  |  |  |
| Hormel Foods Corp                       | HRL            | 529.860                       | 37.350                   | 19,790                                    | 0.12%                                  | 1.55%                  | 5.90%                          | 0.1882%                                       | 0.7151%  |  |  |
| Arthur J Gallagher & Co                 | AJG            | 177.031                       | 49.190                   | 8,708                                     | 0.05%                                  | 3.09%                  | 9.16%                          | 0.1648%                                       | 0.4887%  |  |  |
| Starwood Hotels & Resorts Worldwide Inc | HOT            | 169.550                       | 78.060                   | 13,235                                    | 0.08%                                  | 1.92%                  | 7.02%                          | 0.1558%                                       | 0.5690%  |  |  |
| Mondelez International Inc              | MDLZ           | 1,555.535                     | 43.980                   | 68,412                                    | 0.42%                                  | 1.73%                  | 12.72%                         | 0.7240%                                       | 5.3294%  |  |  |
| CenterPoint Energy Inc                  | CNP            | 430.619                       | 23.920                   | 10,300                                    | 0.06%                                  | 4.31%                  | 5.67%                          | 0.2716%                                       | 0.3575%  |  |  |
| Humana Inc                              | HUM            | 149.037                       | 172.550                  | 25,716                                    | 0.16%                                  | 0.67%                  | 13.14%                         | 0.1059%                                       | 2.0692%  |  |  |
| Willis Towers Watson PLC                | WLTW           | 138.441                       | 123.620                  | 17,114                                    | 0.10%                                  | 1.55%                  | 21.47%                         | 0.1628%                                       | 2.2500%  |  |  |
| Illinois Tool Works Inc                 | ITW            | 359.370                       | 115.400                  | 41,471                                    | 0.25%                                  | 1.91%                  | 7.37%                          | 0.4842%                                       | 1.8711%  |  |  |
| Ingersoll-Rand PLC                      | IR             | 257.998                       | 66.260                   | 17,095                                    | 0.10%                                  | 1.93%                  | 11.26%                         | 0.2022%                                       | 1.1787%  |  |  |
| Foot Locker Inc                         | FL             | 135.309                       | 59.620                   | 8,067                                     | 0.05%                                  | 1.85%                  | 9.69%                          | 0.0912%                                       | 0.4786%  |  |  |
| Interpublic Group of Cos Inc/The        | IPG            | 400.708                       | 23.060                   | 9,240                                     | 0.06%                                  | 2.60%                  | 7.25%                          | 0.1472%                                       | 0.4103%  |  |  |
| International Flavors & Fragrances Inc  | IFF            | 79.714                        | 133.250                  | 10,622                                    | 0.07%                                  | 1.68%                  | 10.25%                         | 0.1094%                                       | 0.6668%  |  |  |
| Jacobs Engineering Group Inc            | JEC            | 121.925                       | 53.520                   | 6,525                                     | 0.00%                                  | n/a                    | 8.78%                          | n/a   | 0.0000%  |  |  |
| Johnson Controls Inc                    | JCI            | 637.746                       | 45.920                   | 29,285                                    | 0.18%                                  | 2.53%                  | 9.25%                          | 0.4531%                                       | 1.6590%  |  |  |
| Hanesbrands Inc                         | HBI            | 377.517                       | 26.660                   | 10,065                                    | 0.06%                                  | 1.65%                  | 12.03%                         | 0.1017%                                       | 0.7417%  |  |  |
| Kellogg Co                              | K              | 350.048                       | 82.710                   | 28,952                                    | 0.18%                                  | 2.51%                  | 5.76%                          | 0.4459%                                       | 1.0210%  |  |  |
| Perrigo Co PLC                          | PRGO           | 143.223                       | 91.390                   | 13,089                                    | 0.08%                                  | 0.63%                  | 8.53%                          | 0.0509%                                       | 0.6839%  |  |  |
| Kimberly-Clark Corp                     | KMB            | 359.636                       | 129.550                  | 46,591                                    | 0.29%                                  | 2.84%                  | 7.08%                          | 0.8105%                                       | 2.0202%  |  |  |
| Kimco Realty Corp                       | KIM            | 420.052                       | 32.100                   | 13,484                                    | 0.08%                                  | 3.18%                  | 5.49%                          | 0.2624%                                       | 0.4531%  |  |  |
| Kohl's Corp                             | KSS            | 183.709                       | 41.590                   | 7,640                                     | 0.05%                                  | 4.81%                  | 3.25%                          | 0.2250%                                       | 0.1521%  |  |  |
| Oracle Corp                             | ORCL           | 4,122.730                     | 41.040                   | 169,197                                   | 1.04%                                  | 1.46%                  | 8.25%                          | 1.5149%                                       | 8.5488%  |  |  |
| Kroger Co/The                           | KR             | 948.992                       | 34.190                   | 32,446                                    | 0.20%                                  | 1.40%                  | 8.93%                          | 0.2790%                                       | 1.7737%  |  |  |
| Legg Mason Inc                          | LM             | 105.111                       | 34.140                   | 3,588                                     | 0.02%                                  | 2.58%                  | 15.96%                         | 0.0566%                                       | 0.3508%  |  |  |
| Leggett & Platt Inc                     | LEG            | 134.326                       | 52.570                   | 7,062                                     | 0.04%                                  | 2.59%                  | 10.00%                         | 0.1119%                                       | 0.4325%  |  |  |
| Lennar Corp                             | LEN            | 183.406                       | 46.800                   | 8,583                                     | 0.05%                                  | 0.34%                  | 11.78%                         | 0.0180%                                       | 0.6190%  |  |  |
| Leucadia National Corp                  | LUK            | 362.330                       | 18.260                   | 6,616                                     | 0.04%                                  | 1.37%                  | 18.00%                         | 0.0555%                                       | 0.7293%  |  |  |
| Eli Lilly & Co                          | LLY            | 1,103.843                     | 82.890                   | 91,498                                    | 0.56%                                  | 2.46%                  | 12.93%                         | 1.3791%                                       | 7.2449%  |  |  |
| L Brands Inc                            | LB             | 287.502                       | 73.900                   | 21,246                                    | 0.13%                                  | 3.25%                  | 10.58%                         | 0.4226%                                       | 1.3764%  |  |  |
| Lincoln National Corp                   | LNC            | 239.007                       | 43.670                   | 10,437                                    | 0.06%                                  | 2.29%                  | 11.80%                         | 0.1464%                                       | 0.7543%  |  |  |
| Loews Corp                              | L              | 339.016                       | 41.330                   | 14,012                                    | 0.00%                                  | 0.60%                  | n/a                            | 0.0000%                                       | n/a  |  |  |
| Lowe's Cos Inc                          | LOW            | 886.105                       | 82.280                   | 72,909                                    | 0.45%                                  | 1.70%                  | 16.39%                         | 0.7597%                                       | 7.3193%  |  |  |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                                      | [1]            | [2]                           | [3]                      | [4]                                       |  |                        |                                |   |   |
|--------------------------------------|----------------|-------------------------------|--------------------------|---|--|------------------------|--------------------------------|---|---|
|                                      | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |  |                        |                                |   |   |
| S&P 500 As of 7/29/2016              | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |  |                        |                                |   |   |
|                                      | [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 |
| Host Hotels & Resorts Inc            | HST            | 742.482                       | 17.740                   | 13,172                                    | 0.08%                                  | 4.51%                  | 5.00%                          | 0.3638%                                       | 0.4033%   |
| Marsh & McLennan Cos Inc             | MMC            | 521.233                       | 65.750                   | 34,271                                    | 0.21%                                  | 2.07%                  | 11.43%                         | 0.4341%                                       | 2.3982%   |
| Masco Corp                           | MAS            | 330.215                       | 36.480                   | 12,046                                    | 0.07%                                  | 1.04%                  | 15.59%                         | 0.0769%                                       | 1.1503%   |
| Mattel Inc                           | MAT            | 340.619                       | 33.380                   | 11,370                                    | 0.07%                                  | 4.55%                  | 10.40%                         | 0.3171%                                       | 0.7242%   |
| S&P Global Inc                       | SPGI           | 264.000                       | 122.200                  | 32,261                                    | 0.20%                                  | 1.18%                  | 10.00%                         | 0.2328%                                       | 1.9757%   |
| Medtronic PLC                        | MDT            | 1,393.525                     | 87.630                   | 122,115                                   | 0.75%                                  | 1.96%                  | 8.31%                          | 1.4679%                                       | 6.2125%   |
| CVS Health Corp                      | CVS            | 1,074.022                     | 92.720                   | 99,583                                    | 0.61%                                  | 1.83%                  | 13.59%                         | 1.1182%                                       | 8.2907%   |
| Micron Technology Inc                | MU             | 1,038.391                     | 13.740                   | 14,267                                    | 0.00%                                  | n/a                    | 4.00%                          | n/a   | 0.0000%   |
| Motorola Solutions Inc               | MSI            | 174.604                       | 69.380                   | 12,114                                    | 0.07%                                  | 2.36%                  | 5.28%                          | 0.1754%                                       | 0.3914%   |
| Murphy Oil Corp                      | MUR            | 172.195                       | 27.430                   | 4,723                                     | 0.00%                                  | 5.10%                  | n/a                            | 0.0000%                                       | n/a   |
| Mylan NV                             | MYL            | 508.368                       | 46.790                   | 23,787                                    | 0.00%                                  | n/a                    | 9.42%                          | n/a   | 0.0000%   |
