

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
EXHIBIT 3

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MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY – SOUTH DAKOTA
EXHIBIT 3 – UPDATE ASSUMPTIONS

Assumptions:

Pursuant to the Settlement Stipulation filed on September 28, 2018, Montana-Dakota provides the following updates to the Income Statement, Rate Base, and Revenue Requirement, as approved in Order GE17-003.

- Income Statement update:
 - Depreciation expense adjusted to include depreciation for 2018 plant additions.
 - Taxes Other Than Income adjusted to reflect updated Ad Valorem tax for 2018 plant additions.
 - Current and Deferred Income Taxes adjusted to reflect the adjustments made based on the plant additions.
- Rate Base update:
 - Plant in service has been adjusted for one half of the plant additions through October 31, 2018 to reflect an average.
 - Accumulated reserve for depreciation has been adjusted to reflect average of the depreciation adjustment for 2018 plant additions.
 - Accumulated reserve for depreciation has been adjusted to reflect average of the depreciation adjustment for 2018 plant additions and the tax affect for the change in the customer advances balance.
 - Customer Advances have been adjusted to reflect the forfeiture of certain advances, which have also been reflected in the plant additions.

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2017
PRO FORMA REFLECTING TAX CUTS AND JOBS ACT
UPDATED TO REFLECT PLANT IN-SERVICE THROUGH OCTOBER 31, 2018**

	<u>Pro Forma Settlement 1/</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma - Updated 2018</u>
Operating Revenues			
Retail Sales Revenue	\$48,666,345	\$0	\$48,666,345
Transportation Revenue	379,298	0	379,298
Unbilled Revenue	0	0	0
Other	401,114	0	401,114
Total Revenues	<u>\$49,446,757</u>	<u>\$0</u>	<u>\$49,446,757</u>
Operating Expenses			
Operation and Maintenance			
Purchased Gas Sold	\$30,215,104	\$0	\$30,215,104
Other O&M	10,365,839	0	10,365,839
Total O&M	<u>\$40,580,943</u>	<u>\$0</u>	<u>\$40,580,943</u>
Depreciation	3,905,134	153,441	4,058,575 2/
Taxes Other Than Income	1,054,903	17,828	1,072,731 3/
Current Income Taxes	259,252	(121,261)	137,991 3/
Deferred Income Taxes	134,879	76,605	211,484 4/
Total Expenses	<u>\$45,935,111</u>	<u>\$126,613</u>	<u>\$46,061,724</u>
Operating Income	<u>\$3,511,646</u>	<u>(\$126,613)</u>	<u>\$3,385,033</u>
Rate Base	<u>\$42,718,100</u>	<u>\$1,803,833</u>	<u>\$44,521,933</u>
Rate of Return on Rate Base	<u>8.221%</u>		<u>7.603%</u>
Rate of Return on Equity	<u>11.646%</u>		<u>10.432%</u>

1/ See Page 5.

2/ See Pages 7-8.

3/ See Page 11.

4/ See Pages 9-10.

**MONTANA-DAKOTA UTILITIES CO.
RATE BASE
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2017
PRO FORMA REFLECTING TAX CUTS AND JOBS ACT
UPDATED TO REFLECT PLANT IN-SERVICE THROUGH OCTOBER 31, 2018**

	Pro Forma Settlement 1/	Pro Forma Adjustments	Pro Forma - Updated 2018
Gas Plant in Service	\$109,982,508	\$1,714,216	\$111,696,724 2/
Accumulated Reserve for Depreciation	56,721,448	76,721	56,798,169 2/
Net Gas Plant in Service	<u>\$53,261,060</u>	<u>\$1,637,495</u>	<u>\$54,898,555</u>
Additions			
Materials and Supplies	\$567,373	\$0	\$567,373
Cash Working Capital/Tax Collections	(875,161)	0	(875,161)
Prepayments	108,728	0	108,728
Unamortized Redemption of Pref. Stock	18,854	0	18,854
Unamortized Loss on Debt	146,551	0	146,551
Rate Case Expense	92,668	0	92,668
Total Additions	<u>59,013</u>	<u>\$0</u>	<u>\$59,013</u>
Total Before Deductions	\$53,320,073	\$1,637,495	\$54,957,568
Deductions			
Accumulated Deferred Income Taxes	\$9,671,217	\$76,605	\$9,747,822 3/
Customer Deposits	180,115	0	180,115
Customer Advances	750,641	(242,943)	507,698 4/
Total Deductions	<u>\$10,601,973</u>	<u>(\$166,338)</u>	<u>\$10,435,635</u>
Total Rate Base	<u><u>\$42,718,100</u></u>	<u><u>\$1,803,833</u></u>	<u><u>\$44,521,933</u></u>

1/ See Page 6.

2/ See Pages 7-8.

