

Montana-Dakota Utilities Co.

**South Dakota Lambda and Capacity Costs
July 2011 through June 2012**

Month	Year	Lambda		
		On-Peak \$/MWh	Off-Peak \$/MWh	Total \$/MWh
July	2011	\$30.41	\$28.49	\$28.92
August	2011	30.33	28.21	28.73
September	2011	25.09	25.53	25.42
October	2011		25.41	25.41
November	2011		25.61	25.61
December	2011		33.75	33.75
January	2012		33.91	33.91
February	2012		35.21	35.21
March	2012		26.61	26.61
April	2012		26.87	26.87
May	2012		26.16	26.16
June	2012	31.94	26.94	28.11
Average		\$29.44	\$28.56	\$28.73

Rate 96 Monthly Capacity Payments:
 \$8.959 \$/kW-Month
 [Cost of an installed peaking combustion turbine]

Rate 97 Monthly Capacity Payments:
 \$23.786 \$/kW-Month
 [Cost of an installed baseload unit]

Montana-Dakota Utilities Co.

**South Dakota Capacity
July 2011 through June 2012**

Rate 96

Monthly Capacity Payments: \$8.959 \$/kW-Month Cost of an installed peaking combustion turbine

Capital cost of combustion turbine \$857
Escalation rate 3%
Levelized Fixed Charge 12.179% 1/

Rate 96 Capacity Payment formula: $= \$857 \times (1.03) \times .12179 / 12$

Rate 97

Monthly Capacity Payments: \$23.786 \$/kW-Month Cost of an installed baseload unit

Capital cost of installed baseload unit \$2,560
Escalation rate 3%
Levelized Fixed Charge 10.825% 2/

Rate 97 Capacity Payment formula: $= \$2,560 \times (1.03) \times .10825 / 12$

1/ See Attachment A pages 3-5. Turbine with 25-year book life

2/ See Attachment A pages 6-8. Base load unit with 40-year book life.

TURBINE UNIT

* LEVELIZED FIXED CHARGE PROGRAM *

Computation of Levelized Fixed Charges

Title1 Fixed Charge Rate For Baseload
Title2

Basic assumptions used in this calculation are shown below

Capitalization Ratios (as percentages)

Long Term Debt	50
Preferred Stock	0
Common Stock	50

Interest Rates (as percentages)

Bonds	4.4
Preferred Stock	0
Common Stock	10.75

Tax Rates (as percentages)

Income Taxes	38.4
Investment Credit	0
Deferred Federal Income Taxes	35

Book Life (in years)	25
Tax Life (in years - 5, 7, 10, 15, 20 , or 39)	20

Depreciation Method used for tax purposes is:

Deferred federal income tax reflects normalixation

General tax rate (as percent) 1.322

Salvage Value =

Operations and Maintenance Method used is:

Weighted Cost of Capital =

Debt	0.02200	
PFD	0.00000	
Common	0.05375	
Composite	0.07575	
WACC reflecting tax deduction of debt interest		0.06730

The results obtained based on the foregoing assumptions are as follows

Sum of P.W. Values	Capital Recovery Factor	Levelized Fixed Charge
134.866	0.09030	12.179
Levelized Income Tax	Levelized Return on Capital	
2.076	4.781	

