

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
Embedded Class Cost of Service Study
Cost of Service by Component
Pro Forma**

| | Total South Dakota | Residential | | | Total Residential |
|---|-----------------------|-------------|-------------|-------------|----------------------|
| | | Demand | Energy | Customer | |
| Rate Base | 38,825,803 | 9,280,984 | 2,131 | 17,433,718 | 26,716,833 |
| Adjustments to Rate Base | 1,067,164 | 95,563 | 0 | 787,219 | 882,782 |
| Pro Forma Rate Base | 39,892,967 | 9,376,547 | 2,131 | 18,220,937 | 27,599,615 |
| Operating Income for Proposed Return | 3,027,078 | 711,492 | 162 | 1,382,604 | 2,094,258 |
| Current Operating Income | 2,643,726 | (1,312,209) | 3,726,014 | (1,600,147) | 813,658 |
| Adjustment to Operating Income | (611,702) | (49,234) | 247,843 | (201,252) | (2,643) |
| Required Increase in Operating Income | 995,054 | 2,072,935 | (3,973,695) | 3,184,003 | 1,283,243 |
| Related Taxes for Increase | | | | | |
| Federal Income | 535,800 | 1,116,194 | (2,139,682) | 1,714,466 | 690,978 |
| Revenue Tax | 2,144 | 4,471 | (8,571) | 6,867 | 2,767 |
| Total Increase in Revenue | 1,532,998 | 3,193,600 | (6,121,948) | 4,905,336 | 1,976,988 |
| Retail Revenue Before Increase | | | | | |
| Per Books | 60,547,376 | 6,063,751 | 22,312,080 | 5,024,921 | 33,400,752 |
| Pro Forma Adjustments | (10,819,341) | (1,438,122) | (3,461,661) | 86,714 | (4,813,069) |
| Total Retail Revenue Before Increase | 49,728,035 | 4,625,629 | 18,850,419 | 5,111,635 | 28,587,683 |
| Total Cost of Service Required from Rates | 51,261,033 | 7,819,229 | 12,728,471 | 10,016,971 | 30,564,671 |
| Less Cost of Gas | 32,640,945 | 4,625,628 | 12,558,047 | 0 | 17,183,675 |
| Net Distribution Cost of Service | 18,620,088 | 3,193,601 | 170,424 | 10,016,971 | 13,380,996 |
| Pro Forma Rate of Return | 5.09% | (14.52%) | 186478.51% | (9.89%) | 2.94% |
| Proforma Billing Units | | | | | |
| Dk | 8,168,710 | 3,607,260 | 3,607,260 | 3,607,260 | |
| Demand | | | | | |
| Bills | 683,976 | | | 600,192 | |
| Unit Cost of Service | | | | | |
| Energy cost per Dk | | | \$0.047 | | |
| Demand cost per DK | | \$0.885 | | | |
| Customer Cost Per Month | | | | \$16.69 | |

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
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Cost of Service by Component
Pro Forma

| | Total South Dakota | Small Firm General | | | Total Small Firm General |
|---|-----------------------|--------------------|------------|-----------|--------------------------------|
| | | Demand | Energy | Customer | |
| Rate Base | 38,825,803 | 1,920,192 | 395 | 1,428,578 | 3,349,165 |
| Adjustments to Rate Base | 1,067,164 | 18,733 | 0 | 42,879 | 61,612 |
| Pro Forma Rate Base | 39,892,967 | 1,938,925 | 395 | 1,471,457 | 3,410,777 |
| Operating Income for Proposed Return | 3,027,078 | 147,126 | 30 | 111,654 | 258,810 |
| Current Operating Income | 2,643,726 | (276,398) | 444,090 | (123,665) | 44,027 |
| Adjustment to Operating Income | (611,702) | (10,717) | 101,176 | (22,097) | 68,362 |
| Required Increase in Operating Income | 995,054 | 434,241 | (545,236) | 257,416 | 146,421 |
| Related Taxes for Increase | | | | | |
| Federal Income | 535,800 | 233,822 | (293,589) | 138,609 | 78,842 |
| Revenue Tax | 2,144 | 937 | (1,176) | 555 | 316 |
| Total Increase in Revenue | 1,532,998 | 669,000 | (840,001) | 396,580 | 225,579 |
| Retail Revenue Before Increase | | | | | |
| Per Books | 60,547,376 | 1,236,305 | 3,864,973 | 643,486 | 5,744,764 |
| Pro Forma Adjustments | (10,819,341) | (293,212) | (749,833) | 11,105 | (1,031,940) |
| Total Retail Revenue Before Increase | 49,728,035 | 943,093 | 3,115,140 | 654,591 | 4,712,824 |
| Total Cost of Service Required from Rates | 51,261,033 | 1,612,093 | 2,275,139 | 1,051,171 | 4,938,403 |
| Less Cost of Gas | 32,640,945 | 943,093 | 2,243,843 | 0 | 3,186,936 |
| Net Distribution Cost of Service | 18,620,088 | 669,000 | 31,296 | 1,051,171 | 1,751,467 |
| Pro Forma Rate of Return | 5.09% | (14.81%) | 138042.03% | (9.91%) | 3.30% |
| Proforma Billing Units | | | | | |
| Dk | 8,168,710 | 669,013 | 669,013 | 669,013 | |
| Demand | | | | | |
| Bills | 683,976 | | | 61,488 | |
| Unit Cost of Service | | | | | |
| Energy cost per Dk | | | \$0.047 | | |
| Demand cost per DK | | \$1.000 | | | |
| Customer Cost Per Month | | | | \$17.10 | |

