

charge; rather the Company is changing the title of the flat monthly charge from the current title of "Base Rate" to "Basic Service Charge". This charge is designed to recover a portion of the fixed costs associated with the delivery of electric service to the customer's meter. The Basic Service Charge does not vary with the amount of electricity used. On all Residential and Small General service rates, the fixed Basic Service Charge has changed from a monthly fee to a daily fee.

Customers will see an increase in their Basic Service Charge and Demand Charge, where applicable, on July 1, 2016. An increase in these components of a rate schedule results in less costs recovered under an energy charge than otherwise would be without the increase in the Basic Service Charge and Demand Charge.

The Commission also authorized the following changes:

- Seasonal rates reflecting a summer period of June-September have been added to all rate schedules to reflect the summer peaking nature of the electric system.
- Several rates have been consolidated; Rate 27 Feed Grinding and Water Heating Rate 50 have been consolidated with Small General Electric Service Rate 20 and Rate 54 Dual Fuel and Space Heating Rate 56 have been consolidated into Space Heating Service Rate 32.
- Private Lighting Rate 24 has been renamed Outdoor Lighting Service and the availability has been expanded to include all outdoor lighting uses other than street lighting.

- The reconnection fee for non-demand seasonal customers and customers disconnected for nonpayment of electric service bills has been increased to \$20.00. The seasonal reconnection charge for demand metered customers is now \$40.00 to reflect the current cost of reconnecting customers.
- The returned check charge applicable to each check charged back to the Company by a bank has increased to \$40.00.
- Kvar Penalty applicable under Rates 20, 25, 26, 30, 33, 34 and 48 has been increased from \$1.75 to \$3.35 per Kvar.

The first bill you receive may be prorated, depending on the date the meter is read. Bills are prorated to reflect the rates in effect at the time service was rendered, rather than when your bill was processed. This means that any electric service used prior to July 1, 2016 will be billed at the old rate and any electric service used on and after July 1, 2016 will be billed at the new rates.

Further information, applicable rates, rules and regulations are available at www.montana-dakota.com or by calling 1-800-638-3278.



ELECTRIC RATE INCREASE

Effective July 1, 2016

On June 30, 2015, Montana-Dakota Utilities Co. (Montana-Dakota) filed an application with the South Dakota Public Utilities Commission (South Dakota PUC) for authority to increase its rates for electric service in South Dakota by \$2.7 million or 19.2 percent. Montana-Dakota's last electric rate increase in South Dakota was in 1986. The primary reasons for Montana-Dakota's request to increase its electric rates was due to investments in pollution control projects in compliance with federal environmental regulations, additional electric generation resources to serve the growing energy needs of customers, and additional transmission investment and services for added reliability.

On _____, the South Dakota PUC authorized an overall increase in revenues of approximately \$1.4 million or approximately 9.9 percent annually to be effective July 1, 2016. The actual impact to customers' bills as a result of this rate increase will vary depending on the customer's rate class and amount of energy used. A typical residential customer using 10,240 Kwh on an annual basis will see an average increase of approximately \$8.40 per month.

As part of the Company's overall rate increase authorized, the Company was allowed to implement two new rate riders effective July 1, 2016 for the recovery of certain expenses and investments identified in the rate case – Infrastructure Rider Rate 56 and Transmission Cost Recovery Rider Rate 59.

The Infrastructure Rider Rate 56 tariff provides for the recovery of infrastructure investments. The costs to be recovered effective July 1 are the South Dakota allocated costs related to the Company's investment in the Thunder Spirit Wind Project, a 107.5 MW wind project recently completed.

The Transmission Cost Recovery Rider Rate 59 tariff provides for the recovery of transmission related expenses and investments. The costs to be recovered are the South Dakota allocated costs the Company incurs for increased regional transmission capacity or reliability.

As allowed by South Dakota Codified Law 49-34A-17, Montana-Dakota implemented Interim Rates effective January 1, 2016 as a percentage of bill based on the total revenues collected. As the final revenue increase authorized was less than the interim rate increase implemented January 1, 2016, Montana-Dakota will refund the difference with interest to customers no later than October 1, 2016. A residential customer using 10,240 Kwh on an annual basis will see an interim rate refund of approximately \$_____.

