

**MONTANA-DAKOTA UTILITIES CO.
 INCOME STATEMENT
 GAS UTILITY - SOUTH DAKOTA
 TWELVE MONTHS ENDED JUNE 30, 2012**

	<u>Total Company</u>	<u>Black Hills</u>	<u>East River</u>	<u>Total South Dakota</u>	<u>Other</u>
Operating Revenues					
Sales	\$198,506,779	\$36,579,331	\$6,274,712	\$42,854,043	\$161,927,448
Transportation	3,699,130	352,924	0	352,924	3,346,206
Other	1,921,655	329,461	47,336	376,797	1,592,194
Total Revenues	<u>204,127,564</u>	<u>\$37,261,716</u>	<u>\$6,322,048</u>	<u>\$43,583,764</u>	<u>\$166,865,848</u>
Operating Expenses					
Operation and Maintenance					
Cost of Gas	\$138,353,576	\$24,539,052	\$3,554,708	\$28,093,760	\$113,814,524
Other O&M	37,977,559	6,916,765	1,375,062	8,291,827	31,060,794
Total O&M	<u>\$176,331,135</u>	<u>\$31,455,817</u>	<u>\$4,929,770</u>	<u>\$36,385,587</u>	<u>\$144,875,318</u>
Depreciation	9,968,311	2,042,284	502,378	2,544,662	7,926,027
Taxes Other Than Income	6,205,359	829,751	186,715	1,016,466	5,375,608
Current Income Taxes	(7,371,295)	(949,051)	(2,085,481)	(3,034,532)	(6,422,244)
Deferred Income Taxes	9,548,181	1,530,857	2,243,980	3,774,837	8,017,324
Total Expenses	<u>\$194,681,691</u>	<u>\$34,909,658</u>	<u>\$5,777,362</u>	<u>\$40,687,020</u>	<u>\$159,772,033</u>
Operating Income	<u>\$9,445,873</u>	<u>\$2,352,058</u>	<u>\$544,686</u>	<u>\$2,896,744</u>	<u>\$7,093,815</u>
Rate Base	<u>\$130,432,414</u>	<u>\$31,898,960</u>	<u>\$5,980,027</u>	<u>\$37,878,986</u>	<u>\$98,533,454</u>
Rate of Return	<u>7.242%</u>	<u>7.373%</u>	<u>9.108%</u>	<u>7.647%</u>	<u>7.199%</u>

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE RATE BASE
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED JUNE 30, 2012**

	Total Company	Black Hills	East River	Total South Dakota	Other	Reference
Gas Plant in Service	\$327,551,478	\$71,185,843	\$16,923,560	\$88,109,403	\$239,442,075	Rule 20:10:13:54
Accumulated Reserve for Depreciation	178,832,031	35,616,434	8,540,642	44,157,076	134,674,955	Rule 20:10:13:64
Net Gas Plant in Service	<u>148,719,447</u>	<u>35,569,409</u>	<u>8,382,918</u>	<u>43,952,327</u>	<u>104,767,120</u>	
CWIP in Service Pending Reclassification	5,357,453	1,462,407	155,727	1,618,134	3,739,319	Rule 20:10:13:56
Total Gas Plant in Service	<u>\$154,076,900</u>	<u>\$37,031,816</u>	<u>\$8,538,645</u>	<u>\$45,570,461</u>	<u>\$108,506,439</u>	
Additions						
Materials and Supplies	\$3,133,963	\$399,286	\$80,009	\$479,294	\$2,654,668	Rule 20:10:13:68
Fuel Stocks	26,823	0	0	0	26,823	
Gas in Underground Storage	3,756,151	0	0	0	3,756,151	
Prepayments	431,143	100,152	23,535	123,686	307,456	Rule 20:10:13:68
Unamortized Gain/Loss on Debt	1,918,972	465,558	107,288	572,846	1,346,126	Rule 20:10:13:68
Other	125,422	15,864	0	15,864	109,558	Rule 20:10:13:68
Total Additions	<u>\$9,392,474</u>	<u>\$980,860</u>	<u>\$210,832</u>	<u>\$1,191,690</u>	<u>\$8,200,782</u>	
Total Before Deductions	\$163,469,374	\$38,012,676	\$8,749,477	\$46,762,151	\$116,707,221	
Deductions						
Accumulated Deferred Income Taxes	\$27,739,412	\$5,996,119	\$1,116,348	\$7,112,467	\$20,626,945	Rule 20:10:13:88
Accumulated Investment Tax Credits	8,493	0	0	0	8,493	
Customer Guarantee	1,049,613	0	1,049,613	1,049,613	0	Rule 20:10:13:68
Customer Advances	5,289,055	117,598	603,489	721,086	4,567,968	Rule 20:10:13:68
Total Deductions	<u>\$34,086,573</u>	<u>\$6,113,717</u>	<u>\$2,769,450</u>	<u>\$8,883,166</u>	<u>\$25,203,406</u>	
Total Rate Base	<u><u>\$129,382,801</u></u>	<u><u>\$31,898,959</u></u>	<u><u>\$5,980,027</u></u>	<u><u>\$37,878,985</u></u>	<u><u>\$91,503,815</u></u>	

