

**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	37,878,986	11,383,528	904,196	11,546,852	23,834,576
Adjustments to Rate Base	1,290,609	(196,689)	(62,692)	1,551,826	1,292,445
Pro Forma Rate Base	39,169,595	11,186,839	841,504	13,098,678	25,127,021
Operating Income for Proposed Return	3,173,129	906,246	68,170	1,061,123	2,035,539
Current Operating Income	2,896,744	(1,388,159)	3,395,051	(611,681)	1,395,211
Adjustment to Operating Income	(728,305)	(269,136)	369,689	(453,064)	(352,511)
Required Increase in Operating Income	1,004,690	2,563,541	(3,696,570)	2,125,868	992,839
Related Taxes for Increase					
Federal Income	540,987	1,380,366	(1,990,461)	1,144,700	534,605
Revenue Tax	2,322	5,925	(8,543)	4,913	2,295
Total Increase in Revenue	1,547,999	3,949,832	(5,695,574)	3,275,481	1,529,739
Retail Revenue Before Increase					
Per Books	43,206,967	4,607,206	15,629,147	4,114,354	24,350,707
Pro Forma Adjustments	4,110,764	26,921	2,205,551	46,864	2,279,336
Total Retail Revenue Before Increase	47,317,731	4,634,127	17,834,698	4,161,218	26,630,043
Total Cost of Service Required from Rates	48,865,730	8,583,959	12,139,124	7,436,699	28,159,782
Less Cost of Gas	31,574,240	4,634,128	11,776,107	0	16,410,235
Net Distribution Cost of Service	17,291,490	3,949,831	363,017	7,436,699	11,749,547
Pro Forma Rate of Return	5.54%	-14.815%	447.382%	-8.129%	4.150%
Proforma Billing Units					
Dk	7,917,339	3,532,536	3,532,536	3,532,536	
Demand					
Bills	657,216			576,852	
Unit Cost of Service					
Energy cost per Dk			\$0.103		
Demand cost per DK		\$1.118			
Customer Cost Per Month				\$12.89	

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
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	Total South Dakota	Small Firm General			Total Small Firm General	Large Firm General			Total Large Firm General
		Demand	Energy	Customer		Demand	Energy	Customer	
Rate Base	37,878,986	2,313,421	161,539	1,297,823	3,772,783	5,548,198	579,310	2,655,315	8,782,823
Adjustments to Rate Base	1,290,609	(38,087)	(11,200)	158,462	109,175	(103,066)	(40,167)	64,708	(78,525)
Pro Forma Rate Base	39,169,595	2,275,334	150,339	1,456,285	3,881,958	5,445,132	539,143	2,720,023	8,704,298
Operating Income for Proposed Return	3,173,129	184,325	12,179	117,974	314,478	441,110	43,676	220,349	705,135
Current Operating Income	2,896,744	(280,807)	(316,994)	26,973	(570,828)	(747,443)	2,807,353	(118,292)	1,941,618
Adjustment to Operating Income	(728,305)	(54,525)	874,247	(48,306)	771,416	(145,026)	(832,769)	(57,598)	(1,035,393)
Required Increase in Operating Income	1,004,690	519,657	(545,074)	139,307	113,890	1,333,579	(1,930,908)	396,239	(201,090)
Related Taxes for Increase									
Federal Income	540,987	279,815	(293,501)	75,011	61,325	718,081	(1,039,719)	213,359	(108,279)
Revenue Tax	2,322	1,201	(1,260)	322	263	3,082	(4,463)	916	(465)
Total Increase in Revenue	1,547,999	800,673	(839,835)	214,640	175,478	2,054,742	(2,975,090)	610,514	(309,834)
Retail Revenue Before Increase									
Per Books	43,206,967	911,880	2,412,270	589,330	3,913,480	2,452,634	9,902,719	424,969	12,780,322
Pro Forma Adjustments	4,110,764	5,328	507,424	6,271	519,023	14,332	1,349,547	4,209	1,368,088
Total Retail Revenue Before Increase	47,317,731	917,208	2,919,694	595,601	4,432,503	2,466,966	11,252,266	429,178	14,148,410
Total Cost of Service Required from Rates	48,865,730	1,717,881	2,079,859	810,241	4,607,981	4,521,708	8,277,176	1,039,692	13,838,576
Less Cost of Gas	31,574,240	917,208	2,014,585	0	2,931,793	2,466,966	8,046,933	0	10,513,899
Net Distribution Cost of Service	17,291,490	800,673	65,274	810,241	1,676,188	2,054,742	230,243	1,039,692	3,324,677
Pro Forma Rate of Return	5.54%	-14.738%	370.664%	-1.465%	5.167%	-16.390%	366.245%	-6.466%	10.411%
Proforma Billing Units									
Dk	7,917,339	631,110	631,110	631,110		2,263,266	2,263,266	2,263,266	
Demand									
Bills	657,216			58,932				20,916	
Unit Cost of Service									
Energy cost per Dk			\$0.103				\$0.102		
Demand cost per DK		\$1.269				\$0.908			
Customer Cost Per Month				\$13.75				\$49.71	