A comparison of the residential rates effective July 1, 2016 to the present rates based on average consumption levels by month is shown below.

MONTHLY RESIDENTIAL CUSTOMER RATE COMPARISON
SUMMER RATES

Kwh	Present Bill	Proposed Bill	Amount of Increase	Percent Increase
0	\$6.00	\$7.51	\$1.51	25.15%
350	\$41.92	\$45.76	\$3.83	9.15%
400	\$47.05	\$51.22	\$4.17	8.85%
450	\$52.19	\$56.68	\$4.50	8.62%
500	\$56.97	\$62.15	\$5.18	9.10%
550	\$61.74	\$67.61	\$5.87	9.51%
700	\$76.08	\$84.00	\$7.92	10.42%
750	\$80.86	\$89.47	\$8.61	10.65%
950	\$96.89	\$111.32	\$14.43	14.89%
1000	\$100.90	\$116.79	\$15.89	15.74%

WINTER RATES

Kwh	Present Bill	Proposed Bill	Amount of Increase	Percent Increase
0	\$6.00	\$7.51	\$1.51	25.15%
350	\$41.92	\$45.76	\$3.83	9.15%
400	\$47.05	\$51.22	\$4.17	8.85%
450	\$52.19	\$56.68	\$4.50	8.62%
500	\$56.97	\$62.15	\$5.18	9.10%
550	\$61.74	\$67.61	\$5.87	9.51%
700	\$76.08	\$84.00	\$7.92	10.42%
750	\$80.86	\$89.47	\$8.61	10.65%
950	\$96.89	\$105.32	\$8.43	8.70%
1000	\$100.90	\$109.29	48.39	8.31%

New prices, effective on July 1, 2016 for various classes of service are shown below.

Residential Electric Service – Rate 10

Basic Service Charge	\$0.247 per day
Energy Charge	
October – May	
First 750 Kwh per month	.... \$0.07923 per Kwh
October – May	
Over 750 Kwh per month	.... \$0.04923 per Kwh
June – September	
All Kwh	..... \$0.07923 per Kwh
Fuel and Purchased Power	
Adjustment	..... \$0.02524 per Kwh
Infrastructure Rider	..... \$0.00497 per Kwh
Transmission Cost Rider	..... \$0.00366 per Kwh

Small General Electric Service – Rate 20

Primary Service

Basic Service Charge	..... \$0.51 per day
Energy Charge	
October – May	
First 2,000 Kwh per month	.... \$0.06142 per Kwh
October – May	
Over 2,000 Kwh per month	..... \$0.04142 per Kwh
June – September	
All Kwh	..... \$0.06142 per Kwh

Demand Charge

First 10 Kw or less	..... No Charge
Over 10 Kw per month	..... \$6.00 Kw
Fuel and Purchased Power	
Adjustment	..... \$0.02524 per Kwh
Infrastructure Rider	..... \$0.00497 per Kwh
Transmission Cost Rider	..... \$0.00366 per Kwh

Small General Electric Service – Rate 20

Secondary Service

Basic Service Charge	..... \$0.54 per day
Energy Charge	
October – May	
First 2,000 Kwh per month	.... \$0.06242 per Kwh
October – May	
Over 2,000 Kwh per month	..... \$0.04242 per Kwh
June – September	
All Kwh	..... \$0.06242 per Kwh
Demand Charge	
First 10 Kw or less	..... No Charge
Over 10 Kw per month	..... \$6.00 Kw
Fuel and Purchased Power	
Adjustment	..... \$0.02524 per Kwh
Infrastructure Rider	..... \$0.00497 per Kwh
Transmission Cost Rider	..... \$0.00366 per Kwh

Other rates available: Optional Time-of-Day Residential Electric Service Rate 16, Outdoor Lighting Rate 24, Irrigation Power Service Rate 25, Large General Electric Service Rate 30, General Electric Space Heating Rate 32, Optional Time-of-Day Rate 33, Firm Service Economic Development Rate 34, Street Lighting Rate 41, and Municipal Pumping Rate 48.

Basic Service Charge

You will see a new term on your electric service bill – “Basic Service Charge” – starting with bills being processed in July 2016. This is not a new

(over)