

MONTANA-DAKOTA UTILITIES CO.
SUMMARY OF ADJUSTMENTS TO PER BOOKS TAXABLE INCOME
ELECTRIC UTILITY - SOUTH DAKOTA
FOR THE TWELVE MONTHS ENDING JUNE 30, 2012

<u>Operating Income</u>	<u>Adjustment No.</u>	<u>Pro Forma Adjustment</u>	<u>Reference</u>
<u>Current Income Taxes</u>			
Interest Expense Annualization 1/	21	(\$239,607)	Statement K, Page 8
Tax Depreciation on Plant Additions 1/	22	1,387,128	Statement K, Page 9
Other Tax Deductions 1/	23	1,400	Statement K, Page 10
Total Adjustment to Taxable Income		<u>\$1,148,921</u>	
Income Taxes on Pro Forma Adjustments	24	(755,217)	Statement K, Page 11
Elimination of Closing/Filing and prior-period	25	831,430	Statement K, Page 12
Total Adjustment to Current Income Taxes		<u>\$76,213</u>	
<u>Deferred Income Taxes</u>			
Elimination of Closing/Filing and prior-period	25	(853,613)	Statement K, Page 12
Deferred Income Taxes on Plant Additions	22	485,496	Statement K, Page 9
Other Tax Deductions	23	11,368	Statement K, Page 10
Total Adjustment to Deferred Income Taxes		<u>(\$356,749)</u>	
<u>Rate Base</u>			
Accumulated Deferred Income Taxes -			
Plant Additions and Normalization	I&J	1,036,839	Statement K, Page 18
Deferred FAS 106 costs	F	(4,165)	Statement K, Page 18
Unamortized Loss on debt	E	(6,733)	Statement K, Page 18
Total Adjustment to Current Income Taxes		<u>\$1,025,941</u>	

1/ Amount is shown before income tax effect.

MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
TAX DEDUCTIONS
TWELVE MONTHS ENDING JUNE 30, 2012

	Utility			Non-Utility	Total Company
	Gas	Electric	Total		
Operating Revenue	\$204,127,564	\$227,484,434	\$431,611,998		\$431,611,998
Non-Utility Income (before income taxes)				\$4,622,688	4,622,688
Total Revenue	\$204,127,564	\$227,484,434	\$431,611,998	\$4,622,688	\$436,234,686
Operating Expense:					
O&M Expense	176,331,135	\$137,469,733	313,800,868		313,800,868
Depreciation Expense	9,968,311	31,966,837	41,935,148		41,935,148
Taxes Other than Income	6,205,359	9,736,057	15,941,416		15,941,416
Total Operating Expense	192,504,805	179,172,627	371,677,432		371,677,432
Operating Income	11,622,759	48,311,807	59,934,566	4,622,688	64,557,254
Interest Expense/Other Inc. & Deduct.	4,388,365	12,823,421	17,211,786		17,211,786
Book Taxable Income before Adjustments	7,234,394	35,488,386	42,722,780	4,622,688	47,345,468
Deductions and Adjustments to Book Income:					
Tax Deductions 1/	(16,111,212)	(18,105,318)	(34,216,530)	(2,731,930)	(36,948,460)
Preferred Dividend Paid Deduction	(47,593)	(129,009)	(176,602)		(176,602)
Total Deductions and Adjustments	(16,158,805)	(18,234,327)	(34,393,132)	(2,731,930)	(37,125,062)
Taxable Income - Before State Income Tax	(8,924,411)	17,254,059	8,329,648	1,890,758	10,220,406
Less: Deductible State Income Taxes	(544,650)	515,078	(29,572)	102,637	73,065
Federal Taxable Income	(8,379,761)	16,738,981	8,359,220	1,788,121	10,147,341
Federal Income Taxes @ 35%	(2,932,918)	5,858,641	2,925,727	625,843	3,551,570
Credits and Adjustments	(6,789)	(3,824,623)	(3,831,412)	(11,170)	(3,842,582)
State Income Taxes	(544,650)	515,078	(29,572)	102,637	73,065
Federal and State Income Taxes	(3,484,357)	2,549,096	(935,257)	717,310	(217,947)
Closing and Prior Year's Adjustment	(3,886,938)	(7,497,418)	(11,384,356)	(42,824)	(11,427,180)
Total Federal and State Income Taxes	<u>(\$7,371,295)</u>	<u>(\$4,948,322)</u>	<u>(\$12,319,613)</u>	<u>\$674,486</u>	<u>(\$11,645,127)</u>

1/ See pages 2 - 3.

MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
TAX DEDUCTIONS
TWELVE MONTHS ENDING JUNE 30, 2012

	Gas	Utility Electric	Total	Non-Utility	Total Company
<u>1900 Account M-1's</u>					
Pension Expense	\$10,254,435	\$8,815,317	\$19,069,752		\$19,069,752
Accrued Vacation	31,009	25,360	56,369		56,369
Property Insurance Adjustment	(143,936)	(213,458)	(357,394)		(357,394)
Bad Debt Expense	(1,393)	12,874	11,481	(5,839)	5,642
Management Incentive Compensation	(45,007)	(116,191)	(161,198)		(161,198)
Sundry Reserves	(13,254)	(36,331)	(49,585)		(49,585)
Customer Advances	1,833,550	1,457,121	3,290,671		3,290,671
Restricted Stock Bonus Plan	(231,830)	(344,179)	(576,009)		(576,009)
Capitalized Overheads	64,557		64,557		64,557
Supplemental Income Security Plan	120,929	179,532	300,461	431,165	731,626
Contributions In Aid of Construction				(72,730)	(72,730)
FAS 106 - OPRB	4,789,447	5,810,547	10,599,994	1,106,193	11,706,187
Prepaid Demand Charges	14,373		14,373		14,373
Deferred Compensation - Directors	(75,593)	(112,228)	(187,821)		(187,821)
Board of Directors - Retirement Benefits	(31,028)	(44,204)	(75,232)		(75,232)
PCB Related Income	(12,991)		(12,991)		(12,991)
Reserved Revenues		640,000	640,000		640,000
Contingency Reserve	(5,246,199)		(5,246,199)	378,205	(4,867,994)
FAS 158 Post Retirement	(4,593,957)	(5,573,379)	(10,167,336)	(1,061,041)	(11,228,377)
WAPA Fiber Demand Revenue		(49,315)	(49,315)		(49,315)
Bonus Accrual & 401 K Profit Sharing	631,147	864,564	1,495,711		1,495,711
<u>2820 Account M-1's</u>					
Liberalized Depreciation and Other					
Property Timing Differences	(7,625,319)	(22,364,744)	(29,990,063)	(258,972)	(30,249,035)
Contributions In Aid of Construction	(163,488)	(601,937)	(765,425)		(765,425)
Acquisition Adjustments	1,413		1,413		1,413
Montana Net Negative Salvage		331,246	331,246		331,246

MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
TAX DEDUCTIONS
TWELVE MONTHS ENDING JUNE 30, 2012

	Utility			Non-Utility	Total Company
	Gas	Electric	Total		
<u>2830 Account M-1's</u>					
Unrecovered Purchased Gas Cost	713,549✓		713,549✓		713,549
Rate Case Expense	3,455	326,854	330,309		330,309
Amort of Loss on Bond Retirements	156,366	551,643✓	708,009✓		708,009
FAS 106 - Deferred Expense	54,531		54,531✓		54,531
Margin Sharing Adjustment (MSA)		3,156,806	3,156,806		3,156,806
F&PP Deferral		(336,352)	(336,352)		(336,352)
FAS 158 Pension	(16,616,628)	(13,595,423)✓	(30,212,051)✓		(30,212,051)
Regulatory Assets Awaiting Recovery	408,510	(105)	408,405		408,405
Big Stone II Cost Recovery		3,266,216	3,266,216		3,266,216
<u>Permanent M-1's</u>					
Preferred Stock Expense Amortization	5,968	16,509	22,477		22,477
Disallowed Meals and Entertainment	54,484	75,070	129,554	6,731	136,285
Lobbying Expense				45,633	45,633
Federal Nonhwy Use Tax Credit	(22,054)	(26,183)	(48,237)		(48,237)
Qualified Production Activity Deduction				(1,590)	(1,590)
SISP	(150,756)	(268,589)	(419,345)	(477,000)✓	(896,345)
SISP - Unrealized Gain/Loss	692,499	976,637	1,669,136✓	(791,717)✓	877,419
Medicare Part D Subsidiary	(283,662)	(221,010)	(504,672)		(504,672)
401(k) Dividend Deduction	(675,516)	(694,887)	(1,370,403)	(2,030,968)	(3,401,371)
Dividend Received Deduction	(8,823)	(13,099)	(21,922)		(21,922)
Total M-1 Deductions	<u>(\$16,111,212)</u>	<u>(\$18,105,318)✓</u>	<u>(\$34,216,530)✓</u>	<u>(\$2,731,930)</u>	<u>(\$36,948,460)</u>

**MONTANA DAKOTA UTILITIES CO.
COMPUTATION OF INCOME TAX LIABILITY AND TAX SAVINGS
BASED ON MDU RESOURCES GROUP, INC. 2011
CONSOLIDATED FEDERAL INCOME TAX RETURN**

	<u>Montana-Dakota Utilities Co.</u>	<u>MDU Resources Group, Inc. 1/</u>
Net Taxable Income (Loss)	<u>(\$63,619,275)</u>	<u>\$4,606,305</u>
Federal Income Tax:		
Statutory Taxes @ 34%	\$0	\$1,566,144
Less Credits:		
Foreign Tax Credit		1,566,144
General Business Credit	<u>0</u>	<u>0</u>
Total Tax	<u>\$0</u>	<u>(\$0)</u>
Tax Savings Arising From Consolidation	<u>\$0</u>	

Montana Dakota Utilities Co. is a member of a group that files a consolidated Federal Income Tax Return. There are no tax savings available to Montana-Dakota Utilities Co. as a result of being included in a consolidated tax return during the test period.

1/ Reflects MDU Resources Group, Inc. and includible subsidiaries.

MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
GAS UTILITY - SOUTH DAKOTA
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

	Black Hills	East River	Total South Dakota
Operating Revenue	\$37,261,716	\$6,322,048	\$43,583,764
Operating Expense:			
O&M Expense	31,455,817	4,929,770	36,385,587
Depreciation Expense	2,042,284	502,378	2,544,662
Taxes Other than Income	829,751	186,715	1,016,466
Total Operating Expense	34,327,852	5,618,863	39,946,715
Operating Income	2,933,864	703,185	3,637,049
Interest Expense	1,051,533	238,603	1,290,136
Book Taxable Income before Adjustments	1,882,331	464,582	2,346,913
Deductions and Adjustments to Book Income:			
Tax Deductions 1/	2,624,528	5,974,169	8,598,697
Preferred Dividend Paid Deduction	11,562	2,724	14,286
Total Deductions and Adjustments	2,636,090	5,976,893	8,612,983
Taxable Income - Before State Income Tax	(753,759)	(5,512,311)	(6,266,070)
Less: State Income Taxes			
Federal Taxable Income	(753,759)	(5,512,311)	(6,266,070)
Federal Income Taxes @ 35%	(263,816)	(1,929,309)	(2,193,125)
Credits and Adjustments	(8,075)	(1,902)	(9,977)
State Income Taxes			
Federal and State Income Taxes	(271,891)	(1,931,211)	(2,203,102)
Closing/Filing and Prior Period Adjustment	(677,160)	(154,270)	(831,430)
Total Federal and State Income Taxes	<u>(\$949,051)</u>	<u>(\$2,085,481)</u>	<u>(\$3,034,532)</u>

1/ See page 7.

MONTANA-DAKOTA UTILITIES CO.
CALCULATION OF RECORDED STATE AND FEDERAL INCOME TAXES
GAS UTILITY - SOUTH DAKOTA
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