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF PRO FORMA ADJUSTMENTS
GAS UTILITY - SOUTH DAKOTA

Docket No. _____
Rule 20:10:13:96
Statement M
Page 3 of 7

	Adjustment No.	Pro Forma Adjustment	Reference
Revenue			
Current rates	1	(\$2,137,487)	Rule 20:10:13:85 Statement I, page 3
Normal Weather	2	5,831,766	Rule 20:10:13:85 Statement I, page 4
Annualized volumes	3	416,485	Rule 20:10:13:85 Statement I, page 5
Other Revenue	4	(37,558)	Rule 20:10:13:85 Statement I, page 6
Total adjustments to Revenue		<u>\$4,073,206</u>	
Expenses			
Cost of Gas	5	\$3,480,480	Rule 20:10:13:81 Schedule H-1, page 3
Other O&M			
Labor	6	\$300,992	Rule 20:10:13:81 Schedule H-1, page 4
Benefits	7	(45,077)	Rule 20:10:13:81 Schedule H-1, page 5
Vehicles & Work Equipment	8	2,641	Rule 20:10:13:81 Schedule H-1, page 6
Company Consumption	9	3,418	Rule 20:10:13:81 Schedule H-1, page 7
Pierre Office Rental	10	(31,305)	Rule 20:10:13:81 Schedule H-1, page 8
Uncollectible Accounts	11	(9,486)	Rule 20:10:13:81 Schedule H-1, page 9
Postage	12	6,085	Rule 20:10:13:81 Schedule H-1, page 10
Advertising	13	(27,606)	Rule 20:10:13:81 Schedule H-1, page 11
Insurance	14	4,493	Rule 20:10:13:81 Schedule H-1, page 12
Industry Dues	15	(14,595)	Rule 20:10:13:81 Schedule H-1, page 13
Regulatory Commission Expense	16	113,158	Rule 20:10:13:81 Schedule H-1, page 14
Total adjustments to Other O&M		<u>\$302,718</u>	
Depreciation Expense	17	\$1,245,461	Rule 20:10:13:86 Statement J, page 2
Taxes Other than Income			
Ad Valorem	18	\$40,007	Rule 20:10:13:95 Schedule L-1, page 1
Payroll Taxes	19	21,798	Rule 20:10:13:95 Schedule L-1, page 3
Gross Revenue Tax	20	(8,417)	Rule 20:10:13:95 Schedule L-1, page 4
Total adj. to Taxes Other than Income		<u>\$53,388</u>	
Current Income Taxes			
Interest Annualization	21	(\$239,607)	Rule 20:10:13:88 Statement K, page 8
Tax Depreciation on Plant Additions	22	1,387,128	Rule 20:10:13:88 Statement K, page 9
Other Tax Deductions	23	1,400	Rule 20:10:13:88 Statement K, page 10
Income Taxes on Pro Forma Adj.	24	(755,217)	Rule 20:10:13:88 Statement K, page 11
Elimination of Closing/Filing and Prior Period	25	831,430	Rule 20:10:13:88 Statement K, page 12
Total adj. to Current Income Taxes		<u>\$76,213</u>	
Deferred Income Taxes			
Plant Additions	22	\$485,496	Rule 20:10:13:88 Statement K, page 9
Elimination of Closing/Filing and Prior Period	25	(853,613)	Rule 20:10:13:88 Statement K, page 12
Other Tax Deductions	23	11,368	Rule 20:10:13:88 Statement K, page 10
Total adj. to Deferred Income Taxes		<u>(\$356,749)</u>	
Total Expenses		<u>\$4,801,511</u>	
Net Adjustments to Operating Income		<u><u>(\$728,305)</u></u>	

**MONTANA-DAKOTA UTILITIES CO.
 GAS UTILITY - SOUTH DAKOTA
 SUMMARY OF PRO FORMA RATE BASE ADJUSTMENTS**

<u>Plant</u>	<u>Adjustment</u>	<u>Total South Dakota</u>	<u>Reference</u>
Plant Additions	A	\$6,229,710	Rule 20:10:13:54 Statement D, page 7
<u>Accumulated Reserve</u>			
Plant Additions	B	3,037,017	Rule 20:10:13:64 Statement E, page 2
Adjustments to Net Plant		\$3,192,693	
<u>Additions:</u>			
Materials and Supplies	C	\$50,336	Rule 20:10:13:69 Schedule F-1, page 2
Prepaid Insurance	D	(11,535)	Rule 20:10:13:69 Schedule F-1, page 3
Unamortized Gain/Loss on Debt	E	(16,989)	Rule 20:10:13:69 Schedule F-1, page 4
Deferred FAS 106 Costs	F	(11,898)	Rule 20:10:13:69 Schedule F-1, page 5
Total Additions		\$9,914	
<u>Deductions:</u>			
Accumulated Def. Inc. Tax			
Plant Additions	I	\$1,093,983	Rule 20:10:13:88 Statement K, page 18
Normalization	J	(57,144)	Rule 20:10:13:88 Statement K, page 18
Deferred FAS 106 Costs	F	(4,165)	Rule 20:10:13:69 Schedule F-1, page 5
Unamortized Loss on Debt	E	(6,733)	Rule 20:10:13:69 Schedule F-1, page 4
Customer Guarantee	G	876,572	Rule 20:10:13:69 Schedule F-1, page 6
Customer Advances for Construction	H	9,485	Rule 20:10:13:69 Schedule F-1, page 7
Total Deductions		\$1,911,998	
Total Pro Forma Adjustments		\$1,290,609	

**MONTANA-DAKOTA UTILITIES CO.
 PRO FORMA INCOME STATEMENT
 GAS UTILITY - SOUTH DAKOTA
 TWELVE MONTHS ENDED JUNE 30, 2012**

	<u>Black Hills</u>	<u>East River</u>	<u>Total South Dakota</u>	<u>Pro Forma Adjustments</u>	<u>Total Adjusted Amount</u>
Operating Revenues					
Sales	\$36,579,331	\$6,274,712	\$42,854,043	\$4,158,335	\$47,012,378
Transportation	352,924	0	352,924	(47,571)	305,353
Other	329,461	47,336	376,797	(37,558)	339,239
Total Revenues	<u>\$37,261,716</u>	<u>\$6,322,048</u>	<u>\$43,583,764</u>	<u>\$4,073,206</u>	<u>\$47,656,970</u>
Operating Expenses					
Operation and Maintenance					
Cost of Gas	\$24,539,052	\$3,554,708	\$28,093,760	\$3,480,480	\$31,574,240
Other O&M	6,916,765	1,375,062	8,291,827	302,718	8,594,545
Total O&M	<u>\$31,455,817</u>	<u>\$4,929,770</u>	<u>\$36,385,587</u>	<u>\$3,783,198</u>	<u>\$40,168,785</u>
Depreciation	2,042,284	502,378	2,544,662	1,245,461	3,790,123
Taxes Other Than Income	829,751	186,715	1,016,466	53,388	1,069,854
Current Income Taxes	(949,051)	(2,085,481)	(3,034,532)	76,213	(2,958,319)
Deferred Income Taxes	1,530,857	2,243,980	3,774,837	(356,749)	3,418,088
Total Expenses	<u>\$34,909,658</u>	<u>\$5,777,362</u>	<u>\$40,687,020</u>	<u>\$4,801,511</u>	<u>\$45,488,531</u>
Operating Income	<u>\$2,352,058</u>	<u>\$544,686</u>	<u>\$2,896,744</u>	<u>(\$728,305)</u>	<u>\$2,168,439</u>
Rate Base	<u>\$31,898,960</u>	<u>\$5,980,027</u>	<u>\$37,878,986</u>	<u>\$1,290,609</u>	<u>\$39,169,595</u>
Rate of Return	<u>7.373%</u>	<u>9.108%</u>	<u>7.647%</u>		<u>5.536%</u>