MONTANA-DAKOTA UTILITIES CO.
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| | Total South Dakota | Large Firm General | | | Total Large Firm General |
|---|-----------------------|--------------------|-------------|-----------|--------------------------------|
| | | Demand | Energy | Customer | |
| Rate Base | 38,825,803 | 4,949,559 | 1,348 | 2,607,214 | 7,558,121 |
| Adjustments to Rate Base | 1,067,164 | 50,961 | 0 | 57,766 | 108,727 |
| Pro Forma Rate Base | 39,892,967 | 5,000,520 | 1,348 | 2,664,980 | 7,666,848 |
| Operating Income for Proposed Return | 3,027,078 | 379,439 | 102 | 202,219 | 581,760 |
| Current Operating Income | 2,643,726 | (699,806) | 2,480,477 | (86,570) | 1,694,101 |
| Adjustment to Operating Income | (611,702) | (26,257) | (621,780) | (35,052) | (683,089) |
| Required Increase in Operating Income | 995,054 | 1,105,502 | (1,858,595) | 323,841 | (429,252) |
| Related Taxes for Increase | | | | | |
| Federal Income | 535,800 | 595,271 | (1,000,782) | 174,376 | (231,135) |
| Revenue Tax | 2,144 | 2,384 | (4,009) | 698 | (927) |
| Total Increase in Revenue | 1,532,998 | 1,703,157 | (2,863,386) | 498,915 | (661,314) |
| Retail Revenue Before Increase | | | | | |
| Per Books | 60,547,376 | 3,233,838 | 14,956,745 | 704,972 | 18,895,555 |
| Pro Forma Adjustments | (10,819,341) | (766,960) | (3,583,098) | 7,001 | (4,343,057) |
| Total Retail Revenue Before Increase | 49,728,035 | 2,466,878 | 11,373,647 | 711,973 | 14,552,498 |
| Total Cost of Service Required from Rates | 51,261,033 | 4,170,035 | 8,510,261 | 1,210,888 | 13,891,184 |
| Less Cost of Gas | 32,640,945 | 2,466,878 | 8,402,101 | 0 | 10,868,979 |
| Net Distribution Cost of Service | 18,620,088 | 1,703,157 | 108,160 | 1,210,888 | 3,022,205 |
| Pro Forma Rate of Return | 5.09% | (14.52%) | 137885.53% | (4.56%) | 13.19% |
| Proforma Billing Units | | | | | |
| Dk | 8,168,710 | 2,281,656 | 2,281,656 | 2,281,656 | |
| Demand | | | | | |
| Bills | 683,976 | | | 21,876 | |
| Unit Cost of Service | | | | | |
| Energy cost per Dk | | | \$0.047 | | |
| Demand cost per DK | | \$0.746 | | | |
| Customer Cost Per Month | | | | \$55.35 | |

**MONTANA-DAKOTA UTILITIES CO.
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Embedded Class Cost of Service Study
Cost of Service by Component
Pro Forma**