	Black Hills	East River	Total South Dakota
<u>1900 Account M-1's</u>			
Pension Expense	(\$2,023,389)	(\$390,611)	(\$2,414,000)
Accrued Vacation	(6,023)	(1,160)	(7,183)
Property Insurance Adjustment	31,640	7,005	38,645
Bad Debt Expense	(3,544)	1,022	(2,522)
Management Incentive Compensation	8,742	1,684	10,426
Sundry Reserves	3,254	666	3,920
Customer Advances	(22,687)	(25,959)	(48,646)
Restricted Stock Bonus Plan	45,028	8,676	53,704
Capitalized Overheads	(12,537)	(2,415)	(14,952)
Supplemental Income Security Plan	(26,583)	(5,887)	(32,470)
FAS 106 - OPRB	(930,246)	(179,233)	(1,109,479)
Demand Charges	(3,180)	(883)	(4,063)
Deferred Compensation-Directors	14,682	2,829	17,511
Board of Director - Retirement Benefits	5,914	1,137	7,051
PCB Related Income	3,002	5,342,863	5,345,865
FAS 158 Post Retirement	892,276	171,917	1,064,193
Bonus Accrual & 401K Profit Sharing	(137,436)	(34,227)	(171,663)
<u>2820 Account M-1's</u>			
Liberalized Depreciation and Other			
Property Timing Differences	\$1,785,126	\$501,956	\$2,287,082
Property Timing Differences - Common	(19,144)	(4,526)	(23,670)
Contributions in Aid of Construction	19,459	2,169	21,628
<u>2830 Account M-1's</u>			
Unrecovered Purchased Gas Cost Adjustment	(\$248,022)	(\$46,965)	(\$294,987)
Amortization of Loss on Bond Retirements	(37,896)	(3,470)	(41,366)
FAS 106 - Deferred Expense	(15,863)	(8,784)	(24,647)
FAS 158 Pension	3,227,417	621,834	3,849,251
<u>Permanent M-1's</u>			
Preferred Stock Expense Amortization	(\$1,451)	(\$337)	(\$1,788)
Meals & Entertainment	(10,253)	(1,984)	(12,237)
Federal Nonhwy Use Tax Credit	4,320	828	5,148
Supplemental Income Security Plan	29,267	5,666	34,933
Supplemental Income Security Plan - Unrealized Gain/Loss	(134,519)	(25,887)	(160,406)
Medicare Part D Subsidiary	54,340	10,492	64,832
401(K) Dividend Deduction	131,120	25,423	156,543
Dividend Received Deduction	1,714	330	2,044
Total M-1 Deductions	<u>\$2,624,528</u>	<u>\$5,974,169</u>	<u>\$8,598,697</u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
ADJUSTMENT FOR INTEREST EXPENSE ANNUALIZATION
ADJUSTMENT NO. 21**

	<u>Per Books</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma</u>
Rate Base 1/	\$37,878,986	\$1,290,609	\$39,169,595
Weighted Cost of Debt 2/			2.682%
Interest Expense - Pro Forma			\$1,050,529
Interest Charges as Recorded 3/			<u>1,290,136</u>
Interest Expense Annualization Adjustment			<u><u>(\$239,607)</u></u>

1/ Rule 20:10:13:96, Statement M, page 6.

2/ Rule 20:10:13:72, Statement G, page 1, Long and Short Term Debt.

3/ Reflects long and short term interest and amortization of loss on debt.

**MONTANA-DAKOTA UTILITIES CO.
 DEFERRED INCOME TAX ON PLANT ADDITIONS
 GAS UTILITY - SOUTH DAKOTA
 FOR THE TWELVE MONTHS ENDING JUNE 30, 2012
 ADJUSTMENT NO. 22**

	<u>Total South Dakota</u>
<u>Tax Depreciation Deduction</u>	
Tax Depreciation 1/	\$1,566,426
Book Depreciation 2/	<u>179,298</u>
Net Tax Depreciation on Plant Additions	<u><u>\$1,387,128</u></u>
 <u>Deferred Income Taxes on Plant Additions</u>	
- Current	<u><u>\$485,496</u></u>

1/ See Rule 20:10:13:88, Statement K, page 19. ✓

2/ Includes depreciation on accounts charged to clearing accounts.

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
OTHER TAX DEDUCTIONS
TWELVE MONTHS ENDED JUNE 30, 2012
ADJUSTMENT NO. 23**

	<u>Pro Forma Adjustment</u>
<u>Account 1900 Other Tax Deductions</u>	
Supplemental Income Security Plan	\$32,470 ✓
<u>Permanent Deduction</u>	
Supplemental Income Security Plan	(34,933)
Unamortized Gain on SISP	160,406
Adjustment to eliminate 401(k) Dividend Deduction	<u>(156,543)</u>
 Total tax deductions	 <u><u>\$1,400</u></u> ✓
 <u>Deferred Income Taxes</u>	
Supplemental Income Security Plan	 <u><u>\$11,368</u></u>

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
CALCULATION OF ADJUSTMENT TO
CURRENT INCOME TAXES
ADJUSTMENT NO. 24**

	<u>Pro Forma Adjustments</u>
Operating Revenues	
Sales Revenues	\$4,158,335
Transportation Revenues	(47,571)
Other Revenues	<u>(37,558)</u>
Total Operating Revenues	4,073,206
Operating Expenses	
Operation and Maintenance	
Cost of Gas	\$3,480,480
Other O&M	<u>302,718</u>
Total O&M	3,783,198
Depreciation Expense	1,245,461
Taxes other Than Income	<u>53,388</u>
Total Operating Expenses	\$5,082,047
Gross Adjustments to Operating Income	(1,008,841)
Deductions and Adjustments to Book Income:	
Interest Annualization 1/	(239,607)
Tax Depreciation on Plant Additions 2/	1,387,128
Other Tax Deductions 3/	<u>1,400</u>
Total Adjustments to Taxable Income	1,148,921
Taxable Income	(2,157,762)
Federal Income Taxes @ 35%	<u><u>(\$755,217)</u></u>

1/ Rule 20:10:13:88, Statement K, page 8.

2/ Rule 20:10:13:88, Statement K, page 9.

3/ Rule 20:10:13:88, Statement K, page 10.

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - SOUTH DAKOTA
ADJUSTMENT TO CURRENT AND DEFERRED INCOME TAXES
FOR ROUNDING AND PRIOR YEAR'S AND CLOSING/FILING
TWELVE MONTHS ENDED JUNE 30, 2012
ADJUSTMENT NO. 25**

	<u>South Dakota</u>
Adjustment to Current Federal Income Taxes to Eliminate Closing/Filing and Prior Period Adjustments	<u><u>\$831,430</u></u>
Adjustment to Deferred Income Taxes to Eliminate Closing/Filing and Prior Period Adjustments	<u><u>(\$853,613)</u></u>

MONTANA-DAKOTA UTILITIES CO./GREAT PLAINS NATURAL GAS CO.
ACCUMULATED DEFERRED INCOME TAXES
FOR THE 12 MONTHS ENDED JUNE 30, 2012