**MONTANA-DAKOTA UTILITIES CO.
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	Total South Dakota	Air Force			Total Air Force
		Demand	Energy	Customer	
Rate Base	37,878,986	282,999	81,835	15,097	379,931
Adjustments to Rate Base	1,290,609	(4,625)	(5,673)	93	(10,205)
Pro Forma Rate Base	39,169,595	278,374	76,162	15,190	369,726
Operating Income for Proposed Return	3,173,129	22,551	6,170	1,231	29,952
Current Operating Income	2,896,744	(24,635)	(3,713)	(1,116)	(29,464)
Adjustment to Operating Income	(728,305)	(6,579)	1,272	(284)	(5,591)
Required Increase in Operating Income	1,004,690	53,765	8,611	2,631	65,007
Related Taxes for Increase					
Federal Income	540,987	28,951	4,637	1,417	35,005
Revenue Tax	2,322	124	20	6	150
Total Increase in Revenue	1,547,999	82,840	13,268	4,054	100,162
Retail Revenue Before Increase					
Per Books	43,206,967	134,594	1,025,735	1,133	1,161,462
Pro Forma Adjustments	4,110,764	786	10,637	7	11,430
Total Retail Revenue Before Increase	47,317,731	135,380	1,036,372	1,140	1,172,892
Total Cost of Service Required from Rates	48,865,730	218,220	1,049,640	5,194	1,273,054
Less Cost of Gas	31,574,240	135,380	1,016,558	0	1,151,938
Net Distribution Cost of Service	17,291,490	82,840	33,082	5,194	121,116
Pro Forma Rate of Return	5.54%	-11.213%	-3.205%	-9.217%	-9.481%
Proforma Billing Units					
Dk	7,917,339	319,714	319,714	319,714	
Demand					
Bills	657,216			12	
Unit Cost of Service					
Energy cost per Dk			\$0.103		
Demand cost per DK		\$0.259			
Customer Cost Per Month				\$432.83	

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
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	Total South Dakota	Small Interruptible			Total Small Interruptible	Large Interruptible			Total Large Interruptible
		Demand	Energy	Customer		Demand	Energy	Customer	
Rate Base	37,878,986	243,853	21,989	158,029	423,871	583,506	18,244	83,252	685,002
Adjustments to Rate Base	1,290,609	(7,030)	(1,525)	1,605	(6,950)	(14,739)	(1,265)	673	(15,331)
Pro Forma Rate Base	39,169,595	236,823	20,464	159,634	416,921	568,767	16,979	83,925	669,671
Operating Income for Proposed Return	3,173,129	19,185	1,658	12,932	33,775	46,076	1,375	6,799	54,250
Current Operating Income	2,896,744	(30,167)	139,909	1,724	111,466	(71,176)	111,641	8,276	48,741
Adjustment to Operating Income	(728,305)	(6,146)	(50,376)	(3,011)	(59,533)	(14,665)	(30,505)	(1,523)	(46,693)
Required Increase in Operating Income	1,004,690	55,498	(87,875)	14,219	(18,158)	131,917	(79,761)	46	52,202
Related Taxes for Increase									
Federal Income	540,987	29,884	(47,317)	7,656	(9,777)	71,032	(42,949)	25	28,108
Revenue Tax	2,322	128	(203)	33	(42)	305	(184)	0	121
Total Increase in Revenue	1,547,999	85,510	(135,395)	21,908	(27,977)	203,254	(122,894)	71	80,431
Retail Revenue Before Increase									
Per Books	43,206,967	27,922	467,780	33,703	529,405	25,091	417,569	28,931	471,591
Pro Forma Adjustments	4,110,764	163	(34,048)	197	(33,688)	147	(33,741)	169	(33,425)
Total Retail Revenue Before Increase	47,317,731	28,085	433,732	33,900	495,717	25,238	383,828	29,100	438,166
Total Cost of Service Required from Rates	48,865,730	113,595	298,337	55,808	467,740	228,492	260,934	29,171	518,597
Less Cost of Gas	31,574,240	28,085	281,470	0	309,555	25,238	231,582	0	256,820
Net Distribution Cost of Service	17,291,490	85,510	16,867	55,808	158,185	203,254	29,352	29,171	261,777
Pro Forma Rate of Return	5.54%	-15.335%	437.515%	-0.806%	12.455%	-15.092%	477.861%	8.046%	0.306%
Proforma Billing Units									
Dk	7,917,339	356,550	356,550	356,550		814,163	814,163	814,163	
Demand Bills	657,216			372				132	
Unit Cost of Service									
Energy cost per Dk			\$0.047				\$0.036		
Demand cost per DK		\$0.240				\$0.250			
Customer Cost Per Month				\$150.02				\$220.99	

MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
Embedded Class Cost of Service Study
Summary Report
Twelve Months Ended June 30, 2012
Pro Forma

Operating Income and Rate of Return	Total	Total	Total	Total	Total	Total	
	South Dakota	Residential	Small Firm General	Large Firm General	Air Force	Small Interruptible	Large Interruptible
Sales Revenues	43,206,967	24,350,707	3,913,480	12,780,322	1,161,462	529,405	471,591
Adjustments to Sales Revenues	4,110,764	2,279,336	519,023	1,368,088	11,430	(33,688)	(33,425)
Total Sales Revenues	47,317,731	26,630,043	4,432,503	14,148,410	1,172,892	495,717	438,166
Other Revenues	376,797	236,636	34,966	77,653	18,164	3,575	5,803
Adjustments to Other Revenues	(37,558)	(23,898)	(3,768)	(8,528)	(309)	(376)	(679)
Total Other Revenues	339,239	212,738	31,198	69,125	17,855	3,199	5,124
Total Operating Revenues	47,656,970	26,842,781	4,463,701	14,217,535	1,190,747	498,916	443,290
Operating Expense							
Cost of Gas	28,093,760	14,780,246	3,770,631	7,887,562	1,143,978	266,617	244,726
Adj. to Cost of Gas	3,480,480	1,629,989	(838,838)	2,626,337	7,960	42,938	12,094
Total Cost of Gas	31,574,240	16,410,235	2,931,793	10,513,899	1,151,938	309,555	256,820
Other O&M Expense	8,291,827	5,774,364	784,987	1,478,231	63,785	72,291	118,169
Adjustments to Other O&M	302,718	203,667	29,054	59,526	2,404	2,980	5,087
Total Other O&M Expense	8,594,545	5,978,031	814,041	1,537,757	66,189	75,271	123,256
Total Operation & Maintenance Expense	40,168,785	22,388,266	3,745,834	12,051,656	1,218,127	384,826	380,076
Depreciation Expense	2,544,662	1,717,587	251,213	498,504	19,329	21,607	36,422
Adjustment to Depreciation Expense	1,245,461	859,344	122,008	228,735	7,953	9,855	17,566
Total Depreciation Expense	3,790,123	2,576,931	373,221	727,239	27,282	31,462	53,988
Taxes Other Than Income Taxes	1,016,466	655,052	99,180	225,071	11,235	9,896	16,032
Adjustment to Taxes Other Than Income	53,388	35,950	5,288	10,412	284	501	953
Total Taxes Other Than Income	1,069,854	691,002	104,468	235,483	11,519	10,397	16,985
Current Income Taxes - Fed. & State	(3,034,532)	(2,064,228)	(757,125)	(99,807)	(66,592)	8,738	(55,518)
Adjustment to Current Income Taxes	76,212	87,963	460,449	(432,023)	2,268	(26,145)	(16,300)
Total Current Income Taxes	(2,958,320)	(1,976,265)	(296,676)	(531,830)	(64,324)	(17,407)	(71,818)

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Operating Income and Rate of Return	Total South Dakota	Total Residential	Total Small Firm General	Total Large Firm General	Air Force	Total Small Interruptible	Total Large Interruptible
Deferred Income Taxes	3,774,837	2,329,111	370,388	926,796	37,355	42,365	68,822
Adjustment to Deferred Income Tax	(356,749)	(208,965)	(34,122)	(98,034)	(4,157)	(4,660)	(6,811)
Total Deferred Income Taxes	3,418,088	2,120,146	336,266	828,762	33,198	37,705	62,011
Total Operating Expenses	45,488,530	25,800,080	4,263,113	13,311,310	1,225,802	446,983	441,242
Pro Forma Operating Income	2,168,440	1,042,701	200,588	906,225	(35,055)	51,933	2,048
Rate Base	37,878,986	23,834,576	3,772,783	8,782,823	379,931	423,871	685,002
Adjustment to Rate Base	1,290,609	1,292,445	109,175	(78,525)	(10,205)	(6,950)	(15,331)
Total Pro Forma Rate Base	39,169,595	25,127,021	3,881,958	8,704,298	369,726	416,921	669,671
Pro Forma Rate of Return	5.536%	4.150%	5.167%	10.411%	-9.481%	12.456%	0.306%