| Laboratory Corp of America Holdings  | LH             | 102.300                       | 139.560                  | 14,277                                    | 0.00%                                  | n/a                    | 11.33%                         | n/a   | 0.0000%   |
| Newell Brands Inc                    | NWL            | 477.952                       | 52.460                   | 25,073                                    | 0.15%                                  | 1.45%                  | 13.92%                         | 0.2225%                                       | 2.1375%   |
| Newmont Mining Corp                  | NEM            | 530.595                       | 44.000                   | 23,346                                    | 0.14%                                  | 0.23%                  | 5.17%                          | 0.0325%                                       | 0.7388%   |
| Twenty-First Century Fox Inc         | FOXA           | 1,095.726                     | 26.640                   | 29,190                                    | 0.18%                                  | 1.13%                  | 11.57%                         | 0.2013%                                       | 2.0684%   |
| NIKE Inc                             | NKE            | 1,348.661                     | 55.500                   | 74,851                                    | 0.46%                                  | 1.15%                  | 12.97%                         | 0.5286%                                       | 5.9446%   |
| NISource Inc                         | NI             | 321.544                       | 25.660                   | 8,251                                     | 0.05%                                  | 2.57%                  | 4.00%                          | 0.1300%                                       | 0.2021%   |
| Noble Energy Inc                     | NBL            | 429.592                       | 35.720                   | 15,345                                    | 0.09%                                  | 1.12%                  | 10.00%                         | 0.1052%                                       | 0.9398%   |
| Norfolk Southern Corp                | NSC            | 293.550                       | 89.780                   | 26,355                                    | 0.16%                                  | 2.63%                  | 12.56%                         | 0.4243%                                       | 2.0268%   |
| Eversource Energy                    | ES             | 317.207                       | 58.490                   | 18,553                                    | 0.11%                                  | 3.04%                  | 7.00%                          | 0.3458%                                       | 0.7954%   |
| Northrop Grumman Corp                | NOC            | 178.575                       | 216.630                  | 38,685                                    | 0.24%                                  | 1.66%                  | 6.95%                          | 0.3937%                                       | 1.6466%   |
| Wells Fargo & Co                     | WFC            | 5,077.048                     | 47.970                   | 243,546                                   | 1.49%                                  | 3.17%                  | 11.47%                         | 4.7261%                                       | 17.1081%  |
| Nucor Corp                           | NUE            | 317.929                       | 53.640                   | 17,054                                    | 0.10%                                  | 2.80%                  | 8.17%                          | 0.2921%                                       | 0.8530%   |
| PVH Corp                             | PVH            | 80.856                        | 101.060                  | 8,171                                     | 0.05%                                  | 0.15%                  | 6.36%                          | 0.0074%                                       | 0.3180%   |
| Occidental Petroleum Corp            | OXY            | 763.742                       | 74.730                   | 57,074                                    | 0.35%                                  | 4.07%                  | 8.00%                          | 1.4219%                                       | 2.7963%   |
| Omnicom Group Inc                    | OMC            | 236.538                       | 82.290                   | 19,465                                    | 0.12%                                  | 2.67%                  | 5.96%                          | 0.3187%                                       | 0.7105%   |
| ONEOK Inc                            | OKE            | 210.105                       | 44.790                   | 9,411                                     | 0.06%                                  | 5.49%                  | 7.30%                          | 0.3165%                                       | 0.4207%   |
| Owens-Illinois Inc                   | OI             | 162.082                       | 18.790                   | 3,046                                     | 0.00%                                  | n/a                    | 7.37%                          | n/a   | 0.0000%   |
| PG&E Corp                            | PCG            | 498.506                       | 63.940                   | 31,874                                    | 0.20%                                  | 3.07%                  | 5.56%                          | 0.5984%                                       | 1.0861%   |
| Parker-Hannifin Corp                 | PH             | 134.681                       | 114.190                  | 15,379                                    | 0.09%                                  | 2.21%                  | 8.21%                          | 0.2079%                                       | 0.7735%   |
| PPL Corp                             | PPL            | 676.945                       | 37.710                   | 25,528                                    | 0.16%                                  | 4.03%                  | 4.78%                          | 0.6302%                                       | 0.7465%   |
| PepsiCo Inc                          | PEP            | 1,439.158                     | 108.920                  | 156,753                                   | 0.96%                                  | 2.76%                  | 6.59%                          | 2.6530%                                       | 6.3226%   |
| Exelon Corp                          | EXC            | 921.695                       | 37.280                   | 34,361                                    | 0.21%                                  | 3.41%                  | 4.00%                          | 0.7180%                                       | 0.8409%   |
| ConocoPhillips                       | COP            | 1,238.387                     | 40.820                   | 50,551                                    | 0.31%                                  | 2.45%                  | 6.67%                          | 0.7584%                                       | 2.0640%   |
| PulteGroup Inc                       | PHM            | 343.620                       | 21.180                   | 7,278                                     | 0.04%                                  | 1.70%                  | 25.01%                         | 0.0758%                                       | 1.1147%   |
| Pinnacle West Capital Corp           | PNW            | 111.140                       | 78.870                   | 8,766                                     | 0.05%                                  | 3.17%                  | 4.64%                          | 0.1702%                                       | 0.2490%   |
| Pitney Bowes Inc                     | PBI            | 188.620                       | 19.310                   | 3,642                                     | 0.02%                                  | 3.88%                  | 14.00%                         | 0.0866%                                       | 0.3123%   |
| PNC Financial Services Group Inc/The | PNC            | 499.324                       | 82.650                   | 41,269                                    | 0.25%                                  | 2.66%                  | 3.72%                          | 0.6728%                                       | 0.9402%   |
| PPG Industries Inc                   | PPG            | 266.282                       | 104.710                  | 27,882                                    | 0.17%                                  | 1.53%                  | 8.43%                          | 0.2609%                                       | 1.4387%   |
| Praxair Inc                          | PX             | 285.232                       | 116.540                  | 33,241                                    | 0.20%                                  | 2.57%                  | 7.11%                          | 0.5240%                                       | 1.4474%   |
| Progressive Corp/The                 | PGR            | 582.997                       | 32.510                   | 18,953                                    | 0.12%                                  | 2.73%                  | 8.95%                          | 0.3171%                                       | 1.0389%   |
| Public Service Enterprise Group Inc  | PEG            | 505.917                       | 46.010                   | 23,277                                    | 0.14%                                  | 3.56%                  | 3.11%                          | 0.5081%                                       | 0.4426%   |
| Raytheon Co                          | RTN            | 295.095                       | 139.530                  | 41,175                                    | 0.25%                                  | 2.10%                  | 7.69%                          | 0.5295%                                       | 1.9392%   |
| Robert Half International Inc        | RHI            | 131.319                       | 36.540                   | 4,798                                     | 0.03%                                  | 2.41%                  | 10.86%                         | 0.0708%                                       | 0.3191%   |
| Ryder System Inc                     | R              | 53.478                        | 65.900                   | 3,524                                     | 0.02%                                  | 2.67%                  | 11.70%                         | 0.0576%                                       | 0.2525%   |
| SCANA Corp                           | SCG            | 142.917                       | 74.940                   | 10,710                                    | 0.07%                                  | 3.07%                  | 5.55%                          | 0.2013%                                       | 0.3640%   |
| Edison International                 | EIX            | 325.811                       | 77.380                   | 25,211                                    | 0.15%                                  | 2.48%                  | 5.77%                          | 0.3831%                                       | 0.8904%   |
| Schlumberger Ltd                     | SLB            | 1,390.693                     | 80.520                   | 111,979                                   | 0.69%                                  | 2.48%                  | 7.48%                          | 1.7034%                                       | 5.1318%   |
| Charles Schwab Corp/The              | SCHW           | 1,321.691                     | 28.420                   | 37,562                                    | 0.23%                                  | 0.99%                  | 16.43%                         | 0.2266%                                       | 3.7796%   |
| Sherwin-Williams Co/The              | SHW            | 92.222                        | 299.730                  | 27,642                                    | 0.17%                                  | 1.12%                  | 15.77%                         | 0.1898%                                       | 2.6691%   |
| JM Smucker Co/The                    | SJM            | 116.426                       | 154.160                  | 17,948                                    | 0.11%                                  | 1.95%                  | 8.30%                          | 0.2139%                                       | 0.9123%   |
| Snap-on Inc                          | SNA            | 58.087                        | 157.170                  | 9,130                                     | 0.06%                                  | 1.55%                  | 4.90%                          | 0.0868%                                       | 0.2740%   |
| AMETEK Inc                           | AME            | 233.410                       | 47.030                   | 10,977                                    | 0.07%                                  | 0.77%                  | 10.30%                         | 0.0515%                                       | 0.6927%   |
| Southern Co/The                      | SO             | 938.552                       | 53.500                   | 50,213                                    | 0.31%                                  | 4.19%                  | 3.80%                          | 1.2875%                                       | 1.1686%   |
| BB&T Corp                            | BBT            | 814.500                       | 36.870                   | 30,031                                    | 0.18%                                  | 3.25%                  | 4.65%                          | 0.5986%                                       | 0.8548%   |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |
|-------------------------|----------------|-------------------------------|--------------------------|---|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |

|                                      | [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 |
| Southwest Airlines Co                | LUV    | 620,233                      | 37.010  | 22,955                            | 0.14%                                  | 1.08%                  | 9.29%                          | 0.1519%                                       | 1.3060%   |
| Southwestern Energy Co               | SWN    | 493,456                      | 14.580  | 7,195                             | 0.00%                                  | n/a                    | -11.66%                        | n/a   | 0.0000%   |
| Stanley Black & Decker Inc           | SWK    | 150,426                      | 121.700 | 18,307                            | 0.11%                                  | 1.91%                  | 10.50%                         | 0.2137%                                       | 1.1772%   |
| Public Storage                       | PSA    | 173,382                      | 238.920 | 41,424                            | 0.25%                                  | 3.01%                  | 5.53%                          | 0.7645%                                       | 1.4037%   |
| SunTrust Banks Inc                   | STI    | 501,128                      | 42.290  | 21,193                            | 0.13%                                  | 2.27%                  | 4.66%                          | 0.2946%                                       | 0.6051%   |
| Sysco Corp                           | SYX    | 563,516                      | 51.790  | 29,184                            | 0.18%                                  | 2.39%                  | 9.80%                          | 0.4279%                                       | 1.7511%   |
| Tesoro Corp                          | TSO    | 119,976                      | 76.150  | 9,136                             | 0.00%                                  | 2.63%                  | -2.69%                         | 0.0000%                                       | 0.0000%   |
| Texas Instruments Inc                | TXN    | 1,004,227                    | 69.750  | 70,045                            | 0.43%                                  | 2.18%                  | 10.00%                         | 0.9348%                                       | 4.2898%   |
| Textron Inc                          | TXT    | 269,464                      | 39.000  | 10,509                            | 0.06%                                  | 0.21%                  | 7.31%                          | 0.0132%                                       | 0.4705%   |
| Thermo Fisher Scientific Inc         | TMO    | 393,512                      | 158.840 | 62,505                            | 0.38%                                  | 0.38%                  | 11.93%                         | 0.1446%                                       | 4.5649%   |
| Tiffany & Co                         | TIF    | 126,018                      | 64.520  | 8,131                             | 0.05%                                  | 2.79%                  | 8.32%                          | 0.1389%                                       | 0.4141%   |
| TJX Cos Inc/The                      | TJX    | 661,083                      | 81.720  | 54,024                            | 0.33%                                  | 1.27%                  | 11.67%                         | 0.4210%                                       | 3.8601%   |
| Torchmark Corp                       | TMK    | 120,651                      | 61.870  | 7,465                             | 0.05%                                  | 0.91%                  | 7.63%                          | 0.0414%                                       | 0.3488%   |
| Total System Services Inc            | TSS    | 183,612                      | 50.920  | 9,350                             | 0.06%                                  | 0.79%                  | 11.00%                         | 0.0450%                                       | 0.6299%   |
| Tyco International Plc               | TYC    | 426,224                      | 45.570  | 19,423                            | 0.12%                                  | 2.02%                  | 10.03%                         | 0.2402%                                       | 1.1935%   |
| Ulta Salon Cosmetics & Fragrance Inc | ULTA   | 62,455                       | 261.210 | 16,314                            | 0.00%                                  | n/a                    | 22.17%                         | n/a   | 0.0000%   |
| Union Pacific Corp                   | UNP    | 832,914                      | 93.050  | 77,503                            | 0.47%                                  | 2.36%                  | 12.58%                         | 1.1222%                                       | 5.9692%   |
| UnitedHealth Group Inc               | UNH    | 950,804                      | 143.200 | 136,155                           | 0.83%                                  | 1.75%                  | 13.18%                         | 1.4557%                                       | 10.9894%  |
| Unum Group                           | UNM    | 234,643                      | 33.410  | 7,839                             | 0.05%                                  | 2.39%                  | 7.60%                          | 0.1150%                                       | 0.3649%   |
| Marathon Oil Corp                    | MRO    | 847,648                      | 13.640  | 11,562                            | 0.07%                                  | 1.47%                  | 6.50%                          | 0.1038%                                       | 0.4603%   |
| Varian Medical Systems Inc           | VAR    | 95,215                       | 94.740  | 9,021                             | 0.00%                                  | n/a                    | 11.37%                         | n/a   | 0.0000%   |
| Ventas Inc                           | VTR    | 351,350                      | 76.160  | 26,759                            | 0.16%                                  | 3.83%                  | 5.83%                          | 0.6283%                                       | 0.9551%   |
| VF Corp                              | VFC    | 417,018                      | 62.430  | 26,034                            | 0.16%                                  | 2.37%                  | 11.38%                         | 0.3780%                                       | 1.8145%   |
| Vornado Realty Trust                 | VNO    | 188,771                      | 107.400 | 20,274                            | 0.12%                                  | 2.35%                  | 4.94%                          | 0.2913%                                       | 0.6127%   |
| Vulcan Materials Co                  | VMC    | 133,188                      | 123.980 | 16,513                            | 0.10%                                  | 0.65%                  | 23.26%                         | 0.0653%                                       | 2.3527%   |
| Weyerhaeuser Co                      | WY     | 747,074                      | 32.720  | 24,444                            | 0.15%                                  | 3.79%                  | 5.50%                          | 0.5673%                                       | 0.8234%   |
| Whirlpool Corp                       | WHR    | 75,444                       | 192.360 | 14,512                            | 0.09%                                  | 2.08%                  | 16.53%                         | 0.1848%                                       | 1.4692%   |
| Williams Cos Inc/The                 | WMB    | 750,570                      | 23.970  | 17,991                            | 0.00%                                  | n/a                    | 5.50%                          | n/a   | 0.0000%   |
| WEC Energy Group Inc                 | WEC    | 315,647                      | 64.910  | 20,489                            | 0.13%                                  | 3.05%                  | 5.50%                          | 0.3828%                                       | 0.6901%   |
| Xerox Corp                           | XRX    | 1,013,002                    | 10.300  | 10,434                            | 0.06%                                  | 3.01%                  | 11.60%                         | 0.1923%                                       | 0.7412%   |
| Adobe Systems Inc                    | ADBE   | 498,291                      | 97.860  | 48,763                            | 0.00%                                  | n/a                    | 17.36%                         | n/a   | 0.0000%   |
| AES Corp/VA                          | AES    | 659,001                      | 12.350  | 8,139                             | 0.05%                                  | 3.56%                  | 7.33%                          | 0.1776%                                       | 0.3656%   |
| Amgen Inc                            | AMGN   | 748,361                      | 172.030 | 128,741                           | 0.79%                                  | 2.33%                  | 7.98%                          | 1.8333%                                       | 6.2918%   |
| Apple Inc                            | AAPL   | 5,388,443                    | 104.210 | 561,530                           | 3.44%                                  | 2.19%                  | 10.22%                         | 7.5241%                                       | 35.1532%  |
| Autodesk Inc                         | ADSK   | 224,656                      | 59.450  | 13,356                            | 0.00%                                  | n/a                    | 20.96%                         | n/a   | 0.0000%   |
| Cintas Corp                          | CTAS   | 104,207                      | 107.270 | 11,178                            | 0.07%                                  | 0.98%                  | 10.76%                         | 0.0670%                                       | 0.7366%   |
| Comcast Corp                         | CMCSA  | 2,402,381                    | 67.250  | 161,560                           | 0.99%                                  | 1.64%                  | 11.28%                         | 1.6184%                                       | 11.1589%  |
| Molson Coors Brewing Co              | TAP    | 193,806                      | 102.160 | 19,799                            | 0.12%                                  | 1.61%                  | 22.00%                         | 0.1947%                                       | 2.6676%   |
| KLA-Tencor Corp                      | KLAC   | 155,708                      | 75.710  | 11,789                            | 0.07%                                  | 2.75%                  | 3.10%                          | 0.1983%                                       | 0.2238%   |
| Marriott International Inc/MD        | MAR    | 254,400                      | 71.700  | 18,240                            | 0.11%                                  | 1.67%                  | 11.38%                         | 0.1870%                                       | 1.2713%   |
| McCormick & Co Inc/MD                | MKC    | 115,044                      | 102.250 | 11,763                            | 0.07%                                  | 1.68%                  | 9.00%                          | 0.1212%                                       | 0.6484%   |
| Nordstrom Inc                        | JWN    | 173,435                      | 44.230  | 7,671                             | 0.05%                                  | 3.35%                  | 8.23%                          | 0.1572%                                       | 0.3868%   |
| PACCAR Inc                           | PCAR   | 350,463                      | 58.970  | 20,667                            | 0.13%                                  | 1.63%                  | 7.83%                          | 0.2060%                                       | 0.9914%   |
| Costco Wholesale Corp                | COST   | 438,066                      | 167.220 | 73,253                            | 0.45%                                  | 1.08%                  | 10.66%                         | 0.4829%                                       | 4.7815%   |
| St Jude Medical Inc                  | STJ    | 284,277                      | 83.040  | 23,606                            | 0.14%                                  | 1.49%                  | 10.57%                         | 0.2159%                                       | 1.5283%   |
| Stryker Corp                         | SYK    | 374,302                      | 116.280 | 43,524                            | 0.27%                                  | 1.31%                  | 8.76%                          | 0.3484%                                       | 2.3339%   |
| Tyson Foods Inc                      | TSN    | 300,537                      | 73.600  | 22,120                            | 0.14%                                  | 0.82%                  | 12.30%                         | 0.1104%                                       | 1.6662%   |
| Applied Materials Inc                | AMAT   | 1,089,144                    | 26.290  | 28,634                            | 0.18%                                  | 1.52%                  | 15.43%                         | 0.2668%                                       | 2.7063%   |
| Time Warner Inc                      | TWX    | 786,394                      | 76.650  | 60,277                            | 0.37%                                  | 2.10%                  | 13.90%                         | 0.7754%                                       | 5.1324%   |
| Bed Bath & Beyond Inc                | BBBY   | 154,462                      | 44.950  | 6,943                             | 0.04%                                  | 1.11%                  | 7.06%                          | 0.0473%                                       | 0.3003%   |
| American Airlines Group Inc          | AAL    | 529,913                      | 35.500  | 18,812                            | 0.00%                                  | 1.13%                  | -18.24%                        | 0.0000%                                       | 0.0000%   |
| Cardinal Health Inc                  | CAH    | 325,815                      | 83.600  | 27,238                            | 0.17%                                  | 2.15%                  | 11.90%                         | 0.3583%                                       | 1.9856%   |
| Celgene Corp                         | CELG   | 775,115                      | 112.190 | 86,960                            | 0.00%                                  | n/a                    | 22.44%                         | n/a   | 0.0000%   |
| Cerner Corp                          | CERN   | 338,082                      | 62.390  | 21,093                            | 0.00%                                  | n/a                    | 16.13%                         | n/a   | 0.0000%   |
| Cincinnati Financial Corp            | CINF   | 164,576                      | 74.700  | 12,294                            | 0.00%                                  | 2.57%                  | n/a                            | 0.0000%                                       | n/a   |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |     |      |      |      |
|-------------------------|----------------|-------------------------------|--------------------------|---|-----|------|------|------|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |     |      |      |      |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |     |      |      |      |
|                         | [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 |