Docket No. _____
Rule 20:10:13:88
Statement K
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	<u>Total Company</u>	<u>Electric</u>	<u>Gas</u>	<u>Other</u>	<u>Non-Utility</u>
<u>Account 190:</u>					
July 2011	(56,341,727)	(12,906,408)	(15,611,151)	(27,186,063)	(638,105)
August	(55,020,795)	(12,691,345)	(14,496,868)	(27,194,477)	(638,105)
September	(54,447,225)	(12,806,208)	(13,799,732)	(27,203,180)	(638,105)
October	(53,948,746)	(12,699,303)	(13,405,206)	(27,206,132)	(638,105)
November	(54,343,179)	(12,657,272)	(13,913,944)	(27,261,348)	(510,615)
December	(65,712,445)	(17,889,799)	(19,460,096)	(27,720,226)	(642,324)
January	(67,270,453)	(17,871,599)	(20,787,713)	(27,968,817)	(642,324)
February	(68,186,408)	(17,963,818)	(21,620,618)	(27,959,648)	(642,324)
March	(66,410,332)	(17,062,628)	(20,885,783)	(27,819,597)	(642,324)
April	(65,608,258)	(16,793,650)	(20,349,268)	(27,823,016)	(642,324)
May	(65,315,547)	(16,796,390)	(20,169,450)	(27,707,383)	(642,324)
June 2012	(65,093,706)	(16,820,488)	(19,316,058)	(12,877,781)	(16,079,379)
<u>Account 282: (Other Property)</u>					
July 2011	144,883,149	113,384,710	23,300,594	7,250,123	947,722
August	148,114,575	115,691,608	24,057,999	7,417,246	947,722
September	151,362,747	117,999,630	24,812,523	7,602,872	947,722
October	154,583,436	120,308,492	25,559,664	7,767,558	947,722
November	170,303,854	129,652,454	29,871,238	9,794,944	985,218
December	156,332,240	119,284,785	27,087,213	8,889,730	1,070,512
January	158,062,487	120,540,938	27,393,462	9,057,575	1,070,512
February	159,796,195	121,797,918	27,707,071	9,220,694	1,070,512
March	161,532,099	123,056,316	28,025,631	9,379,640	1,070,512
April	163,272,902	124,316,461	28,353,589	9,532,340	1,070,512
May	165,020,773	125,576,270	28,688,626	9,685,365	1,070,512
June 2012	166,777,563	126,835,704	29,027,636	9,843,711	1,070,512
<u>Account 283: (Other)</u>					
July 2011	36,511,595	6,369,161	978,437	29,168,670	(4,673)
August	36,897,217	6,436,479	1,284,373	29,181,038	(4,673)
September	36,786,702	6,375,095	1,212,523	29,203,757	(4,673)
October	36,562,507	6,008,303	1,349,389	29,209,488	(4,673)
November	35,620,525	5,149,103	1,232,718	29,218,268	20,436
December	47,129,487	5,038,799	1,297,786	40,772,466	20,436
January	46,185,824	4,654,673	735,521	40,775,194	20,436
February	45,741,913	4,315,372	626,044	40,780,061	20,436
March	45,368,957	3,924,114	638,121	40,786,286	20,436
April	45,216,044	3,708,302	691,767	40,795,539	20,436
May	45,036,404	3,458,707	748,100	40,809,161	20,436
June 2012	45,009,448	3,324,985	835,731	40,828,296	20,436
<u>Total Company</u>					
July 2011	125,053,017	106,847,463	8,667,880	9,232,730	304,944
August	129,990,997	109,436,742	10,845,504	9,403,807	304,944
September	133,702,224	111,568,517	12,225,314	9,603,449	304,944
October	137,197,197	113,617,492	13,503,847	9,770,914	304,944
November	151,581,200	122,144,285	17,190,012	11,751,864	495,039
December	137,749,282	106,433,785	8,924,903	21,941,970	448,624
January	136,977,858	107,324,012	7,341,270	21,863,952	448,624
February	137,351,700	108,149,472	6,712,497	22,041,107	448,624
March	140,490,724	109,917,802	7,777,969	22,346,329	448,624
April	142,880,688	111,231,113	8,696,088	22,504,863	448,624
May	144,741,630	112,238,587	9,267,276	22,787,143	448,624
June 2012	146,693,305	113,340,201	10,547,309	37,794,226	(14,988,431)

MONTANA-DAKOTA UTILITIES CO.
DEFERRED INCOME TAXES
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012
GAS UTILITY - SOUTH DAKOTA

	<u>East River</u>	<u>Black Hills</u>	<u>South Dakota</u>
<u>Gas Utility - Rate Base Deductions:</u>			
Depreciation, Retirements and Other Timing			
Differences Required to be Normalized	\$174,101	\$560,950	\$735,051
Customer Advances	(9,086)	(7,941)	(17,027)
Demand Charges	(310)	(1,113)	(1,423)
Contributions in Aid of Construction	759	6,811	7,570
Amortization of Loss on Bond Retirements	(3,779)	(13,801)	(17,580)
FAS 106 - Deferred Expense	1,310	(1,903)	(593)
Total Rate Base Deductions	<u>\$162,995</u>	<u>\$543,003</u>	<u>\$705,998</u>
<u>Gas Utility - Timing Differences:</u>			
Pension Expense	(\$136,714)	(\$708,185)	(\$844,899)
Accrued Vacation	(406)	(2,108)	(2,514)
Property Insurance Adjustment	2,452	11,074	13,526
Bad Debt Expense	358	(1,240)	(882)
Management Incentive Compensation	589	3,059	3,648
Sundry Reserves	233	1,139	1,372
Restricted Stock Bonus Plan	3,036	15,760	18,796
Capitalized Overheads	(845)	(4,388)	(5,233)
Supplemental Income Security Plan	(2,062)	(9,306)	(11,368)
FAS 106 - OPRB	(62,731)	(325,586)	(388,317)
Deferred Compensation-Directors	990	5,139	6,129
Board of Director - Retirement Benefits	398	2,071	2,469
PCB Related Income	60,171	1,051	61,222
FAS 158 Post Retirement	(22,554)	312,297	289,743
FAS 158 Pension	217,642	1,129,596	1,347,238
Closing/Filing and Out of Period	158,113	695,500	853,613
Total Timing Differences	<u>\$218,670</u>	<u>\$1,125,873</u>	<u>\$1,344,543</u>
 Total Gas Utility	 <u>\$381,665</u>	 <u>\$1,668,876</u>	 <u>\$2,050,541</u>

