



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

July 1, 2008

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501

Re: Annual DSM and Renewable Programs Report Pursuant to the Order in
Docket EL05-022

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., hereby submits its report on the Company's ongoing Demand Side Management (DSM) and Renewable Programs in compliance with the South Dakota Public Utilities Commission Order in Docket No. EL05-22, dated July 21, 2006 in the Big Stone II Energy Conversion Facility Permitting case.

Sincerely,

Donald R. Ball
Vice President – Regulatory Affairs

**Montana-Dakota Utilities Co.
Demand Side Management (DSM) & Renewable Programs
Annual Report to the South Dakota Public Utilities Commission
Docket No. EL05-022
July 1, 2008 Update**

On July 21, 2005, Otter Tail Power Company (Otter Tail) filed with the South Dakota Public Utilities Commission an application for an Energy Conversion Facility Permit for the Construction of the Big Stone II Project on behalf of the Big Stone II Co-owners. On July 26, 2006, in Docket No. EL05-022, the Commission issued its Final Decision and Order granting the permit and also requiring Montana-Dakota Utilities Co. (Montana-Dakota) and Otter Tail to file annually, beginning July 1, 2007, a report on the ongoing DSM and renewable programs and a forecast of its near- and long-term initiatives to optimize the benefits related to demand-side management and renewable energy programs.

Montana-Dakota respectfully submits this report in compliance with the Commission's order.

Demand Side Management (DSM) Overview

Montana-Dakota, as part of the Company's integrated resource planning process, evaluates potential DSM programs that correlate with the Company's load shape along with existing and potential supply side resources in order to consider all resource options reasonably available to meet customers demand for reliable and cost effective electricity. A copy of Montana-Dakota's 2007 Integrated Resource Plan filed with the Montana Public Service Commission was submitted to the South Dakota Public Utilities Commission on May 15, 2007.

Based on the benefit/cost analysis completed as part of the 2007 IRP and the practicality of installation, nine programs were identified as beneficial DSM programs and were scheduled for implementation in 2008 and 2009. These nine programs are in addition to three existing programs that were implemented in 2006. The following table lists all twelve programs and their current implementation status:

Programs	Implementation Status
ENERGY STAR® partnership	Implemented 2006
ENERGY STAR® residential A/C	Implemented 2006
Commercial Lighting	Implemented 2006
ENERGY STAR® refrigerators	Implemented March 2008
ENERGY STAR® freezers	Implemented March 2008
LED exit signs	Implemented March 2008
Commercial High Efficiency A/C	Implement 3 rd Quarter 2008

High Efficiency Motors	Implement 3 rd Quarter 2008
IT Rate - Demand Response	MT Implemented June 2008
Refrigerator round-up	Pilot Implemented 2008
Residential A/C Cycling	Scheduled for 2009
Commercial A/C Cycling	Scheduled for 2009

All of the DSM programs are fully described in Montana-Dakota's 2007 IRP.

As shown in the above table Montana-Dakota expects to add incentives for commercial high efficiency air conditioning and high efficiency motors in July 2008. A pilot for the refrigerator round-up program will be implemented in Montana in August 2008 with implementation in North Dakota and South Dakota scheduled for 2009.

The air conditioning cycling program for residential and commercial customers is still planned for implementation in 2009. In late 2007, Montana-Dakota issued a Request for Proposals (RFP) for an air conditioning cycling program and received two responses. Montana-Dakota is in contract negotiations with one of the respondents for a turnkey solution with program implementation expected to begin in late 2008 or early 2009.

2007 DSM Program Activity

Montana-Dakota's DSM plan is based on implementing programs applicable to the integrated electric system which includes the states of South Dakota, North Dakota, and Montana. The following table contains the results of the direct impact (quantifiable) programs by state:

Programs	2007			
	Participants	Direct Expense	kW	Annual Savings kWh
Montana Commercial Lighting	9	\$25,777	65.1	162,500
North Dakota Commercial Lighting	37	86,051	426	1,469,676
South Dakota Commercial Lighting	3	2,046	10	22,238
Montana Residential A/C	-	-	-	-
North Dakota Residential A/C	37	7,400	28	22,598
South Dakota Residential A/C	-	-	-	-
Totals	86	\$121,274	528	1,677,012

Montana-Dakota continues to monitor program participation and make adjustments where necessary. In 2008 Montana-Dakota increased the incentive and minimum efficiency qualifications for the high efficiency air conditioning program in order to provide opportunity for increased participation on a cost effective basis. Montana-Dakota continues to utilize the dealer network, bill inserts and the Energy Center maintained on Montana-Dakota's internet site to provide customers with information regarding available programs.

Renewable Programs Overview

Wind Resources

Montana-Dakota completed the construction of a 20 MW wind farm near Baker, Montana in February 2008 and will install an additional 10 MW in 2014 as part of the 2005 Montana renewable legislation. Montana-Dakota has also issued a Request for Proposal for up to 10 MW of Community Based Renewable Energy Projects in Montana beginning in 2010 as part of the 2005 Montana renewable legislation.

Other Renewable Resource Technologies

Montana-Dakota has entered into agreements with Ormat Technologies, Inc. and Northern Border Pipeline Company to construct a 5.7 MW recovered energy generation facility to be located in Morton County, North Dakota. This facility, which is expected to be completed in the fourth quarter of 2009, will produce electricity without combustion of any additional fuel.

In 2015, the North Dakota and South Dakota state renewable objectives go into effect. Montana-Dakota continues to evaluate wind and other renewable resources available on the system in support of the North Dakota and South Dakota state renewable objectives and will incorporate such resources as part of the resource mix when reasonable and economic to do so.