3/ See Pages 9-10.

4/ See Page 10.

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

**PRO FORMA REFLECTING TAX CUTS AND JOBS ACT
UPDATED TO REFLECT PLANT IN-SERVICE THROUGH OCTOBER 31, 2018**

	Pro Forma Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Pro Forma Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$48,666,345	(\$339,252)	\$48,327,093
Transportation	379,298		379,298
Other	401,114		401,114
Total Revenues	<u>49,446,757</u>	<u>(339,252)</u>	<u>49,107,505</u>
Operating Expenses			
Operation and Maintenance			
Cost of Gas	30,215,104		30,215,104
Other O&M	10,365,839		10,365,839
Total O&M	<u>40,580,943</u>	<u>0</u>	<u>40,580,943</u>
Depreciation	4,058,575		4,058,575
Taxes Other Than Income	1,072,731	(509)	1,072,222
Current Income Taxes	137,991	(71,136)	66,855
Deferred Income Taxes	211,484		211,484
Total Expenses	<u>46,061,724</u>	<u>(71,645)</u>	<u>45,990,079</u>
Operating Income	<u>\$3,385,033</u>	<u>(\$267,607)</u>	<u>\$3,117,426</u>
Rate Base	<u>\$44,521,933</u>		<u>\$44,521,933</u>
Rate of Return			
	7.603%		7.002% 2/

1/ See Page 2.

2/ Pursuant to the Confidential Settlement in Docket NG15-005 with an updated cost of debt.

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2017**

PRO FORMA REFLECTING TAX CUTS AND JOBS ACT - REVISED 7/31/2018

	<u>Per Books 2017</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma 2018</u>
Operating Revenues			
Retail Sales Revenue	\$49,585,596	(\$919,251)	\$48,666,345
Transportation Revenue	406,257	(26,959)	379,298
Unbilled Revenue	(346,238)	346,238	0
Other	511,026	(109,912)	401,114
Total Revenues	<u>\$50,156,641</u>	<u>(\$709,884)</u>	<u>\$49,446,757</u>
Operating Expenses			
Operation and Maintenance			
Purchased Gas Sold	\$30,903,476	(\$688,372)	\$30,215,104
Other O&M	10,594,611	(228,772)	10,365,839
Total O&M	<u>\$41,498,087</u>	<u>(\$917,144)</u>	<u>\$40,580,943</u>
Depreciation	3,828,236	76,898	3,905,134
Taxes Other Than Income	1,034,527	20,376	1,054,903
Current Income Taxes	145,576	113,676	259,252
Deferred Income Taxes	749,116	(614,237)	134,879
Total Expenses	<u>\$47,255,542</u>	<u>(\$1,320,431)</u>	<u>\$45,935,111</u>
Operating Income	<u>\$2,901,099</u>	<u>\$610,547</u>	<u>\$3,511,646</u>
Rate Base	<u>\$41,831,499</u>	<u>\$886,601</u>	<u>\$42,718,100</u>
Rate of Return on Rate Base	<u>6.935%</u>		<u>8.221%</u>
Rate of Return on Equity	<u>8.746%</u>		<u>11.646%</u>

1/ Excludes late payment revenue of \$82,640. Five year average of miscellaneous and penalty revenue.

2/ Excludes aircraft depreciation of \$9,031, JMR-1 Sch 2.

**MONTANA-DAKOTA UTILITIES CO.
RATE BASE
GAS UTILITY - SOUTH DAKOTA
TWELVE MONTHS ENDED DECEMBER 31, 2017**

PRO FORMA REFLECTING TAX CUTS AND JOBS ACT - REVISED 7/31/2018

	<u>Per Books 2017</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma 2018</u>	
Gas Plant in Service	\$108,136,061	\$1,846,447	\$109,982,508	1/
Accumulated Reserve for Depreciation	56,792,250	(70,802)	56,721,448	1/
Net Gas Plant in Service	<u>\$51,343,811</u>	<u>\$1,917,249</u>	<u>\$53,261,060</u>	
Additions				
Materials and Supplies	\$592,859	(\$25,486)	\$567,373	
Cash Working Capital/Tax Collections	0	(875,161)	(875,161)	2/
Prepayments	26,342	82,386	108,728	
Unamortized Redemption of Pref. Stock	9,427	9,427	18,854	
Unamortized Loss on Debt	171,207	(24,656)	146,551	
Rate Case Expense	187,574	(94,906)	92,668	
Total Additions	<u>987,409</u>	<u>(\$928,396)</u>	<u>\$59,013</u>	
Total Before Deductions	\$52,331,220	\$988,853	\$53,320,073	
Deductions				
Accumulated Deferred Income Taxes	\$9,709,690	(\$38,473)	\$9,671,217	1/
Customer Deposits		180,115	180,115	2/
Customer Advances	790,031	(39,390)	750,641	
Total Deductions	<u>\$10,499,721</u>	<u>\$102,252</u>	<u>\$10,601,973</u>	
Total Rate Base	<u><u>\$41,831,499</u></u>	<u><u>\$886,601</u></u>	<u><u>\$42,718,100</u></u>	

1/ Excludes aircraft plant of \$239,754, reserve of \$109,251, and ADIT of \$38,473, JMR-1 Sch 2.