**MONTANA-DAKOTA UTILITIES CO.
ANALYSIS OF ACCUMULATED DEFERRED INCOME TAXES
GAS UTILITY - SOUTH DAKOTA
JUNE 30, 2011 AND JUNE 30, 2012**

	<u>Total Company</u>		<u>Average Balance @ 6/30/2012</u>		<u>Total</u>
	<u>Balance</u>	<u>Balance</u>	<u>Black Hills</u>	<u>East River</u>	<u>South Dakota</u>
	<u>06/30/11</u>	<u>06/30/12</u>			
<u>Gas Utility - Rate Base Deductions:</u>					
Depreciation, Retirements and Other Timing Differences Required to be Normalized	\$23,546,912	\$30,525,985	\$5,346,284	\$1,296,639	\$6,642,923
Net Negative Salvage	370,213	370,213	0	0	0
Contributions In Aid of Construction	(1,046,820)	(564,375)	(43,746)	(6,620)	(50,366)
Customer Advances	(1,647,869)	(2,354,341)	(41,160)	(211,221)	(252,381)
Unamortized Loss on Debt	730,083	736,007	162,945	37,551	200,496
Deferred FAS 106	59,116	38,325	5,552	0	5,552
Prepaid Demand Charges	(18,970)	(19,345)	0	0	0
Full Normalization	2,564,340	2,189,350	566,244	0	566,244
Total Rate Base Deductions	<u>\$24,557,005</u>	<u>\$30,921,819</u>	<u>\$5,996,119</u>	<u>\$1,116,349</u>	<u>\$7,112,468</u>

MONTANA-DAKOTA UTILITIES CO.
ANALYSIS OF ACCUMULATED DEFERRED INCOME TAXES
GAS UTILITY - SOUTH DAKOTA
JUNE 30, 2011 AND JUNE 30, 2012

	<u>Total Company</u>	
	<u>Balance</u>	<u>Balance</u>
	<u>06/30/11</u>	<u>06/30/12</u>
<u>Gas Utility - Current Timing Differences:</u>		
Pension Expense	(\$10,519,438)	(\$14,407,014)
Management Incentive Compensation	(557,219)	(539,410)
Restricted Stock Bonus Plan	(972,246)	(883,688)
Uncollectable Accounts	(43,214)	(42,472)
Contingency Reserve	(1,990,931)	(154,761)
BOD Retirement	(240,448)	(228,597)
PCB Related Income	90,286	95,249
Capitalized Overheads	(508,364)	(535,344)
Prepaid Demand Charges (excluding MT)	(41,288)	(46,280)
Vacation Pay	(1,372,021)	(1,505,838)
Property Insurance	(139,954)	(87,542)
Sundry Reserves	(27,143)	(22,454)
SISP (incl. SISF OCI)	(6,848,025)	(1,348,629)
FAS 106	(664,229)	(2,327,306)
Deferred Compensation - Directors	(430,935)	(423,707)
FAS 158 Post Retirement	366,778	1,961,975
Bonus Accrual & 401 k Profit Sharing		(241,098)
Purchased Gas Adjustment	259,640	1
Rate Case Expense	13,149	11,940
FAS 158 Pension	13,085,883	20,493,440
Reg. Assets Awaiting Recovery (MGP sites)	348,130	191,467
	<u>(\$10,191,589)</u>	<u>(\$40,068)</u>
 Total Gas Utility	 <u>\$14,365,416</u>	 <u>\$30,881,751</u>

**MONTANA-DAKOTA UTILITIES CO.
ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAXES
TO REFLECT FULL NORMALIZATION
GAS UTILITY - SOUTH DAKOTA
FOR THE TWELVE MONTHS ENDING JUNE 30, 2012
ADJUSTMENT I**

	<u>Black Hills</u>	<u>East River</u>	<u>Total South Dakota</u>
Amortization of deferred taxes to reflect full normalization	<u>(\$57,144)</u>	<u>\$0</u>	<u>(\$57,144)</u>