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE RATE BASE
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED JUNE 30, 2012
PRO FORMA**

	<u>Average Balance @ 6/30/12</u>			Pro Forma Adjustments	Pro Forma
	Black Hills	East River	Total South Dakota		
Gas Plant in Service	\$71,185,843	\$16,923,560	\$88,109,403	\$6,229,710	\$94,339,113
Accumulated Reserve for Depr.	35,616,434	8,540,642	44,157,076	3,037,017	47,194,093
Net Gas Plant in Service	<u>35,569,409</u>	<u>8,382,918</u>	<u>43,952,327</u>	3,192,693	<u>47,145,020</u>
CWIP in Service Pending Reclas.	1,462,407	155,727	1,618,134		1,618,134
Total Gas Plant in Service	<u>\$37,031,816</u>	<u>\$8,538,645</u>	<u>\$45,570,461</u>	\$3,192,693	<u>48,763,154</u>
Additions					
Materials and Supplies	\$399,286	\$80,009	\$479,295	\$50,336	\$529,631
Prepayments	100,152	23,535	123,687	(11,535)	112,152
Unamortized Gain/Loss on Debt	465,558	107,288	572,846	(16,989)	555,857
Deferred FAS 106 Costs	15,864		15,864	(11,898)	3,966
Total Additions	<u>980,860</u>	<u>210,832</u>	<u>1,191,692</u>	9,914	<u>1,201,606</u>
Total Before Deductions	<u>\$38,012,676</u>	<u>\$8,749,477</u>	<u>\$46,762,153</u>	\$3,202,607	<u>\$49,964,760</u>
Deductions					
Accumulated Deferred Income Taxes	\$5,996,119	\$1,116,348	\$7,112,467	\$1,025,941	\$8,138,408
Customer Guarantee		1,049,613	1,049,613	876,572	1,926,185
Customer Advances	117,598	603,489	721,087	9,485	730,572
Total Deductions	<u>6,113,717</u>	<u>2,769,450</u>	<u>8,883,167</u>	1,911,998	<u>10,795,165</u>
Total Rate Base	<u>\$31,898,959</u>	<u>\$5,980,027</u>	<u>\$37,878,986</u>	\$1,290,609	<u>\$39,169,595</u>

**MONTANA-DAKOTA UTILITIES CO.
 PROJECTED OPERATING INCOME AND RATE OF RETURN
 REFLECTING ADDITIONAL REVENUE REQUIREMENTS
 GAS UTILITY - SOUTH DAKOTA**

	Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$47,012,378	\$1,547,999	\$48,560,377
Transportation	305,353		305,353
Other	339,239		339,239
Total Revenues	<u>47,656,970</u>	<u>1,547,999</u>	<u>49,204,969</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	31,574,240		31,574,240
Other O&M	8,594,545		8,594,545
Total O&M	<u>40,168,785</u>		<u>40,168,785</u>
Depreciation	3,790,123		3,790,123
Taxes Other Than Income	1,069,854	2,322 2/	1,072,176
Current Income Taxes	(2,958,319)	540,987 2/	(2,417,332)
Deferred Income Taxes	3,418,088		3,418,088
Total Expenses	<u>45,488,531</u>	<u>543,309</u>	<u>46,031,840</u>
Operating Income	<u>\$2,168,439</u>	<u>\$1,004,690</u>	<u>\$3,173,129</u>
Rate Base	<u>\$39,169,595</u>		<u>\$39,169,595</u>
Rate of Return	<u>5.536%</u>		<u>8.101%</u>

1/ See Rule 20:10:13:96, page 5.

2/ Reflects taxes at 35 percent after deducting South Dakota Gross Receipts tax of 0.15 percent.