

**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 each month. The work order balance includes AFUDC semi-annually in June and December. The estimated AFUDC rate will be reviewed quarterly.
2. Work orders 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 \$50,000.
3. AFUDC is applied to eligible work orders in the month following the first month any charges are applied to the work order.

Montana-Dakota's construction overheads policy sets forth the procedure used to determine how construction overheads should be applied to work orders.

Engineering/Supervision and General/Administrative (ES&GA) overhead charges are applied to construction work orders monthly based on current month actual expenditures. Charges are applied based on employees who indirectly support the construction function and have a percentage of their salary or wage allocated directly to capital project overhead cost accounts. Time studies are performed

periodically for employees to determine the appropriate level of allocation and update to their overhead payroll allocations.

ES&GA is applied only on the first \$1.5 million of eligible charges to a work order. The ES&GA rates are calculated at the beginning of the accounting year and are reviewed quarterly and updated as necessary. The annual overhead applied to each work order is adjusted each year in December business to the actual total year ES&GA rates.

The current AFUDC and construction overhead policy became effective in July 2020. 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 Utilities Group.