BASE LOAD UNIT

Computation of Levelized Fixed Charges

Year	Debt	Preferred	Common	Book Deprectn	O&M and Insurance	General Tax Rate	Gross Income Tax	Total Chg	Present Worth Factor	Present Worth Value	Levelized	
											Levelized Income Tax Sum	Return on Capital Sum
1	2.2000	0.0000	5.3750	2.5000	0.0000	1.3220	3.2817	14.6787	0.9296	13.6450	3.0506	7.0416
2	2.1354	0.0000	5.2171	2.5000	0.0000	1.3220	2.9918	14.1662	0.8641	12.2414	5.6358	13.3951
3	2.0440	0.0000	4.9940	2.5000	0.0000	1.3220	2.8826	13.7426	0.8033	11.0391	7.9513	19.0485
4	1.9569	0.0000	4.7810	2.5000	0.0000	1.3220	2.7774	13.3373	0.7467	9.9592	10.0253	24.0798
5	1.8736	0.0000	4.5775	2.5000	0.0000	1.3220	2.6761	12.9492	0.6941	8.9884	11.8829	28.5577
6	1.7938	0.0000	4.3826	2.5000	0.0000	1.3220	2.5783	12.5768	0.6453	8.1152	13.5465	32.5431
7	1.7174	0.0000	4.1959	2.5000	0.0000	1.3220	2.4838	12.2190	0.5998	7.3292	15.0364	36.0900
8	1.6440	0.0000	4.0166	2.5000	0.0000	1.3220	2.3922	11.8748	0.5576	6.6212	16.3702	39.2462
9	1.5734	0.0000	3.8442	2.5000	0.0000	1.3220	2.2881	11.5276	0.5183	5.9750	17.5562	42.0542
10	1.5033	0.0000	3.6729	2.5000	0.0000	1.3220	2.1813	11.1795	0.4818	5.3865	18.6072	44.5482
11	1.4332	0.0000	3.5016	2.5000	0.0000	1.3220	2.0745	10.8313	0.4479	4.8513	19.5364	46.7585
12	1.3631	0.0000	3.3303	2.5000	0.0000	1.3220	1.9678	10.4832	0.4164	4.3647	20.3557	48.7126
13	1.2930	0.0000	3.1591	2.5000	0.0000	1.3220	1.8610	10.1350	0.3870	3.9226	21.0760	50.4357
14	1.2229	0.0000	2.9878	2.5000	0.0000	1.3220	1.7543	9.7869	0.3598	3.5212	21.7071	51.9507
15	1.1528	0.0000	2.8165	2.5000	0.0000	1.3220	1.6474	9.4387	0.3344	3.1568	22.2581	53.2782
16	1.0827	0.0000	2.6452	2.5000	0.0000	1.3220	1.5407	9.0906	0.3109	2.8263	22.7371	54.4372
17	1.0126	0.0000	2.4739	2.5000	0.0000	1.3220	1.4339	8.7425	0.2890	2.5266	23.1515	55.4448
18	0.9425	0.0000	2.3027	2.5000	0.0000	1.3220	1.3272	8.3943	0.2687	2.2552	23.5081	56.3167
19	0.8724	0.0000	2.1314	2.5000	0.0000	1.3220	1.2204	8.0462	0.2497	2.0094	23.8128	57.0668
20	0.8023	0.0000	1.9601	2.5000	0.0000	1.3220	1.1137	7.6980	0.2322	1.7871	24.0714	57.7081
21	0.7322	0.0000	1.7888	2.5000	0.0000	1.3220	1.1300	7.4730	0.2158	1.6127	24.3152	58.2522
22	0.6793	0.0000	1.6595	2.5000	0.0000	1.3220	1.1725	7.3333	0.2006	1.4711	24.5504	58.7213
23	0.6435	0.0000	1.5722	2.5000	0.0000	1.3220	1.1181	7.1557	0.1865	1.3344	24.7589	59.1345
24	0.6078	0.0000	1.4848	2.5000	0.0000	1.3220	1.0636	6.9782	0.1734	1.2097	24.9433	59.4973
25	0.5720	0.0000	1.3975	2.5000	0.0000	1.3220	1.0092	6.8007	0.1611	1.0959	25.1059	59.8147
26	0.5363	0.0000	1.3102	2.5000	0.0000	1.3220	0.9547	6.6231	0.1498	0.9921	25.2490	60.0912
27	0.5005	0.0000	1.2228	2.5000	0.0000	1.3220	0.9003	6.4456	0.1392	0.8975	25.3743	60.3312
28	0.4648	0.0000	1.1355	2.5000	0.0000	1.3220	0.8458	6.2680	0.1294	0.8114	25.4838	60.5383
29	0.4290	0.0000	1.0481	2.5000	0.0000	1.3220	0.7914	6.0905	0.1203	0.7329	25.5790	60.7161
30	0.3933	0.0000	0.9608	2.5000	0.0000	1.3220	0.7369	5.9129	0.1119	0.6614	25.6615	60.8675
31	0.3575	0.0000	0.8734	2.5000	0.0000	1.3220	0.6825	5.7354	0.1040	0.5964	25.7324	60.9955
32	0.3218	0.0000	0.7861	2.5000	0.0000	1.3220	0.6280	5.5579	0.0967	0.5372	25.7931	61.1026
33	0.2860	0.0000	0.6987	2.5000	0.0000	1.3220	0.5736	5.3803	0.0899	0.4834	25.8447	61.1911
34	0.2503	0.0000	0.6114	2.5000	0.0000	1.3220	0.5191	5.2028	0.0835	0.4346	25.8880	61.2631
35	0.2145	0.0000	0.5241	2.5000	0.0000	1.3220	0.4647	5.0252	0.0776	0.3902	25.9241	61.3204
36	0.1788	0.0000	0.4367	2.5000	0.0000	1.3220	0.4102	4.8477	0.0722	0.3499	25.9537	61.3648
37	0.1430	0.0000	0.3494	2.5000	0.0000	1.3220	0.3558	4.6702	0.0671	0.3133	25.9776	61.3979
38	0.1073	0.0000	0.2620	2.5000	0.0000	1.3220	0.3013	4.4926	0.0624	0.2802	25.9964	61.4209
39	0.0715	0.0000	0.1747	2.5000	0.0000	1.3220	0.2469	4.3151	0.0580	0.2502	26.0107	61.4352
40	0.0357	0.0000	0.0873	2.5000	0.0000	1.3220	0.1924	4.1375	0.0539	0.2230	26.0211	61.4418