2/ Adjusted per settlement in Docket No. NG15-005, PJS-2 Sch 2 and 3.

MONTANA-DAKOTA UTILITIES CO.
PLANT ADDITIONS
GAS UTILITY - SOUTH DAKOTA
YEAR TO DATE OCTOBER 31, 2018

<u>Account</u>	<u>Actual Close</u> <u>October</u>	<u>Deprec.</u> <u>Rate</u>	<u>Annual</u> <u>Deprec.</u>
<u>Gas Distribution</u>			
376	\$221,649	2.25%	\$4,987
376	(279,363)	2.25%	(6,286)
376	1,004,394	2.25%	22,599
	<u>\$946,680</u>		
378	\$871	3.14%	\$27
380	\$313,418	7.17%	\$22,472
380	594,109	7.17%	42,598
	<u>\$907,527</u>		
381	\$768,817	3.10%	\$23,833
383	\$132,291	1.77%	\$2,342
387.1	\$30,993	3.21%	\$995
	<u>\$2,787,179</u>		<u>\$113,567</u>
<u>General</u>			
390	\$3,434	3.46%	\$119
390	52	3.46%	2
	<u>\$3,486</u>		
392.2	\$71,030	9.67%	\$6,869
394.1	\$36,149	5.56%	\$2,010
394.1	33,674	5.56%	1,872
394.1	12,328	5.56%	685
	<u>\$82,151</u>		
395	\$7,342	5.00%	\$367
396.2	\$388,269	6.02%	\$23,374
398	\$2,764	5.00%	\$138
	<u>\$555,042</u>		<u>\$35,436</u>
<u>General Intangible</u>			
303	\$5	10.00%	\$1
	<u>\$5</u>		<u>\$1</u>
<u>Common</u>			
389	\$1,544	0.00%	\$0
390	\$5,277	1.46%	\$77
390	3,476	1.46%	51
390	16,540	1.46%	241
390	7,282	1.46%	106
390	3,839	1.46%	56
390	6	1.46%	0
390	45	1.46%	1

MONTANA-DAKOTA UTILITIES CO.
PLANT ADDITIONS
GAS UTILITY - SOUTH DAKOTA
YEAR TO DATE OCTOBER 31, 2018

<u>Account</u>	<u>Actual Close</u> <u>October</u>	<u>Deprec.</u> <u>Rate</u>	<u>Annual</u> <u>Deprec.</u>
390 Purchase Bldg Comm & Sub Depart Bsmrk	(644)	1.46%	(9)
390 Remodel Hallways Bismarck Serv Cntr	1,645	1.46%	24
390 Replace Tile Mobridge Warehouse	662	1.46%	10
390 Install Heater Vehicle Maint Bldg	311	1.46%	5
Total Account 390	\$38,439		
391.1 Office Furniture & Equipment	\$1,344	6.67%	\$90
391.1 Pur Lateral Files Serv Center	94	6.67%	6
Total Account 391.1	\$1,438		
391.3 Computer Equipment	\$1,455	20.00%	\$291
391.3 Itron Mobile Radio (IMR), Field GIS Survey Devices	3,824	20.00%	765
Total Account 391.3	\$5,279		
392.2 Vehicles	\$17,331	4.11%	\$712
397.1 Communication Equip	\$3,789	6.67%	\$253
397.3 Upgrade District Offices to VoIP	\$593	10.00%	\$59
398 Purchase Audio Test Equip	\$766	5.00%	\$38
398 Upgrade JetVision Mail Inserter	(4)	5.00%	0
398 Purchase Ice Maker - Annex Building	307	5.00%	15
398 Purchase AED Units District Offices	519	5.00%	26
Total Account 398	\$1,588		
Total Common	\$70,001		\$2,817
<u>Common Intangible</u>			
303 Meter Data Management	\$608	10.00%	\$61
303 ThoughtSpot Implementation Project	12,691	10.00%	1,269
303 CC&B Upgrade to v2.4	2,390	10.00%	239
303 Migrate Gates System To CC&B	491	10.00%	49
303 Purchase Payment Processing Software	24	10.00%	2
Total Common Intangible	\$16,204		\$1,620
Total 2018 Plant Additions	\$3,428,431		\$153,441