|--|--------|------------------------------|---------|-----------------------------------|--|------------------------|--------------------------------|---|---|
| DR Horton Inc                              | DHI    | 372.286                      | 32.880  | 12,241                            | 0.07%                                  | 0.97%                  | 13.85%                         | 0.0730%                                       | 1.0379%   |
| FlowsERVE Corp                             | FLS    | 130.380                      | 47.850  | 6,239                             | 0.04%                                  | 1.59%                  | 8.56%                          | 0.0607%                                       | 0.3270%   |
| Electronic Arts Inc                        | EA     | 301.383                      | 76.320  | 23,002                            | 0.00%                                  | n/a                    | 11.27%                         | n/a   | 0.0000%   |
| Express Scripts Holding Co                 | ESRX   | 630.219                      | 76.070  | 47,941                            | 0.00%                                  | n/a                    | 11.59%                         | n/a   | 0.0000%   |
| Expeditors International of Washington Inc | EXPD   | 182.059                      | 49.430  | 8,999                             | 0.06%                                  | 1.62%                  | 9.10%                          | 0.0892%                                       | 0.5015%   |
| Fastenal Co                                | FAST   | 288.966                      | 42.750  | 12,353                            | 0.08%                                  | 2.81%                  | 15.53%                         | 0.2124%                                       | 1.1745%   |
| M&T Bank Corp                              | MTB    | 158.999                      | 114.560 | 18,215                            | 0.11%                                  | 2.44%                  | 3.21%                          | 0.2726%                                       | 0.3578%   |
| Fiserv Inc                                 | FISV   | 222.330                      | 110.360 | 24,536                            | 0.00%                                  | n/a                    | 13.00%                         | n/a   | 0.0000%   |
| Fifth Third Bancorp                        | FITB   | 767.718                      | 18.980  | 14,571                            | 0.09%                                  | 2.74%                  | 3.03%                          | 0.2445%                                       | 0.2699%   |
| Gilead Sciences Inc                        | GILD   | 1,331.822                    | 79.470  | 105,840                           | 0.65%                                  | 2.37%                  | 2.26%                          | 1.5334%                                       | 1.4656%   |
| Hasbro Inc                                 | HAS    | 125.408                      | 81.230  | 10,187                            | 0.06%                                  | 2.51%                  | 10.15%                         | 0.1567%                                       | 0.6332%   |
| Huntington Bancshares Inc/OH               | HBAN   | 799.154                      | 9.500   | 7,592                             | 0.05%                                  | 2.95%                  | 5.17%                          | 0.1370%                                       | 0.2401%   |
| Welltower Inc                              | HCN    | 356.995                      | 79.330  | 28,320                            | 0.17%                                  | 4.34%                  | 4.67%                          | 0.7521%                                       | 0.8100%   |
| Biogen Inc                                 | BIIB   | 219.121                      | 289.930 | 63,530                            | 0.00%                                  | n/a                    | 8.85%                          | n/a   | 0.0000%   |
| Linear Technology Corp                     | LLTC   | 239.098                      | 59.990  | 14,343                            | 0.09%                                  | 2.13%                  | 7.39%                          | 0.1874%                                       | 0.6490%   |
| Range Resources Corp                       | RRC    | 170.090                      | 40.310  | 6,856                             | 0.00%                                  | 0.20%                  | -23.49%                        | 0.0000%                                       | 0.0000%   |
| Northern Trust Corp                        | NTRS   | 226.591                      | 67.590  | 15,315                            | 0.09%                                  | 2.25%                  | 10.53%                         | 0.2109%                                       | 0.9879%   |
| Paychex Inc                                | PAYX   | 360.532                      | 59.280  | 21,372                            | 0.13%                                  | 3.10%                  | 9.00%                          | 0.4063%                                       | 1.1780%   |
| People's United Financial Inc              | PBCT   | 310.861                      | 15.160  | 4,713                             | 0.00%                                  | 4.49%                  | n/a                            | 0.0000%                                       | n/a   |
| Patterson Cos Inc                          | PDCC   | 99.195                       | 49.360  | 4,896                             | 0.03%                                  | 1.94%                  | 9.03%                          | 0.0583%                                       | 0.2709%   |
| QUALCOMM Inc                               | QCOM   | 1,473.648                    | 62.580  | 92,221                            | 0.56%                                  | 3.39%                  | 10.42%                         | 1.9133%                                       | 5.8834%   |
| Roper Technologies Inc                     | ROP    | 101.201                      | 170.360 | 17,241                            | 0.11%                                  | 0.70%                  | 11.37%                         | 0.0744%                                       | 1.2002%   |
| Ross Stores Inc                            | ROST   | 399.510                      | 61.830  | 24,702                            | 0.15%                                  | 0.87%                  | 12.46%                         | 0.1321%                                       | 1.8845%   |
| AutoNation Inc                             | AN     | 102.089                      | 53.350  | 5,446                             | 0.00%                                  | n/a                    | 7.71%                          | n/a   | 0.0000%   |
| Starbucks Corp                             | SBUX   | 1,466.600                    | 58.050  | 85,136                            | 0.52%                                  | 1.38%                  | 19.57%                         | 0.7185%                                       | 10.2043%  |
| KeyCorp                                    | KEY    | 842.373                      | 11.700  | 9,856                             | 0.06%                                  | 2.91%                  | 5.15%                          | 0.1754%                                       | 0.3109%   |
| Staples Inc                                | SPLS   | 646.287                      | 9.290   | 6,004                             | 0.04%                                  | 5.17%                  | 4.20%                          | 0.1900%                                       | 0.1545%   |
| State Street Corp                          | STT    | 395.940                      | 65.780  | 26,045                            | 0.16%                                  | 2.07%                  | 10.22%                         | 0.3298%                                       | 1.6302%   |
| US Bancorp                                 | USB    | 1,726.403                    | 42.170  | 72,802                            | 0.45%                                  | 2.42%                  | 5.52%                          | 1.0785%                                       | 2.4612%   |
| Symantec Corp                              | SYMC   | 612.292                      | 20.430  | 12,509                            | 0.08%                                  | 1.47%                  | 8.69%                          | 0.1125%                                       | 0.6654%   |
| T Rowe Price Group Inc                     | TROW   | 248.552                      | 70.690  | 17,570                            | 0.11%                                  | 3.06%                  | 10.28%                         | 0.3288%                                       | 1.1060%   |
| Waste Management Inc                       | WM     | 442.289                      | 66.120  | 29,244                            | 0.18%                                  | 2.48%                  | 8.63%                          | 0.4442%                                       | 1.5447%   |
| CBS Corp                                   | CBS    | 406.875                      | 52.220  | 21,247                            | 0.13%                                  | 1.38%                  | 14.21%                         | 0.1794%                                       | 1.8490%   |
| Allergan plc                               | AGN    | 395.557                      | 252.950 | 100,056                           | 0.00%                                  | n/a                    | 12.31%                         | n/a   | 0.0000%   |
| Whole Foods Market Inc                     | WFM    | 321.027                      | 30.480  | 9,785                             | 0.06%                                  | 1.77%                  | 7.43%                          | 0.1062%                                       | 0.4452%   |
| Constellation Brands Inc                   | STZ    | 177.154                      | 164.630 | 29,165                            | 0.18%                                  | 0.97%                  | 14.80%                         | 0.1736%                                       | 2.6440%   |
| Xilinx Inc                                 | XLNX   | 253.482                      | 51.080  | 12,948                            | 0.08%                                  | 2.58%                  | 7.98%                          | 0.2049%                                       | 0.6328%   |
| DENTSPLY SIRONA Inc                        | XRAY   | 234.231                      | 64.040  | 15,000                            | 0.09%                                  | 0.48%                  | 9.77%                          | 0.0445%                                       | 0.8972%   |
| Zions Bancorporation                       | ZION   | 204.624                      | 27.880  | 5,705                             | 0.03%                                  | 1.15%                  | 12.67%                         | 0.0401%                                       | 0.4426%   |
| Alaska Air Group Inc                       | ALK    | 123.253                      | 67.220  | 8,285                             | 0.05%                                  | 1.64%                  | 2.20%                          | 0.0830%                                       | 0.1116%   |
| Invesco Ltd                                | IVZ    | 409.916                      | 29.180  | 11,961                            | 0.07%                                  | 3.84%                  | 9.76%                          | 0.2812%                                       | 0.7150%   |
| Intuit Inc                                 | INTU   | 255.871                      | 110.990 | 28,399                            | 0.17%                                  | 1.08%                  | 17.96%                         | 0.1880%                                       | 3.1240%   |
| Morgan Stanley                             | MS     | 1,937.024                    | 28.730  | 55,651                            | 0.34%                                  | 2.78%                  | 10.03%                         | 0.9490%                                       | 3.4184%   |
| Microchip Technology Inc                   | MCHP   | 215.025                      | 55.640  | 11,964                            | 0.07%                                  | 2.58%                  | 11.22%                         | 0.1894%                                       | 0.8217%   |
| Chubb Ltd                                  | CB     | 464.478                      | 125.260 | 58,181                            | 0.36%                                  | 2.20%                  | 8.68%                          | 0.7851%                                       | 3.0910%   |
| Hologic Inc                                | HOLX   | 277.423                      | 38.490  | 10,678                            | 0.00%                                  | n/a                    | 9.97%                          | n/a   | 0.0000%   |
| Chesapeake Energy Corp                     | CHK    | 684.607                      | 5.420   | 3,711                             | 0.00%                                  | n/a                    | -3.38%                         | n/a   | 0.0000%   |
| Citizens Financial Group Inc               | CFG    | 528.980                      | 22.330  | 11,812                            | 0.07%                                  | 2.15%                  | 16.50%                         | 0.1555%                                       | 1.1936%   |
| O'Reilly Automotive Inc                    | ORLY   | 96.456                       | 290.630 | 28,033                            | 0.00%                                  | n/a                    | 15.60%                         | n/a   | 0.0000%   |
| Allstate Corp/The                          | ALL    | 374.367                      | 68.330  | 25,580                            | 0.16%                                  | 1.93%                  | 9.00%                          | 0.3026%                                       | 1.4100%   |
| FLIR Systems Inc                           | FLIR   | 137.632                      | 32.580  | 4,484                             | 0.03%                                  | 1.47%                  | 15.00%                         | 0.0405%                                       | 0.4119%   |
| Equity Residential                         | EQR    | 365.502                      | 67.990  | 24,850                            | 0.15%                                  | 2.96%                  | 5.75%                          | 0.4511%                                       | 0.8746%   |
| BorgWarner Inc                             | BWA    | 214.266                      | 33.180  | 7,109                             | 0.04%                                  | 1.57%                  | 13.00%                         | 0.0682%                                       | 0.5659%   |
| Newfield Exploration Co                    | NFX    | 198.485                      | 43.300  | 8,594                             | 0.00%                                  | n/a                    | 30.44%                         | n/a   | 0.0000%   |
| Urban Outfitters Inc                       | URBN   | 117.137                      | 29.900  | 3,502                             | 0.00%                                  | n/a                    | 13.09%                         | n/a   | 0.0000%   |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |
|-------------------------|----------------|-------------------------------|--------------------------|---|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |

| 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 Long-Term Growth Estimate |
|---|--------|----------------------------------|-----------|---------------------------------------|--|----------------------------|-------------------------------------|--|---|
| Simon Property Group Inc                  | SPG    | 309.409                          | 227.040   | 70,248                                | 0.43%                                      | 2.91%                      | 7.83%                               | 1.2507%  | 3.3686%   |
| Eastman Chemical Co                       | EMN    | 147.837                          | 65.230    | 9,643                                 | 0.06%                                      | 2.82%                      | 5.47%                               | 0.1666%  | 0.3229%   |
| AvalonBay Communities Inc                 | AVB    | 137.163                          | 185.650   | 25,464                                | 0.16%                                      | 2.91%                      | 6.98%                               | 0.4536%  | 1.0878%   |
| Prudential Financial Inc                  | PRU    | 442.000                          | 75.290    | 33,278                                | 0.20%                                      | 3.72%                      | 7.90%                               | 0.7580%  | 1.6101%   |
| United Parcel Service Inc                 | UPS    | 690.451                          | 108.100   | 74,638                                | 0.46%                                      | 2.89%                      | 10.23%                              | 1.3193%  | 4.6739%   |
| Apartment Investment & Management Co      | AIV    | 156.613                          | 45.970    | 7,199                                 | 0.04%                                      | 2.87%                      | 6.88%                               | 0.1266%  | 0.3031%   |
| Walgreens Boots Alliance Inc              | WBA    | 1,082.318                        | 79.250    | 85,774                                | 0.53%                                      | 1.89%                      | 12.67%                              | 0.9942%  | 6.6556%   |
| McKesson Corp                             | MCK    | 225.702                          | 194.560   | 43,913                                | 0.27%                                      | 0.58%                      | 10.68%                              | 0.1548%  | 2.8717%   |
| Lockheed Martin Corp                      | LMT    | 302.906                          | 252.730   | 76,553                                | 0.47%                                      | 2.61%                      | 7.16%                               | 1.2244%  | 3.3545%   |
| AmerisourceBergen Corp                    | ABC    | 215.855                          | 85.190    | 18,389                                | 0.11%                                      | 1.60%                      | 11.20%                              | 0.1798%  | 1.2610%   |
| Capital One Financial Corp                | COF    | 512.099                          | 67.080    | 34,352                                | 0.21%                                      | 2.39%                      | 6.02%                               | 0.5018%  | 1.2673%   |
| Waters Corp                               | WAT    | 80.941                           | 158.930   | 12,864                                | 0.00%                                      | n/a                        | 9.26%                               | n/a  | 0.0000%   |
| Dollar Tree Inc                           | DLTR   | 235.666                          | 96.290    | 22,692                                | 0.00%                                      | n/a                        | 17.67%                              | n/a  | 0.0000%   |
| Darden Restaurants Inc                    | DRI    | 126.216                          | 61.560    | 7,770                                 | 0.05%                                      | 3.64%                      | 11.74%                              | 0.1731%  | 0.5586%   |
| Diamond Offshore Drilling Inc             | DO     | 137.170                          | 22.720    | 3,117                                 | 0.00%                                      | n/a                        | n/a                                 | n/a  | n/a   |
| NetApp Inc                                | NTAP   | 280.080                          | 26.350    | 7,380                                 | 0.05%                                      | 2.88%                      | 8.97%                               | 0.1304%  | 0.4053%   |
| Citrix Systems Inc                        | CTXS   | 155.102                          | 89.130    | 13,824                                | 0.00%                                      | n/a                        | 16.95%                              | n/a  | 0.0000%   |
| Goodyear Tire & Rubber Co/The             | GT     | 262.448                          | 28.670    | 7,524                                 | 0.05%                                      | 0.98%                      | 7.00%                               | 0.0450%  | 0.3226%   |
| DaVita HealthCare Partners Inc            | DVA    | 206.500                          | 77.540    | 16,012                                | 0.00%                                      | n/a                        | 10.11%                              | n/a  | 0.0000%   |
| Hartford Financial Services Group Inc/The | HIG    | 385.968                          | 39.850    | 15,381                                | 0.09%                                      | 2.11%                      | 9.33%                               | 0.1986%  | 0.8791%   |
| Iron Mountain Inc                         | IRM    | 262.643                          | 41.210    | 10,824                                | 0.00%                                      | 4.71%                      | n/a                                 | 0.0000%  | n/a   |
| Estee Lauder Cos Inc/The                  | EL     | 222.579                          | 92.900    | 20,678                                | 0.13%                                      | 1.29%                      | 11.64%                              | 0.1636%  | 1.4734%   |
| Yahoo! Inc                                | YHOO   | 949.919                          | 38.190    | 36,277                                | 0.00%                                      | n/a                        | 4.00%                               | n/a  | 0.0000%   |
| Principal Financial Group Inc             | PFGE   | 289.853                          | 46.630    | 13,516                                | 0.08%                                      | 3.52%                      | 6.53%                               | 0.2911%  | 0.5405%   |
| Stericycle Inc                            | SRCL   | 84.913                           | 90.270    | 7,665                                 | 0.00%                                      | n/a                        | 12.37%                              | n/a  | 0.0000%   |
| Universal Health Services Inc             | UHS    | 89.764                           | 129.530   | 11,627                                | 0.07%                                      | 0.31%                      | 9.24%                               | 0.0220%  | 0.6580%   |
| E*TRADE Financial Corp                    | ETFC   | 278.729                          | 25.080    | 6,991                                 | 0.00%                                      | n/a                        | 17.76%                              | n/a  | 0.0000%   |
| Skyworks Solutions Inc                    | SWKS   | 190.238                          | 66.020    | 12,560                                | 0.08%                                      | 1.70%                      | 17.56%                              | 0.1305%  | 1.3507%   |
| National Oilwell Varco Inc                | NOV    | 377.061                          | 32.350    | 12,198                                | 0.00%                                      | 0.62%                      | -11.91%                             | 0.0000%  | 0.0000%   |
| Quest Diagnostics Inc                     | DGX    | 139.017                          | 86.360    | 12,006                                | 0.07%                                      | 1.85%                      | 8.97%                               | 0.1362%  | 0.6597%   |
| Activision Blizzard Inc                   | ATVI   | 739.838                          | 40.160    | 29,712                                | 0.18%                                      | 0.65%                      | 14.22%                              | 0.1178%  | 2.5875%   |
| Rockwell Automation Inc                   | ROK    | 130.264                          | 114.400   | 14,902                                | 0.09%                                      | 2.54%                      | 5.86%                               | 0.2314%  | 0.5345%   |
| Kraft Heinz Co/The                        | KHC    | 1,215.955                        | 86.390    | 105,046                               | 0.64%                                      | 2.66%                      | 20.35%                              | 1.7128%  | 13.0938%  |
| American Tower Corp                       | AMT    | 425.489                          | 115.770   | 49,259                                | 0.30%                                      | 1.83%                      | 15.73%                              | 0.5524%  | 4.7454%   |
| Regeneron Pharmaceuticals Inc             | REGN   | 103.165                          | 425.120   | 43,858                                | 0.00%                                      | n/a                        | 23.94%                              | n/a  | 0.0000%   |
| Amazon.com Inc                            | AMZN   | 474.074                          | 758.810   | 359,732                               | 0.00%                                      | n/a                        | 42.43%                              | n/a  | 0.0000%   |
| Ralph Lauren Corp                         | RL     | 57.260                           | 98.090    | 5,617                                 | 0.03%                                      | 2.04%                      | 7.46%                               | 0.0701%  | 0.2565%   |
| Boston Properties Inc                     | BXP    | 153.611                          | 142.130   | 21,833                                | 0.13%                                      | 1.83%                      | 6.59%                               | 0.2446%  | 0.8816%   |
| Amphenol Corp                             | APH    | 307.927                          | 59.520    | 18,328                                | 0.11%                                      | 0.94%                      | 9.66%                               | 0.1056%  | 1.0843%   |
| Pioneer Natural Resources Co              | PXD    | 169.608                          | 162.570   | 27,573                                | 0.17%                                      | 0.05%                      | 20.00%                              | 0.0083%  | 3.3773%   |
| Valero Energy Corp                        | VLO    | 469.803                          | 52.280    | 24,561                                | 0.15%                                      | 4.59%                      | 6.90%                               | 0.6905%  | 0.3833%   |
| L-3 Communications Holdings Inc           | LLL    | 77.240                           | 151.630   | 11,712                                | 0.07%                                      | 1.85%                      | 7.87%                               | 0.1325%  | 0.5645%   |
| Western Union Co/The                      | WU     | 491.137                          | 20.000    | 9,823                                 | 0.06%                                      | 3.20%                      | 6.72%                               | 0.1925%  | 0.4044%   |
| CH Robinson Worldwide Inc                 | CHRW   | 142.767                          | 69.620    | 9,939                                 | 0.06%                                      | 2.47%                      | 10.28%                              | 0.1504%  | 0.6255%   |
| Accenture PLC                             | ACN    | 622.542                          | 112.810   | 70,229                                | 0.43%                                      | 1.95%                      | 9.82%                               | 0.8388%  | 4.2236%   |
| TransDigm Group Inc                       | TDG    | 52.979                           | 279.520   | 14,809                                | 0.00%                                      | n/a                        | 13.88%                              | n/a  | 0.0000%   |
| Yum! Brands Inc                           | YUM    | 389.887                          | 89.420    | 34,864                                | 0.21%                                      | 2.06%                      | 11.87%                              | 0.4394%  | 2.5338%   |
| Prologis Inc                              | PLD    | 525.081                          | 54.490    | 28,612                                | 0.18%                                      | 3.08%                      | 4.89%                               | 0.5402%  | 0.8569%   |
| FirstEnergy Corp                          | FE     | 425.198                          | 34.920    | 14,848                                | 0.00%                                      | 4.12%                      | -1.55%                              | 0.0000%  | 0.0000%   |
| VeriSign Inc                              | VRSN   | 106.767                          | 86.610    | 9,247                                 | 0.00%                                      | n/a                        | 10.20%                              | n/a  | 0.0000%   |
| Quanta Services Inc                       | PWR    | 144.160                          | 25.600    | 3,690                                 | 0.00%                                      | n/a                        | 8.00%                               | n/a  | 0.0000%   |
| Henry Schein Inc                          | HSIC   | 82.066                           | 180.980   | 14,852                                | 0.00%                                      | n/a                        | 11.10%                              | n/a  | 0.0000%   |
| Ameren Corp                               | AEE    | 242.635                          | 52.440    | 12,724                                | 0.08%                                      | 3.24%                      | 4.43%                               | 0.2526%  | 0.3448%   |
| Scrimps Networks Interactive Inc          | SNI    | 95.105                           | 66.060    | 6,283                                 | 0.04%                                      | 1.51%                      | 11.95%                              | 0.0582%  | 0.4598%   |
| NVIDIA Corp                               | NVDA   | 534.000                          | 57.100    | 30,491                                | 0.19%                                      | 0.81%                      | 9.67%                               | 0.1504%  | 1.8052%   |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |     |      |      |      |
|-------------------------|----------------|-------------------------------|--------------------------|---|-----|------|------|------|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |     |      |      |      |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |     |      |      |      |