| | Total South Dakota | Small Interruptible | | | Total Small Interruptible |
|---|-----------------------|---------------------|------------|----------|---------------------------------|
| | | Demand | Energy | Customer | |
| Rate Base | 38,825,803 | 201,205 | 87 | 141,538 | 342,830 |
| Adjustments to Rate Base | 1,067,164 | 2,070 | 0 | 2,596 | 4,666 |
| Pro Forma Rate Base | 39,892,967 | 203,275 | 87 | 144,134 | 347,496 |
| Operating Income for Proposed Return | 3,027,078 | 15,425 | 7 | 10,937 | 26,369 |
| Current Operating Income | 2,643,726 | (27,651) | 77,702 | 6,457 | 56,508 |
| Adjustment to Operating Income | (611,702) | (1,784) | 14,923 | (3,888) | 9,251 |
| Required Increase in Operating Income | 995,054 | 44,860 | (92,618) | 8,368 | (39,390) |
| Related Taxes for Increase | | | | | |
| Federal Income | 535,800 | 24,155 | (49,871) | 4,506 | (21,210) |
| Revenue Tax | 2,144 | 97 | (200) | 18 | (85) |
| Total Increase in Revenue | 1,532,998 | 69,112 | (142,689) | 12,892 | (60,685) |
| Retail Revenue Before Increase | | | | | |
| Per Books | 60,547,376 | 44,200 | 291,319 | 47,836 | 383,355 |
| Pro Forma Adjustments | (10,819,341) | (10,483) | (99,693) | (2,836) | (113,012) |
| Total Retail Revenue Before Increase | 49,728,035 | 33,717 | 191,626 | 45,000 | 270,343 |
| Total Cost of Service Required from Rates | 51,261,033 | 102,829 | 48,937 | 57,892 | 209,658 |
| Less Cost of Gas | 32,640,945 | 33,717 | 42,838 | 0 | 76,555 |
| Net Distribution Cost of Service | 18,620,088 | 69,112 | 6,099 | 57,892 | 133,103 |
| Pro Forma Rate of Return | 5.09% | (14.48%) | 106465.52% | 1.78% | 18.92% |
| Proforma Billing Units | | | | | |
| Dk | 8,168,710 | 336,571 | 336,571 | 336,571 | |
| Demand | | | | | |
| Bills | 683,976 | | | 300 | |
| Unit Cost of Service | | | | | |
| Energy cost per Dk | | | \$0.018 | | |
| Demand cost per DK | | \$0.205 | | | |
| Customer Cost Per Month | | | | \$192.97 | |

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
Embedded Class Cost of Service Study
Cost of Service by Component
Pro Forma

| | Total South Dakota | Large Interruptible | | | Total Large Interruptible |
|---|-----------------------|---------------------|-----------|-----------|---------------------------------|
| | | Demand | Energy | Customer | |
| Rate Base | 38,825,803 | 761,896 | 436 | 96,523 | 858,855 |
| Adjustments to Rate Base | 1,067,164 | 7,835 | 0 | 1,542 | 9,377 |
| Pro Forma Rate Base | 39,892,967 | 769,731 | 436 | 98,065 | 868,232 |
| Operating Income for Proposed Return | 3,027,078 | 58,407 | 33 | 7,441 | 65,881 |
| Current Operating Income | 2,643,726 | (104,991) | 137,367 | 3,056 | 35,432 |
| Adjustment to Operating Income | (611,702) | (6,482) | 5,759 | (2,860) | (3,583) |
| Required Increase in Operating Income | 995,054 | 169,880 | (143,093) | 7,245 | 34,032 |
| Related Taxes for Increase | | | | | |
| Federal Income | 535,800 | 91,474 | (77,050) | 3,901 | 18,325 |
| Revenue Tax | 2,144 | 366 | (309) | 16 | 73 |
| Total Increase in Revenue | 1,532,998 | 261,720 | (220,452) | 11,162 | 52,430 |
| Retail Revenue Before Increase | | | | | |
| Per Books | 60,547,376 | 199,468 | 1,893,590 | 29,892 | 2,122,950 |
| Pro Forma Adjustments | (10,819,341) | (47,307) | (468,664) | (2,292) | (518,263) |
| Total Retail Revenue Before Increase | 49,728,035 | 152,161 | 1,424,926 | 27,600 | 1,604,687 |
| Total Cost of Service Required from Rates | 51,261,033 | 413,881 | 1,204,474 | 38,762 | 1,657,117 |
| Less Cost of Gas | 32,640,945 | 152,161 | 1,172,639 | 0 | 1,324,800 |
| Net Distribution Cost of Service | 18,620,088 | 261,720 | 31,835 | 38,762 | 332,317 |
| Pro Forma Rate of Return | 5.09% | (14.48%) | 32827.06% | 0.20% | 3.67% |
| Proforma Billing Units | | | | | |
| Dk | 8,168,710 | 1,274,210 | 1,274,210 | 1,274,210 | |
| Demand | | | | | |
| Bills | 683,976 | | | 120 | |
| Unit Cost of Service | | | | | |
| Energy cost per Dk | | | \$0.025 | | |
| Demand cost per DK | | \$0.205 | | | |
| Customer Cost Per Month | | | | \$323.02 | |

