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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

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August 8, 2011

Patricia Van Gerpen
Executive Director
SD Public Utilities Commission
500 E. Capitol Ave.
Pierre, SD 57501

**Re: EL11-014 - In the Matter of the Filing by Montana-Dakota Utilities Co. for
Approval of Tariff Revisions**

Dear Ms. Van Gerpen:

On June 13, 2011, the Commission received an application by Montana-Dakota Utilities Co. (MDU or Company), a Division of MDU Resources Group, Inc., for Commission approval of revisions to the Company's tariff rates applicable to cogeneration and small power production services, specifically Occasional Power Purchase Non-Time Differentiated Rate 95, Short-Term Power Purchase Rate 96, and Long-Term Power Purchase Rate 97. On August 1, 2011, MDU filed a set of revised tariff sheets to correct certain inaccuracies discovered in the initial tariff sheets.

Upon review of the filing, Staff recommends Commission approval of the revised tariff revisions.

In accordance with Commission Order F-3365 regarding Section 210 of the Public Utilities Regulatory Policy Act of 1978, MDU has proposed changes to the energy and capacity payment rates for cogeneration and small power production facilities of 100kW or less. As reflected in the Company's filing, energy payments have increased due to higher Midwest ISO market prices. Currently, Midwest ISO market energy represents MDU's marginal energy costs. Capacity payments have increased due to updated cost estimates for construction of a simple cycle combustion turbine in MDU's 2011 integrated resource plan.

As part of its review, Staff researched the estimated energy and capacity costs for all regulated utilities within the state. This included comparison of existing energy and capacity payments, payment structure, and cost estimates to construct a single cycle combustion turbine. This information was gathered from past docket filings, integrated resource plans, and web based information services. The evaluation shows MDU's proposed amounts are representative of current estimates.

In its filing, the Company also proposes to reinstate its time of day (TOD) provisions for Short-Term Power Purchases Rate 96 and Long-Term Power Purchases Rate 97. The Company believes the TOD provision is beneficial as it provides the correct price signal and may encourage customers to take advantage of time-differentiated pricing. Staff agrees the TOD provisions are beneficial and should be reinstated. Incentive to focus energy production on peak periods will better accomplish the intent behind small power production.

Sincerely,



Ryan Soye
Staff Attorney