|                         | [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 Long-Term Growth Estimate |
|--|--------|------------------------------|-----------|-----------------------------------|--|------------------------|--------------------------------|---|--|
| Sealed Air Corp                            | SEE    | 197.143                      | 47.180    | 9,301                             | 0.06%                                  | 1.36%                  | 4.31%                          | 0.0773%                                       | 0.2457%  |
| Cognizant Technology Solutions Corp        | CTSH   | 605.870                      | 57.490    | 34,831                            | 0.00%                                  | n/a                    | 13.52%                         | n/a   | 0.0000%  |
| Intuitive Surgical Inc                     | ISRG   | 38.493                       | 695.760   | 26,782                            | 0.00%                                  | n/a                    | 13.98%                         | n/a   | 0.0000%  |
| Affiliated Managers Group Inc              | AMG    | 56.687                       | 146.780   | 8,321                             | 0.00%                                  | n/a                    | 13.73%                         | n/a   | 0.0000%  |
| Aetna Inc                                  | AET    | 350.600                      | 115.210   | 40,393                            | 0.25%                                  | 0.87%                  | 10.40%                         | 0.2147%                                       | 2.5725%  |
| Republic Services Inc                      | RSG    | 342.845                      | 51.260    | 17,574                            | 0.11%                                  | 2.50%                  | 8.22%                          | 0.2688%                                       | 0.8845%  |
| eBay Inc                                   | EBAY   | 1,129.019                    | 31.160    | 35,180                            | 0.00%                                  | n/a                    | 9.71%                          | n/a   | 0.0000%  |
| Goldman Sachs Group Inc/The                | GS     | 415.394                      | 158.810   | 65,969                            | 0.40%                                  | 1.64%                  | 8.22%                          | 0.6614%                                       | 3.3222%  |
| Sempra Energy                              | SRE    | 249.497                      | 111.880   | 27,914                            | 0.17%                                  | 2.70%                  | 6.99%                          | 0.4615%                                       | 1.1946%  |
| Moody's Corp                               | MCO    | 192.300                      | 106.010   | 20,386                            | 0.12%                                  | 1.40%                  | 11.00%                         | 0.1743%                                       | 1.3733%  |
| Priceline Group Inc/The                    | PCLN   | 49.639                       | 1,350.810 | 67,053                            | 0.00%                                  | n/a                    | 17.35%                         | n/a   | 0.0000%  |
| F5 Networks Inc                            | FFIV   | 66.205                       | 123.420   | 8,171                             | 0.00%                                  | n/a                    | 13.21%                         | n/a   | 0.0000%  |
| Akamai Technologies Inc                    | AKAM   | 175.592                      | 50.530    | 8,873                             | 0.00%                                  | n/a                    | 15.00%                         | n/a   | 0.0000%  |
| Reynolds American Inc                      | RAI    | 1,427.341                    | 50.060    | 71,453                            | 0.44%                                  | 3.68%                  | 9.32%                          | 1.6084%                                       | 4.0784%  |
| Devon Energy Corp                          | DVN    | 524.000                      | 38.280    | 20,059                            | 0.12%                                  | 0.63%                  | 8.15%                          | 0.0770%                                       | 1.0012%  |
| Alphabet Inc                               | GOOGL  | 293.675                      | 791.340   | 232,397                           | 0.00%                                  | n/a                    | 16.24%                         | n/a   | 0.0000%  |
| Red Hat Inc                                | RHT    | 181.096                      | 75.290    | 13,635                            | 0.00%                                  | n/a                    | 16.67%                         | n/a   | 0.0000%  |
| Alliegon PLC                               | ALLE   | 95.898                       | 72.390    | 6,942                             | 0.04%                                  | 0.66%                  | 13.10%                         | 0.0282%                                       | 0.5569%  |
| Netflix Inc                                | NFLX   | 428.725                      | 91.250    | 39,121                            | 0.00%                                  | n/a                    | 33.74%                         | n/a   | 0.0000%  |
| Agilent Technologies Inc                   | A      | 325.522                      | 48.110    | 15,661                            | 0.10%                                  | 0.96%                  | 10.13%                         | 0.0917%                                       | 0.9719%  |
| Anthem Inc                                 | ANTM   | 263.171                      | 131.340   | 34,565                            | 0.21%                                  | 1.98%                  | 8.10%                          | 0.4191%                                       | 1.7136%  |
| CME Group Inc                              | CME    | 338.640                      | 102.240   | 34,623                            | 0.21%                                  | 2.35%                  | 11.24%                         | 0.4977%                                       | 2.3833%  |
| Juniper Networks Inc                       | JNPR   | 383.945                      | 22.690    | 8,712                             | 0.05%                                  | 1.76%                  | 9.13%                          | 0.0941%                                       | 0.4871%  |
| BlackRock Inc                              | BLK    | 163.367                      | 366.250   | 59,833                            | 0.37%                                  | 2.50%                  | 11.95%                         | 0.9165%                                       | 4.3782%  |
| DTE Energy Co                              | DTE    | 179.435                      | 97.520    | 17,499                            | 0.11%                                  | 3.16%                  | 5.54%                          | 0.3385%                                       | 0.5937%  |
| Nasdaq Inc                                 | NDAQ   | 164.515                      | 70.760    | 11,641                            | 0.07%                                  | 1.81%                  | 8.30%                          | 0.1290%                                       | 0.5917%  |
| Philip Morris International Inc            | PM     | 1,551.327                    | 100.260   | 155,536                           | 0.95%                                  | 4.07%                  | 8.30%                          | 3.8763%                                       | 7.9090%  |
| salesforce.com Inc                         | CRM    | 677.500                      | 81.800    | 55,420                            | 0.00%                                  | n/a                    | 25.17%                         | n/a   | 0.0000%  |
| MetLife Inc                                | MET    | 1,098.667                    | 42.740    | 46,957                            | 0.29%                                  | 3.74%                  | 5.10%                          | 1.0766%                                       | 1.4667%  |
| Under Armour Inc                           | UA/C   | 219.117                      | 35.700    | 7,822                             | 0.00%                                  | n/a                    | 22.80%                         | n/a   | 0.0000%  |
| Monsanto Co                                | MON    | 437.576                      | 106.770   | 46,720                            | 0.29%                                  | 2.02%                  | 7.85%                          | 0.5788%                                       | 2.2461%  |
| Coach Inc                                  | COH    | 278.030                      | 43.110    | 11,986                            | 0.07%                                  | 3.13%                  | 14.90%                         | 0.2299%                                       | 1.0937%  |
| Fluor Corp                                 | FLR    | 139.230                      | 53.520    | 7,452                             | 0.05%                                  | 1.57%                  | 5.07%                          | 0.0716%                                       | 0.2315%  |
| CSX Corp                                   | CSX    | 945.991                      | 28.330    | 26,800                            | 0.16%                                  | 2.54%                  | 7.58%                          | 0.4171%                                       | 1.2446%  |
| Dun & Bradstreet Corp/The                  | DNB    | 36.258                       | 129.250   | 4,686                             | 0.03%                                  | 1.49%                  | 11.75%                         | 0.0429%                                       | 0.3372%  |
| Edwards Lifesciences Corp                  | EW     | 212.879                      | 114.520   | 24,379                            | 0.00%                                  | n/a                    | 17.73%                         | n/a   | 0.0000%  |
| Ameriprise Financial Inc                   | AMP    | 165.813                      | 95.840    | 15,892                            | 0.10%                                  | 3.13%                  | 4.10%                          | 0.3046%                                       | 0.3990%  |
| Xcel Energy Inc                            | XEL    | 507.953                      | 43.980    | 22,340                            | 0.14%                                  | 3.09%                  | 5.00%                          | 0.4231%                                       | 0.6841%  |
| Rockwell Collins Inc                       | COL    | 129.931                      | 84.620    | 10,995                            | 0.07%                                  | 1.56%                  | 7.99%                          | 0.1050%                                       | 0.5380%  |
| FMC Technologies Inc                       | FTI    | 225.627                      | 25.380    | 5,726                             | 0.00%                                  | n/a                    | -9.90%                         | n/a   | 0.0000%  |
| Zimmer Biomet Holdings Inc                 | ZBH    | 199.679                      | 131.140   | 26,186                            | 0.16%                                  | 10.72%                 | 0.73%                          | 0.1174%                                       | 1.7190%  |
| CBRE Group Inc                             | CBG    | 335.436                      | 28.450    | 9,543                             | 0.00%                                  | n/a                    | 12.50%                         | n/a   | 0.0000%  |
| MasterCard Inc                             | MA     | 1,077.451                    | 95.240    | 102,616                           | 0.63%                                  | 0.80%                  | 15.40%                         | 0.5015%                                       | 9.6782%  |
| Signet Jewelers Ltd                        | SIG    | 78.006                       | 87.910    | 6,858                             | 0.04%                                  | 1.18%                  | 14.40%                         | 0.4047%                                       | 0.6048%  |
| CarMax Inc                                 | KMX    | 191.475                      | 58.260    | 11,155                            | 0.00%                                  | n/a                    | 12.92%                         | n/a   | 0.0000%  |
| Intercontinental Exchange Inc              | ICE    | 119.046                      | 264.200   | 31,452                            | 0.19%                                  | 1.29%                  | 14.24%                         | 0.2479%                                       | 2.7420%  |
| Fidelity National Information Services Inc | FIS    | 326.454                      | 79.530    | 25,963                            | 0.16%                                  | 1.31%                  | 12.17%                         | 0.2079%                                       | 1.9346%  |
| Chipotle Mexican Grill Inc                 | CMG    | 29.116                       | 423.990   | 12,345                            | 0.00%                                  | n/a                    | 13.63%                         | n/a   | 0.0000%  |
| Wynn Resorts Ltd                           | WYNN   | 101.791                      | 97.950    | 9,970                             | 0.06%                                  | 2.04%                  | 10.00%                         | 0.1247%                                       | 0.6106%  |
| Assurant Inc                               | AIZ    | 61.937                       | 83.010    | 5,141                             | 0.03%                                  | 2.41%                  | 11.91%                         | 0.0759%                                       | 0.3750%  |
| NRG Energy Inc                             | NRG    | 314.908                      | 13.840    | 4,358                             | 0.00%                                  | 0.87%                  | n/a                            | 0.0000%                                       | n/a  |
| Regions Financial Corp                     | RF     | 1,266.713                    | 9.170     | 11,616                            | 0.07%                                  | 2.84%                  | 5.88%                          | 0.2017%                                       | 0.4181%  |
| Monster Beverage Corp                      | MNST   | 203.043                      | 160.630   | 32,615                            | 0.00%                                  | n/a                    | 18.96%                         | n/a   | 0.0000%  |
| Teradata Corp                              | TDC    | 130.000                      | 28.380    | 3,689                             | 0.00%                                  | n/a                    | 9.26%                          | n/a   | 0.0000%  |
| Mosaic Co/The                              | MOS    | 349.816                      | 27.000    | 9,445                             | 0.06%                                  | 4.07%                  | 0.85%                          | 0.2357%                                       | 0.0492%  |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |
|-------------------------|----------------|-------------------------------|--------------------------|---|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |

|                                 | [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 Long-Term Growth Estimate |
| Expedia Inc                     | EXPE   | 136.916                      | 116.650 | 15,971                            | 0.10%                                  | 0.89%                  | 20.75%                         | 0.0872%                                       | 2.0296%  |
| Discovery Communications Inc    | DISCA  | 150.481                      | 25.090  | 3,776                             | 0.00%                                  | n/a                    | 16.95%                         | n/a   | 0.0000%  |
| CF Industries Holdings Inc      | CF     | 233.094                      | 24.680  | 5,753                             | 0.04%                                  | 4.86%                  | 18.43%                         | 0.1713%                                       | 0.6491%  |
| Viacom Inc                      | VIAB   | 346.609                      | 45.470  | 15,760                            | 0.10%                                  | 3.52%                  | 3.71%                          | 0.3396%                                       | 0.3581%  |
| Wyndham Worldwide Corp          | WYN    | 109.875                      | 71.020  | 7,803                             | 0.05%                                  | 2.82%                  | 7.65%                          | 0.1346%                                       | 0.3656%  |
| Alphabet Inc                    | GOOG   | 343.440                      | 768.790 | 264,033                           | 0.00%                                  | n/a                    | 16.24%                         | n/a   | 0.0000%  |
| Spectra Energy Corp             | SE     | 700.910                      | 35.970  | 25,212                            | 0.15%                                  | 4.50%                  | 8.90%                          | 0.6954%                                       | 1.3742%  |
| First Solar Inc                 | FSLR   | 102.245                      | 46.680  | 4,773                             | 0.00%                                  | n/a                    | 10.00%                         | n/a   | 0.0000%  |
| Mead Johnson Nutrition Co       | MJN    | 184.659                      | 89.200  | 16,472                            | 0.10%                                  | 1.85%                  | 9.24%                          | 0.1866%                                       | 0.9321%  |
| TE Connectivity Ltd             | TEL    | 355.550                      | 60.280  | 21,433                            | 0.13%                                  | 2.46%                  | 11.85%                         | 0.3223%                                       | 1.5554%  |
| Discover Financial Services     | DFS    | 412.225                      | 56.840  | 23,431                            | 0.14%                                  | 2.11%                  | 8.13%                          | 0.3030%                                       | 1.1669%  |
| TripAdvisor Inc                 | TRIP   | 132.906                      | 69.970  | 9,299                             | 0.00%                                  | n/a                    | 12.09%                         | n/a   | 0.0000%  |
| Dr Pepper Snapple Group Inc     | DPS    | 185.405                      | 98.510  | 18,264                            | 0.11%                                  | 2.15%                  | 13.24%                         | 0.2407%                                       | 1.4813%  |
| Visa Inc                        | V      | 1,886.434                    | 78.050  | 147,236                           | 0.90%                                  | 0.72%                  | 16.40%                         | 0.6470%                                       | 14.7873%   |
| Xylem Inc/NY                    | XYL    | 178.897                      | 47.810  | 8,553                             | 0.05%                                  | 1.30%                  | 15.00%                         | 0.0679%                                       | 0.7857%  |
| Marathon Petroleum Corp         | MPC    | 529.835                      | 39.390  | 20,870                            | 0.13%                                  | 3.66%                  | 5.01%                          | 0.4673%                                       | 0.6407%  |
| Level 3 Communications Inc      | LVL3   | 357.933                      | 50.600  | 18,111                            | 0.00%                                  | n/a                    | -5.25%                         | n/a   | 0.0000%  |
| Tractor Supply Co               | TSCO   | 133.427                      | 91.650  | 12,229                            | 0.07%                                  | 1.05%                  | 15.63%                         | 0.0784%                                       | 1.1705%  |
| Albemarle Corp                  | ALB    | 112.297                      | 84.170  | 9,452                             | 0.06%                                  | 1.45%                  | 8.30%                          | 0.0839%                                       | 0.4805%  |
| Transocean Ltd                  | RIG    | 365.202                      | 10.990  | 4,014                             | 0.00%                                  | n/a                    | -6.20%                         | n/a   | 0.0000%  |
| Essex Property Trust Inc        | ESS    | 65.430                       | 233.880 | 15,303                            | 0.09%                                  | 2.74%                  | 6.83%                          | 0.2565%                                       | 0.6404%  |
| General Growth Properties Inc   | GGP    | 883.197                      | 31.950  | 28,218                            | 0.17%                                  | 2.38%                  | 6.73%                          | 0.4111%                                       | 1.1622%  |
| Realty Income Corp              | O      | 258.569                      | 71.470  | 18,480                            | 0.11%                                  | 3.38%                  | 5.12%                          | 0.3829%                                       | 0.5795%  |
| Seagate Technology PLC          | STX    | 298.484                      | 32.030  | 9,560                             | 0.06%                                  | 7.87%                  | 8.50%                          | 0.4607%                                       | 0.4977%  |
| WestRock Co                     | WRK    | 252.610                      | 42.910  | 10,839                            | 0.07%                                  | 3.50%                  | 2.85%                          | 0.2321%                                       | 0.1892%  |
| Western Digital Corp            | WDC    | 281.437                      | 47.510  | 13,371                            | 0.08%                                  | 4.21%                  | 5.32%                          | 0.3447%                                       | 0.4354%  |
| Church & Dwight Co Inc          | CHD    | 128.330                      | 98.240  | 12,607                            | 0.08%                                  | 1.45%                  | 9.29%                          | 0.1116%                                       | 0.7171%  |
| Federal Realty Investment Trust | FRT    | 70.904                       | 169.700 | 12,032                            | 0.07%                                  | 2.22%                  | 6.26%                          | 0.1633%                                       | 0.4609%  |
| Twenty-First Century Fox Inc    | FOX    | 798.521                      | 27.030  | 21,584                            | 0.13%                                  | 1.11%                  | 11.57%                         | 0.1467%                                       | 1.5294%  |
| Alliant Energy Corp             | LNT    | 227.125                      | 40.250  | 9,142                             | 0.06%                                  | 2.92%                  | 7.15%                          | 0.1634%                                       | 0.4003%  |
| JB Hunt Transport Services Inc  | JBHT   | 112.680                      | 83.130  | 9,367                             | 0.06%                                  | 1.06%                  | 13.75%                         | 0.0607%                                       | 0.7888%  |
| Lam Research Corp               | LRCX   | 159.598                      | 89.770  | 14,327                            | 0.09%                                  | 1.34%                  | 6.85%                          | 0.1173%                                       | 0.6010%  |
| Mohawk Industries Inc           | MHK    | 74.091                       | 208.940 | 15,481                            | 0.00%                                  | n/a                    | n/a                            | n/a   | n/a  |
| Pentair PLC                     | PNR    | 181.093                      | 63.820  | 11,557                            | 0.07%                                  | 2.13%                  | 8.47%                          | 0.1508%                                       | 0.5997%  |
| Vertex Pharmaceuticals Inc      | VRTX   | 247.350                      | 97.000  | 23,993                            | 0.00%                                  | n/a                    | 52.59%                         | n/a   | 0.0000%  |
| Facebook Inc                    | FB     | 2,322.959                    | 123.940 | 287,908                           | 0.00%                                  | n/a                    | 33.02%                         | n/a   | 0.0000%  |
| United Rentals Inc              | URI    | 86.161                       | 79.670  | 6,864                             | 0.00%                                  | n/a                    | 14.13%                         | n/a   | 0.0000%  |
| United Continental Holdings Inc | UAL    | 335.700                      | 46.890  | 15,741                            | 0.00%                                  | n/a                    | -9.37%                         | n/a   | 0.0000%  |
| Delta Air Lines Inc             | DAL    | 748.908                      | 38.750  | 29,020                            | 0.18%                                  | 2.09%                  | 15.54%                         | 0.3715%                                       | 2.7610%  |
| Navient Corp                    | NAVI   | 317.033                      | 14.200  | 4,502                             | 0.00%                                  | 4.51%                  | n/a                            | 0.0000%                                       | n/a  |
| Mallinckrodt PLC                | MNK    | 109.326                      | 67.340  | 7,362                             | 0.00%                                  | n/a                    | 9.35%                          | n/a   | 0.0000%  |
| News Corp                       | NWS    | 199.630                      | 13.440  | 2,683                             | 0.02%                                  | 1.49%                  | 10.05%                         | 0.0245%                                       | 0.1651%  |
| Centene Corp                    | CNC    | 170.737                      | 70.550  | 12,045                            | 0.00%                                  | n/a                    | 16.55%                         | n/a   | 0.0000%  |
| Macerich Co/The                 | MAC    | 148.493                      | 89.240  | 13,252                            | 0.08%                                  | 3.05%                  | 7.12%                          | 0.2474%                                       | 0.5778%  |
| Martin Marietta Materials Inc   | MLM    | 63.527                       | 202.650 | 12,874                            | 0.08%                                  | 0.79%                  | 22.20%                         | 0.0622%                                       | 1.7505%  |
| PayPal Holdings Inc             | PYPL   | 1,206.918                    | 37.240  | 44,946                            | 0.00%                                  | n/a                    | 15.14%                         | n/a   | 0.0000%  |
| Alexion Pharmaceuticals Inc     | ALXN   | 224.248                      | 128.600 | 28,838                            | 0.00%                                  | n/a                    | 28.06%                         | n/a   | 0.0000%  |
| Endo International PLC          | ENDP   | 222.661                      | 17.360  | 3,865                             | 0.00%                                  | n/a                    | 4.70%                          | n/a   | 0.0000%  |
| News Corp                       | NWSA   | 380.354                      | 12.970  | 4,933                             | 0.03%                                  | 1.54%                  | 10.05%                         | 0.0466%                                       | 0.3035%  |
| Global Payments Inc             | GPN    | 153.630                      | 74.660  | 11,470                            | 0.07%                                  | 0.05%                  | 15.42%                         | 0.0038%                                       | 1.0832%  |
| Crown Castle International Corp | CCI    | 337.560                      | 97.030  | 32,753                            | 0.20%                                  | 3.65%                  | 8.90%                          | 0.7318%                                       | 1.7853%  |
| Delphi Automotive PLC           | DLPH   | 272.977                      | 67.820  | 18,513                            | 0.11%                                  | 1.71%                  | 9.78%                          | 0.1939%                                       | 1.1089%  |
| Advance Auto Parts Inc          | AAP    | 73.556                       | 169.860 | 12,494                            | 0.08%                                  | 0.14%                  | 12.01%                         | 0.0108%                                       | 0.9188%  |
| Michael Kors Holdings Ltd       | KORS   | 176.449                      | 51.720  | 9,126                             | 0.00%                                  | n/a                    | 5.35%                          | n/a   | 0.0000%  |
| Illumina Inc                    | ILMN   | 147.200                      | 166.350 | 24,487                            | 0.00%                                  | n/a                    | 13.73%                         | n/a   | 0.0000%  |