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
Embedded Class Cost of Service Study
Summary Report
Twelve Months Ended December 31, 2014
Pro Forma

| Operating Income and Rate of Return | Total South Dakota | Total Residential | Total Small Firm General | Total Large Firm General | Total Small Interruptible | Total Large Interruptible |
|--|-----------------------|----------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|
| Sales Revenues | 60,547,376 | 33,400,752 | 5,744,764 | 18,895,555 | 383,355 | 2,122,950 |
| Adjustments to Sales Revenues | (10,819,341) | (4,813,069) | (1,031,940) | (4,343,057) | (113,012) | (518,263) |
| Total Sales Revenues | 49,728,035 | 28,587,683 | 4,712,824 | 14,552,498 | 270,343 | 1,604,687 |
| Other Revenues | 544,783 | 389,354 | 52,954 | 88,922 | 3,886 | 9,667 |
| Adjustments to Other Revenues | (24,333) | (13,991) | (2,305) | (7,120) | (132) | (785) |
| Total Other Revenues | 520,450 | 375,363 | 50,649 | 81,802 | 3,754 | 8,882 |
| Total Operating Revenues | 50,248,485 | 28,963,046 | 4,763,473 | 14,634,300 | 274,097 | 1,613,569 |
| Operating Expense | | | | | | |
| Cost of Gas | 43,342,839 | 22,559,119 | 4,404,406 | 14,314,099 | 210,705 | 1,854,510 |
| Adj. to Cost of Gas | (10,701,894) | (5,375,444) | (1,217,470) | (3,445,120) | (134,150) | (529,710) |
| Total Cost of Gas | 32,640,945 | 17,183,675 | 3,186,936 | 10,868,979 | 76,555 | 1,324,800 |
| Other O&M Expense | 9,773,672 | 7,154,914 | 940,060 | 1,455,014 | 64,657 | 159,027 |
| Adjustments to Other O&M | 489,437 | 339,031 | 47,975 | 88,185 | 4,133 | 10,113 |
| Total Other O&M Expense | 10,263,109 | 7,493,945 | 988,035 | 1,543,199 | 68,790 | 169,140 |
| Total Operation & Maintenance Expense | 42,904,054 | 24,677,620 | 4,174,971 | 12,412,178 | 145,345 | 1,493,940 |
| Depreciation Expense | 3,445,175 | 2,490,572 | 340,504 | 535,617 | 22,401 | 56,081 |
| Adjustment to Depreciation Expense | 223,250 | 163,772 | 21,746 | 32,807 | 1,359 | 3,566 |
| Total Depreciation Expense | 3,668,425 | 2,654,344 | 362,250 | 568,424 | 23,760 | 59,647 |
| Taxes Other Than Income Taxes | 1,128,186 | 783,177 | 110,920 | 202,902 | 8,297 | 22,890 |
| Adjustment to Taxes Other Than Income | 40,938 | 29,075 | 4,031 | 6,767 | 303 | 762 |
| Total Taxes Other Than Income | 1,169,124 | 812,252 | 114,951 | 209,669 | 8,600 | 23,652 |
| Current Income Taxes - Fed. & State | (1,428,993) | (1,490,682) | (259,024) | 357,585 | 5,718 | (42,590) |
| Adjustment to Current Income Taxes | (915,355) | (411,682) | (21,580) | (469,219) | 717 | (13,591) |
| Total Current Income Taxes | (2,344,348) | (1,902,364) | (280,604) | (111,634) | 6,435 | (56,181) |

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
Embedded Class Cost of Service Study
Summary Report
Twelve Months Ended December 31, 2014
Pro Forma

| Operating Income and Rate of Return | Total | Total | Total | Total | Total | Total |
|--|--------------|-------------|-----------------------|-----------------------|------------------------|------------------------|
| | South Dakota | Residential | Small Firm General | Large Firm General | Small Interruptible | Large Interruptible |
| Deferred Income Taxes | 2,187,554 | 1,479,348 | 216,825 | 425,159 | 18,955 | 47,267 |
| Adjustment to Deferred Income Tax | 631,652 | 430,831 | 62,691 | 119,492 | 5,243 | 13,395 |
| Total Deferred Income Taxes | 2,819,206 | 1,910,179 | 279,516 | 544,651 | 24,198 | 60,662 |
| Total Operating Expenses | 48,216,461 | 28,152,031 | 4,651,084 | 13,623,288 | 208,338 | 1,581,720 |
| Pro Forma Operating Income | 2,032,024 | 811,015 | 112,389 | 1,011,012 | 65,759 | 31,849 |
| Rate Base | 38,825,803 | 26,716,833 | 3,349,165 | 7,558,121 | 342,830 | 858,855 |
| Adjustment to Rate Base | 1,067,164 | 882,782 | 61,612 | 108,727 | 4,666 | 9,377 |
| Total Pro Forma Rate Base | 39,892,967 | 27,599,615 | 3,410,777 | 7,666,848 | 347,496 | 868,232 |
| Pro Forma Rate of Return | 5.094% | 2.939% | 3.295% | 13.187% | 18.924% | 3.668% |