MONTANA-DAKOTA UTILITIES CO.
TAX DEPRECIATION ON PLANT ADDITIONS
GAS SD
DEFERRED INCOME TAXES - 2018 PROJECTED

	2018 Plant Additions	Annual Depreciation	Book Depr. for Taxes 1/	Tax 2/ Depreciation	Book/Tax Difference	Deferred 3/ Income Taxes
Distribution	\$2,772,353	\$113,234	\$56,617	\$103,963	\$47,346	\$9,943
<u>General</u>						
Other	\$92,257	\$5,072	\$2,536	\$13,184	\$10,648	\$2,236
Structures & Improvements	3,486	121	61	48	(13)	(3)
Computer Equipment	-	-	-	-	-	-
Vehicles	71,030	6,869	3,435	14,206	10,771	2,262
Work Equipment	388,269	23,374	11,687	55,484	43,797	9,197
Total General	<u>\$555,042</u>	<u>\$35,436</u>	<u>\$17,719</u>	<u>\$82,922</u>	<u>\$65,203</u>	<u>\$13,692</u>
General Intangible	\$5	\$1	\$1	\$2	\$1	\$0
<u>Common</u>						
Other	\$7,408	\$487	\$244	\$1,059	\$815	\$171
Structures & Improvements	38,439	562	281	535	254	53
Computer Equipment	5,279	1,055	528	1,056	528	111
Vehicles	17,331	712	356	3,466	3,110	653
Total Common	<u>\$68,457</u>	<u>\$2,816</u>	<u>\$1,409</u>	<u>\$6,116</u>	<u>\$4,707</u>	<u>\$988</u>
Common Intangible	\$16,204	\$1,620	\$810	\$5,401	\$4,591	\$964
Total Additions	<u><u>\$3,412,061</u></u>	<u><u>\$153,107</u></u>	<u><u>\$76,556</u></u>	<u><u>\$198,404</u></u>	<u><u>\$121,848</u></u>	<u><u>\$25,587</u></u>

1/ Annual depreciation divided by 2 to reflect half-year convention.

2/ Tax depreciation rates are:

Steam Production	3.750%	(20 Yr.)
Other Production	5.000%	(15 Yr.)
Wind Production	20.000%	(5 Yr.)
Transmission	3.750%	(20 Yr.)
Distribution	3.750%	(20 Yr.)
General & Common	14.290%	(7 Yr.)
Transportation & Comp.	20.000%	(5 Yr.)
Structures and Improv.	1.391%	(39 Yr.)
Intangible	33.330%	(3 Yr.)

3/ Tax Rate 21.000%

**MONTANA-DAKOTA UTILITIES CO.
CUSTOMER ADVANCES
GAS UTILITY - SOUTH DAKOTA
YEAR TO DATE OCTOBER 31, 2018**

	SD Gas Per Books	
December 2016	\$855,660.25	
January 2017	828,699.36	
February	828,699.36	
March	813,849.36	
April	696,771.36	
May	696,771.36	
June	704,021.36	
July	719,109.36	
August	719,109.36	
September	721,179.36	
October	725,662.36	
November	724,402.36	
December	<u>724,402.36</u>	
13 Month Average	750,641.35	13 month average, December 2017
January 2018	719,552.36	
February	417,525.11	
March	418,085.95	
April	415,931.95	
May	375,944.53	
June	493,880.30	
July	505,642.30	
August	505,642.30	
September	505,642.30	
October	505,609.30	
November Est.	505,609.30	
December Est.	<u>506,609.30</u>	
13 Month Average	507,698.26	13 month average, December 2018
Change, 2017 to 2018	242,943.09	
Tax Rate	<u>21.00%</u>	
Change to ADIT:	51,018	

MONTANA-DAKOTA UTILITIES CO.
AD VALOREM TAX & CURRENT INCOME TAX CALCULATION
GAS UTILITY - SOUTH DAKOTA
YEAR TO DATE OCTOBER 31, 2018

Ad Valorem Tax Calculation:

	2018 Plant Additions	Ad Valorem Tax Rates	2018 Ad Valorem
Transmission	\$0	0.00%	\$0
Distribution	2,787,179	0.54%	15,124
General	555,042	0.42%	2,314
General Intangible	5	0.00%	0
Common	70,001	0.49%	342
Common Intangible	16,204	0.30%	48
Total Plant	<u>\$3,428,431</u>		<u>\$17,828</u>

Current Income Taxes Calculation

Pro Forma Rate Base	\$44,521,933	
Weighted Cost of Debt:	2.294%	
Pro Forma Interest:	1,021,333	
	<u>979,953</u>	Interest included in "Pro Forma As Filed"
Change in Interest	41,380	
Change in Depreciation	153,441	
Change in Ad Valorem Taxes	17,828	
Total Change	<u>212,649</u>	
Tax Rate:	21.00%	
	44,656	
Deferred Tax Change:	<u>76,605</u>	
	121,261	