**MONTANA-DAKOTA UTILITIES CO.
ACCUMULATED DEFERRED INCOME TAXES
GAS UTILITY - SOUTH DAKOTA
FOR THE TWELVE MONTHS ENDING JUNE 30, 2012**

	Balance @ 6/30/11	Balance @ 6/30/12	Average Balance @ 6/30/12	Adjustments	Pro Forma Balance @ 6/30/2013	Average Balance 6/30/2013	Pro Forma Adjustment	Adjustment
Liberalized Depreciation	\$5,793,914	\$7,491,931	\$6,642,922	\$485,496 1/	\$7,977,427	\$7,734,679	\$1,091,757	I
Full Normalization	594,816	537,672	566,244	(57,144) 2/	480,528	509,100	(57,144)	J
Contribution in Aid of Construction	(61,106)	(39,626)	(50,366)		(39,626)	(39,626)	10,740	I
Customer Advances	(243,867)	(260,894)	(252,380)		(260,894)	(260,894)	(8,514)	I
Deferred FAS 106	8,329	2,775	5,552	(2,775) 3/	0	1,387	(4,165)	F
Unamortized Loss on Debt	197,829	203,162	200,495	(18,800) 4/	184,362	193,762	(6,733)	E
Balance	<u>\$6,289,915</u>	<u>\$7,935,020</u>	<u>\$7,112,467</u>	<u>\$406,777</u>	<u>\$8,341,797</u>	<u>\$8,138,408</u>	<u>\$1,025,941</u>	

1/ Deferred taxes on plant additions. See page 19.

2/ See page 17.

3/ See Rule 20:10:13:69, Statement F, Schedule F-1, page 5.

4/ See Rule 20:10:13:69, Statement F, Schedule F-1, page 4.

**MONTANA-DAKOTA UTILITIES CO.
TAX DEPRECIATION ON PLANT ADDITIONS
GAS UTILITY - SOUTH DAKOTA
PRO FORMA**

	Total South Dakota								Deferred
	Plant Additions		Annual	Book Depr. 1/	Bonus Tax 2/	Tax 2/	Total Tax	Book/Tax	Income
Plant Additions	2012	2013	Depreciation	for Taxes	Depreciation	Depreciation	Depreciation	Difference	Taxes
Distribution	\$568,579	\$368,191	\$35,709	\$17,854	\$284,290	\$32,624	\$316,914	\$299,060	\$104,671
General									
Other	389,525	19,283	5,353	2,677	194,762	30,578	225,340	222,663	77,932
Structures & Improvement	315,125	0	10,903	5,451	0	10,005	10,005	4,554	1,594
Transportation	96,614	38,590	352	176	48,307	17,379	65,686	65,510	22,929
Total General	\$801,264	\$57,873	16,608	8,304	243,069	57,962	301,031	292,727	102,455
Common									
Other	145,336	48,721	16,902	8,451	72,668	17,342	90,010	81,559	28,546
Structures & Improvement	24,682	5,860	687	344	0	969	969	625	219
Computer Equip.	152,079	0	15,333	7,666	76,040	15,208	91,248	83,582	29,254
Transportation	16,159	11,634	1,142	571	8,080	3,943	12,023	11,452	4,008
Intangible	245,136	45,280	26,205	13,102	122,568	55,943	178,511	165,409	57,893
Intangible - CIS 3/	730,669	265,887	246,011	123,006	365,334	210,386	575,720	452,714	158,450
Total Common	\$1,314,061	\$377,382	306,280	153,140	644,690	303,791	948,481	795,341	278,370
Total Additions	\$2,683,904	\$803,446	\$358,597	\$179,298	\$1,172,049	\$394,377	\$1,566,426	\$1,387,128	\$485,496

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

2/ Tax depreciation rates are:

Production	14.286%
Distribution	5.000%
General & Common	14.286%
Structures & Improvements	3.175%
Transportation & Computer	20.000%
Intangible	33.330%
Bonus Depreciation - 2012	50.000%

3/ Tax depreciation has been taken as costs incurred for the CIS system through 2011. Tax depreciation is only calculated on the 2012 - June 2013 amount of \$996,556.