Montana-Dakota Utilities Co.

Market DCF Calculation

|                         | [1]            | [2]                           | [3]                      | [4]                                       |     |      |      |      |
|-------------------------|----------------|-------------------------------|--------------------------|---|-----|------|------|------|
|                         | Dividend Yield | Dividend Yield x (1 + 0.625g) | Expected Growth Rate (g) | Secondary Market Investor Required Return |     |      |      |      |
| S&P 500 As of 7/29/2016 | 2.48%          | 2.63%                         | 9.31%                    | 11.94%                                    |     |      |      |      |
|                         | [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 |
|------------------------------|--------|------------------------------|---------|-----------------------------------|--|------------------------|--------------------------------|---|---|
| Acuity Brands Inc            | AYI    | 43,887                       | 262.430 | 11,517                            | 0.07%                                  | 0.20%                  | 17.00%                         | 0.0140%                                       | 1.1991%   |
| Alliance Data Systems Corp   | ADS    | 58,940                       | 231.620 | 13,652                            | 0.00%                                  | n/a                    | 14.20%                         | n/a   | 0.0000%   |
| LKQ Corp                     | LKQ    | 306,679                      | 34.390  | 10,547                            | 0.00%                                  | n/a                    | 16.23%                         | n/a   | 0.0000%   |
| Nielsen Holdings PLC         | NLSN   | 357,346                      | 53.860  | 19,247                            | 0.12%                                  | 2.30%                  | 12.33%                         | 0.2714%                                       | 1.4537%   |
| Garmin Ltd                   | GRMN   | 188,877                      | 54.330  | 10,262                            | 0.06%                                  | 3.75%                  | 3.10%                          | 0.2360%                                       | 0.1948%   |
| Cimarex Energy Co            | XEC    | 94,815                       | 120.020 | 11,380                            | 0.00%                                  | 0.27%                  | -3.27%                         | 0.0000%                                       | 0.0000%   |
| Zoetis Inc                   | ZTS    | 496,202                      | 50.47   | 25,043                            | 0.15%                                  | 0.75%                  | 11.67%                         | 0.1155%                                       | 1.7894%   |
| Digital Realty Trust Inc     | DLR    | 159,326                      | 104.46  |                                   |  | 3.37%                  | 5.94%                          |   |   |
| Equinix Inc                  | EQIX   | 69,429                       | 372.87  | 25,888                            | 0.16%                                  | 1.88%                  | 22.05%                         | 0.2976%                                       | 3.4959%   |
| Discovery Communications Inc | DISCK  | 248,724                      | 24.54   | 6,104                             | 0.00%                                  | n/a                    | 16.95%                         | n/a   | 0.0000%   |

Average for Companies Paying Dividends with Positive BEst Long-Term Growth Estimates 2.29% 9.61%

Notes:

- [1] Equals sum of Column [11]/100
- [2] Equals Column [1] x (1 + 0.625 x Column [3])
- [3] Equals sum of Column [12]/100
- [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.**  
**Adjusted CAPM Return**  
**As of July 29, 2016**

|                                       |      | S&P Current<br>Market DCF<br>Return | Less: Near-<br>term projected<br>T-Bond Yield | Market<br>Risk<br>Premium | Value<br>Line<br>Beta | B*RP  | Plus:<br>Projected T-<br>Bond Yield | Biased<br>CAPM<br>Return | Ibbotson<br>CAPM<br>Adjustment | Unbiased<br>CAPM |
|---------------------------------------|------|-------------------------------------|---|---------------------------|-----------------------|-------|-------------------------------------|--------------------------|--------------------------------|------------------|
| ALLETE, Inc.                          | ALE  | 11.94%                              | 3.00%   | 8.94%                     | 0.75                  | 6.71% | 3.00%                               | 9.71%                    | 1.60%                          | 11.31%           |
| Alliant Energy Corporation            | LNT  | 11.94%                              | 3.00%   | 8.94%                     | 0.75                  | 6.71% | 3.00%                               | 9.71%                    | 0.91%                          | 10.62%           |
| Ameren Corporation                    | AEE  | 11.94%                              | 3.00%   | 8.94%                     | 0.75                  | 6.71% | 3.00%                               | 9.71%                    | 0.63%                          | 10.34%           |
| American Electric Power Company, Inc. | AEP  | 11.94%                              | 3.00%   | 8.94%                     | 0.70                  | 6.26% | 3.00%                               | 9.26%                    | -0.36%                         | 8.90%            |
| DTE Energy Company                    | DTE  | 11.94%                              | 3.00%   | 8.94%                     | 0.70                  | 6.26% | 3.00%                               | 9.26%                    | 0.63%                          | 9.89%            |
| Otter Tail Corporation                | OTTR | 11.94%                              | 3.00%   | 8.94%                     | 0.80                  | 7.15% | 3.00%                               | 10.15%                   | 1.71%                          | 11.86%           |
| PNM Resources, Inc.                   | PNM  | 11.94%                              | 3.00%   | 8.94%                     | 0.80                  | 7.15% | 3.00%                               | 10.15%                   | 1.60%                          | 11.75%           |
| Xcel Energy Inc.                      | XEL  | 11.94%                              | 3.00%   | 8.94%                     | 0.65                  | 5.81% | 3.00%                               | 8.81%                    | 0.63%                          | 9.44%            |
| <b>High</b>                           |      |                                     |   |                           |                       |       |                                     | <b>10.15%</b>            |                                | <b>11.86%</b>    |
| <b>Median</b>                         |      |                                     |   |                           |                       |       |                                     | <b>9.71%</b>             |                                | <b>10.48%</b>    |
| <b>Low</b>                            |      |                                     |   |                           |                       |       |                                     | <b>8.81%</b>             |                                | <b>8.90%</b>     |

Beta Source: Value Line; dated June 17, 2016 and July 29, 2016

Ibbotson Adjustment from: Morningstar, 2015 SBBi Classic Yearbook, Table 7-6.

**Montana-Dakota Utilities Co.**  
**Adjusted CAPM Return**  
**As of July 29, 2016**

| (a)                                   | (b)  | (c)         | (d)       | (e)                   | (f)         | (g)                           |
|---------------------------------------|------|-------------|-----------|-----------------------|-------------|-------------------------------|
|                                       |      | Shares      | Price/Sh. | Market Capitalization | Size Decile | Ibbotson CAPM Size Adjustment |
| ALLETE, Inc.                          | ALE  | 49,256,265  | \$ 59.82  | \$ 2,946,509,772      | 5           | 1.60%                         |
| Alliant Energy Corporation            | LNT  | 227,125,302 | \$ 38.52  | \$ 8,748,866,633      | 3           | 0.91%                         |
| Ameren Corporation                    | AEE  | 242,634,798 | \$ 49.48  | \$ 12,005,569,805     | 2           | 0.63%                         |
| American Electric Power Company, Inc. | AEP  | 491,313,380 | \$ 65.84  | \$ 32,348,072,939     | 1           | -0.36%                        |
| DTE Energy Company                    | DTE  | 179,435,404 | \$ 92.70  | \$ 16,633,661,951     | 2           | 0.63%                         |
| Otter Tail Corporation                | OTTR | 38,116,348  | \$ 30.59  | \$ 1,165,979,085      | 7           | 1.71%                         |
| PNM Resources, Inc.                   | PNM  | 79,653,624  | \$ 34.11  | \$ 2,716,985,115      | 5           | 1.60%                         |
| Xcel Energy Inc.                      | XEL  | 507,952,795 | \$ 43.79  | \$ 22,243,252,893     | 2           | 0.63%                         |

Source: Value Line and Morningstar, 2015 Ibbotson SBBI Classic Yearbook, page 109.

**Montana-Dakota Utilities Co.**

**Selected Electric Distribution Companies  
 Capital Structures as of December 31, 2015**

*\$ thousands*

| Company                                  | Ticker | Short-Term Debt | %            | Long-Term Debt | %             | Preferred Stock | %            | Common Equity | %             | Total Capital    |
|--|--------|-----------------|--------------|----------------|---------------|-----------------|--------------|---------------|---------------|------------------|
| ALLETE, Inc.                             | ALE    | \$ 1,600        | 0.05%        | \$ 1,592,400   | 46.64%        | \$ -            | 0.00%        | \$ 1,820,200  | 53.31%        | \$ 3,414,200 1/  |
| Alliant Energy Corporation               | LNT    | \$ 159,800      | 2.05%        | \$ 3,926,600   | 50.27%        | \$ -            | 0.00%        | \$ 3,724,100  | 47.68%        | \$ 7,810,500 1/  |
| Ameren Corporation                       | AEE    | \$ 301,000      | 2.07%        | \$ 7,275,000   | 50.10%        | \$ -            | 0.00%        | \$ 6,946,000  | 47.83%        | \$ 14,522,000 1/ |
| American Electric Power Company, Inc.    | AEP    | \$ 800,000      | 2.07%        | \$ 19,916,200  | 51.59%        | \$ -            | 0.00%        | \$ 17,891,700 | 46.34%        | \$ 38,607,900 1/ |
| DTE Energy Company                       | DTE    | \$ 499,000      | 2.70%        | \$ 9,233,000   | 49.90%        | \$ -            | 0.00%        | \$ 8,772,000  | 47.41%        | \$ 18,504,000 1/ |
| Otter Tail Corporation                   | OTTR   | \$ 80,672       | 6.83%        | \$ 496,268     | 41.99%        | \$ -            | 0.00%        | \$ 605,023    | 51.19%        | \$ 1,181,963 1/  |
| PNM Resources, Inc.                      | PNM    | \$ 250,600      | 6.27%        | \$ 2,091,948   | 52.33%        | \$ -            | 0.00%        | \$ 1,654,813  | 41.40%        | \$ 3,997,361 1/  |
| Xcel Energy Inc.                         | XEL    | \$ 846,000      | 3.45%        | \$ 13,055,901  | 53.28%        | \$ -            | 0.00%        | \$ 10,600,920 | 43.26%        | \$ 24,502,821 1/ |
| <b>Median</b>                            |        |                 | <b>2.38%</b> |                | <b>50.18%</b> |                 | <b>0.00%</b> |               | <b>47.54%</b> |                  |
| Montana-Dakota Utilities Co.             |        |                 |              |                |               |                 |              |               |               |                  |
| - North Dakota Electric Dist. Operations |        | \$ 108,737      | 7.42%        | \$ 605,441     | 41.31%        | 15,159          | 1.03%        | \$ 736,149    | 50.23%        | \$ 1,465,485 2/  |

1/ Source: SNL Financial LC; data as of December 31, 2015

2/ Source: Montana-Dakota Utilities Co.; Capital Structure Pro Forma 2016