Computation of Levelized Fixed Charges

Period	Tax Depreciatn Accel	Tax Depreciatn Normal	Deferred Federal Income Tax	Amortized Investment Tax Credit	Net Investment	ACC PW	Y LFCR
1	3.7500	5.0000	0.4375	0.0000	100.0000	13.6450	14.6787
2	7.2190	5.0000	1.6517	0.0000	97.0625	25.8865	14.4318
3	6.6770	5.0000	1.4620	0.0000	92.9109	36.9256	14.2186
4	6.1770	5.0000	1.2870	0.0000	88.9489	46.8847	14.0218
5	5.7130	5.0000	1.1246	0.0000	85.1620	55.8732	13.8374
6	5.2850	5.0000	0.9748	0.0000	81.5374	63.9884	13.6637
7	4.8880	5.0000	0.8358	0.0000	78.0627	71.3176	13.4997
8	4.5220	5.0000	0.7077	0.0000	74.7269	77.9388	13.3446
9	4.4620	5.0000	0.6867	0.0000	71.5192	83.9138	13.1965
10	4.4610	5.0000	0.6864	0.0000	68.3325	89.3003	13.0544
11	4.4620	5.0000	0.6867	0.0000	65.1461	94.1516	12.9178
12	4.4610	5.0000	0.6864	0.0000	61.9594	98.5164	12.7862
13	4.4620	5.0000	0.6867	0.0000	58.7731	102.4390	12.6594
14	4.4610	5.0000	0.6864	0.0000	55.5864	105.9602	12.5371
15	4.4620	5.0000	0.6867	0.0000	52.4000	109.1170	12.4192
16	4.4610	5.0000	0.6864	0.0000	49.2133	111.9432	12.3054
17	4.4620	5.0000	0.6867	0.0000	46.0270	114.4699	12.1957
18	4.4610	5.0000	0.6864	0.0000	42.8403	116.7250	12.0900
19	4.4620	5.0000	0.6867	0.0000	39.6539	118.7345	11.9880
20	4.4610	5.0000	0.6864	0.0000	36.4672	120.5216	11.8897
21	2.2310		-0.0942	0.0000	33.2809	122.1343	11.7977
22	0.0000		-0.8750	0.0000	30.8750	123.6054	11.7128
23	0.0000		-0.8750	0.0000	29.2500	124.9398	11.6337
24	0.0000		-0.8750	0.0000	27.6250	126.1495	11.5597
25	0.0000		-0.8750	0.0000	26.0000	127.2454	11.4905
26	0.0000		-0.8750	0.0000	24.3750	128.2375	10.5752
27	0.0000		-0.8750	0.0000	22.7500	129.1351	10.5000
28	0.0000		-0.8750	0.0000	21.1250	129.9464	10.4291
29	0.0000		-0.8750	0.0000	19.5000	130.6793	10.3622
30	0.0000		-0.8750	0.0000	17.8750	131.3407	10.2989
31	0.0000		-0.8750	0.0000	16.2500	131.9371	10.2390
32	0.0000		-0.8750	0.0000	14.6250	132.4743	10.1824
33	0.0000		-0.8750	0.0000	13.0000	132.9577	10.1289
34	0.0000		-0.8750	0.0000	11.3750	133.3923	10.0781
35	0.0000		-0.8750	0.0000	9.7500	133.7824	10.0301
36	0.0000		-0.8750	0.0000	8.1250	134.1323	9.9845
37	0.0000		-0.8750	0.0000	6.5000	134.4457	9.9414
38	0.0000		-0.8750	0.0000	4.8750	134.7259	9.9005
39	0.0000		-0.8750	0.0000	3.2500	134.9760	9.8617
40	0.0000		-0.8750	0.0000	1.6250	135.1990	9.8250