



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

June 18, 2013

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501-5070

Re: Docket No. EL13-_____
2013-2014 Avoided Costs Update

Dear Ms. Van Gerpen:

In accordance with South Dakota Codified Laws, Chapter 49-34A, Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith electronically submits for Commission approval revisions to the Company's Occasional Power Purchase Non-Time Differentiated Rate 95, Short-Term Power Purchase Rate 96, and Long-Term Power Purchase Rate 97 tariffs. This filing is made in compliance with the Commission's Order No. F-3365 and in accordance with the Special Terms and Conditions of these tariffs which state that the rate schedules will be reviewed annually and revised when necessary.

The methodology used to develop the proposed energy and capacity payments is consistent with the approved avoided cost rate tariffs. The proposed energy payments for Rates 95, 96 and 97 were generated using Montana-Dakota's production costing model PLEXOS® for Power Systems (PLEXOS), reflecting a test year of July 2013 through June 2014. PLEXOS® is power market simulation software that Montana-Dakota began using in 2011. The proposed energy payments under Rates 95, 96 and 97 reflect a decrease in the energy payment per Kwh attributable to a decrease in the forecasted Midcontinent Independent System Operators, Inc. (MISO) market prices and natural gas prices from those included in the currently approved energy payments.

The proposed capacity payments for Rate 96 reflect the projected levelized costs of a new peaking facility, specifically Heskett Station 3. The avoided cost for Rate 96 was based on the estimated cost of \$973/KW in 2015 dollars, as used in the current rate, adjusted to 2013 dollars. The proposed capacity payment for Rate 97 was based on the projected levelized costs of a base load unit. The avoided capacity cost for Rate 97 was based on the estimated cost of \$3,520/KW, for a 168 MW base load unit, in 2013 dollars. The proposed capacity payments for both rates also reflect an updated capital structure and depreciation rates thereby lowering the levelized fixed charge applicable

in the calculation of the proposed capacity payments. The net effect is a decrease in the Rate 96 capacity payment of \$0.746 per kW per month and an increase in the Rate 97 capacity payment of \$5.714 per kW per month. The proposed energy and capacity payments are shown on Attachment A.

The proposed metering charges for Rates 95, 96 and 97 reflect updated meter costs, including the carrying charge and operation and maintenance expenses. The workpapers supporting the proposed meter charges are provided in Attachment B.

Montana-Dakota has updated the tariff language in Rates 96 and 97 concerning monthly capacity payments. The Company is proposing to (1) remove the distinction in capacity payment based on whether the resource is dispatchable or non-dispatchable and (2) the monthly capacity payments for a qualifying facility (QF) under Rates 96 and 97 will now be based upon the amount of qualifying capacity assigned to an eligible resource under MISO's Business Practices Manual BPM-011 Resource Adequacy. The change in tariff language recognizes that capacity payments should be paid for both dispatchable and non-dispatchable resources, based on the level a QF's capacity would be accredited in MISO and not at a level defined at the time of a QF's annual capability test, which would make the QF's generation resource viewed in a consistent manner as that of Montana-Dakota's generation resources.

Montana-Dakota currently serves one customer under Rate 95 in South Dakota. The maximum generation in the previous twelve month period was 120 Kwh and average generation over the past twelve months has been 24 Kwh.

Included herein is a second set of the affected tariffs on which Montana-Dakota has indicated the revisions requested by lining through the existing language which the Company proposes to delete and clearly highlighting the new language proposed. In accordance with the Administrative Rules of South Dakota (ARSD), 20:10:13:39(6), Montana-Dakota currently has one customer taking service under Rate 95 in South Dakota. The proposed annual change in revenue, assuming the same customer load and generation as the past twelve months, would be minimal. Included as Attachment C is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26. Also included as Attachment D is the "Data Requirements" in accordance with the Commission's Order No. F-3563 which discloses certain information for miscellaneous filings.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment E in a conspicuous place in each business office in its affected electric service territory in South Dakota for at least 30 days before the change becomes effective.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

Also, please send copies of all written inquiries, correspondence and pleadings to:

Mr. Daniel S. Kuntz
Associate General Counsel
MDU Resources Group, Inc.
P. O. Box 5650
Bismarck, ND 58506-5650

This filing has been electronically submitted to the Commission in accordance with ARSD 20:10:01:02:05. Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachment