

**MONTANA-DAKOTA UTILITIES CO.
METHODS AND PROCEDURES FOLLOWED IN CAPITALIZING
THE ALLOWANCE FOR FUNDS USED DURING
CONSTRUCTION AND OTHER CONSTRUCTION OVERHEADS**

Montana-Dakota's Allowance for Funds Used During Construction (AFUDC) policy statement sets forth the procedure used to determine work order charges AFUDC should be applied to.

1. The AFUDC rate is calculated at the beginning of the accounting year and applied to work order balances, including AFUDC, each month. The estimated AFUDC rate will be reviewed quarterly.
2. Work order eligible for AFUDC application are those that provide a construction duration of at least thirty (30) calendar days and a budget estimate of at least \$25,000.
3. AFUDC is applied to eligible work orders in the month following the first month any charges are applied to the work order.

The current AFUDC policy became effective in August 2011. The changes in the policy were made to align the procedure with industry standards and to align the procedure at the companies within the MDU Resources Utility Group.