NG98-002

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NG98-002

DOCKET NO.

AK/D.T. - Comm. Adv.

NG 98-002

In the Matter of

IN THE MATTER OF THE FILING BY MONTANA-DAKOTA UTILITIES CO., A DIVISION OF MDU RESOURCES GROUP, INC. FOR APPROVAL OF A CONTRACT WITH DEVIATION WITH MERILLAT CORPORATION

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
5/7	98	Filed and Docketed;
7/24	98	Order Approving Contract with Deviation;
7/24	98	Docket Closed.

NG98-002

RECEIVED

MAY 07 1998

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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

May 6, 1998

Mr. William Bullard, Jr.
South Dakota Public Utilities
Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501

Re: Contract with Deviation
Merillat Corporation
Docket No. NG98-___

Dear Mr. Bullard:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits for Commission approval Section No. 4, 8th Revised Sheet No. 1 (Exhibit A) and the underlying Agreement between Montana-Dakota and Merillat Corporation (Merillat) executed on May 1,1998. Montana-Dakota has entered into a new Agreement with Merillat for delivery of firm natural gas service to Merillat's facility located at Rapid City, South Dakota in order to avoid a bypass of Montana-Dakota's existing distribution facilities. The attached agreement replaces the Firm Gas Service Agreement between Montana-Dakota and Merillat effective on December 2, 1997 pursuant to the South Dakota Public Utilities Commission's Order issued on December 12, 1997 (Docket No. NG97-019).

The attached Agreement (Exhibit B) provides for the sale of a maximum daily delivery quantity of 2,800 dk of firm natural gas to Merillat at a charge comprised of the following rate components:

- Interstate transmission pipeline charges based on FERC approved rates on Williston Basin Interstate Pipeline Company's (WBI) System for service under Firm Transportation Rate (FT-1). The pipeline charges will be assessed on a 100% load factor commodity basis. This allocation of pipeline demand charges represents a decrease from the current pipeline charges collected which is partially offset by higher estimated annual quantities resulting in a net decrease of approximately 20¢ per dk.
- A distribution charge of 34.8¢ per dk. This charge represents a decrease of 11¢ per dk from the currently effective distribution charge of 45.8¢ per dk.

- This contract continues to provide Merillat with two pricing options for the purchase of its gas commodity supply requirements. Those two options are 1) The company will provide customer with a fixed price quotation to be effective for a one-year period or 2) the gas commodity charge will be the price per dk as reported in the first issue of the month of delivery of Inside FERC's Gas Market Report in the table titled "Prices of spot gas delivered to Pipeline". - under the heading - "Index for Colorado Interstate Gas Co. - Rocky Mountains" plus distribution fuel requirements of 1.12%. As part of the renegotiation of the original contract effective on December 2, 1997, Montana-Dakota has agreed to reduce the gas commodity charge to $1.83 per dk, plus distribution losses, which is reflective of an existing specific gas contract to fulfill Merillat's natural gas requirements. This change is proposed to become effective on a retroactive basis to natural gas delivered to Merillat on and after April 1, 1998 and continue through October 31, 1998.
- A monthly base rate of $150.00 per month. This is identical to the base rate charge applicable under the current contract.

Merillat is a large volume, high load factor customer, and it is in the best interest of the other customers for Montana-Dakota to enter into an agreement which will satisfy Merillat's request for firm sales gas service at a competitive price and serve to avoid a bypass of Montana-Dakota's distribution facilities.

The existing firm customers will continue to benefit under this renegotiated contract through Merillat's contribution toward transmission pipeline demand costs and distribution cost recovery, which would not exist if Merillat were to bypass Montana-Dakota's distribution system.

In accordance with ARSD 20:10:13:30, Montana-Dakota hereby requests that this request be approved by June 1, 1998. As noted above, upon Commission approval of this contract, the gas commodity charge of $1.83 plus distribution losses will be retroactively applied to gas delivered to Merillat on and after April 1, 1998. The attached Agreement has been signed by the customer and will not have an adverse impact on existing customers.

The Company further requests waiver of the 30 days notice to the Commission required by ARSD 20:10:13:15 and 30 days notice to the public required by ASRD 20:10:13:17.

Attached as Exhibit C is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26.

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 highlighting the new language proposed.

Please refer all inquires regarding this filing to:

Mr. Donald R. Ball
Regulatory Affairs Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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

Mr. Douglas W. Schulz
Senior Attorney
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

The original and ten (10) copies of this Letter of Transmittal and tariffs have been provided to the South Dakota Public Utilities Commission.

Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

C. Wayne Fox

C. Wayne Fox
Vice President
Regulatory Affairs & General Services

Attachments
cc: D. Schulz
D. Ball

EXHIBIT A

LIST OF GAS CONTRACTS WITH DEVIATIONS

Name and Location of Customer	Type or Class of Service	Execution and Expiration Dates	Most Comparable Regular Tariff Schedule No.	Most Comparable Regular Tariff Contract Differences
Morris, Inc.	Firm Commercial	04-19-96 to 04-18-00	Rate 66	Rate/ Minimum Bill
Ipswich Public School	Firm Commercial	07-15-96 to 07-14-01	Rate 66	Rate/ Minimum Bill
Merillat Corporation	Firm Commercial	05-01-98 to 10-31-01	Rate 70	Rate

MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.
400 North Fourth Street
Bismarck, ND 58501

STATE OF SOUTH DAKOTA
GAS RATE SCHEDULE

SD P.U.C. Section No. ____
Sheet No. ____
Canceling ____ Sheet No. ____

LIST OF GAS CONTRACTS WITH DEVIATIONS

Name and Location of Customer	Type or Class of Service	Execution and Expiration Dates	Most Comparable Regular Tariff: Schedule No.	Most Comparable Regular Tariff: Contract Differences
Morris, Inc.	Firm Commercial	04-19-96 to 04-19-00	Rate 60	Rate/ Minimum Bill
Ipswich Public School	Firm Commercial	07-15-98 to 07-14-01	Rate 60	Rate/ Minimum Bill
Merillat Corporation	Firm Commercial	~~11-01-97~~ 05-01-98 to ~~10-31-98~~ 01	Rate 70	Rate

Date Filed: May 7, 1998 Effective Date: ____

Issued By: G. Wayne Fox, Vice President
Regulatory Affairs & General Services

EXHIBIT B

FIRM GAS SERVICE AGREEMENT

THIS AGREEMENT, made this 1st day of May, 19 98, is by and between MONTANA-DAKOTA UTILITIES CO., a Division of MDU Resources Group, Inc., a Delaware corporation, hereinafter called "Company", and Merillat Corporation located at Rapid City, South Dakota, 57709 hereinafter called "Customer".

WHEREAS, Customer is presently a firm service customer of Company under a Firm Gas Service Agreement dated October 30, 1997; and

WHEREAS, Company and Customer desire to enter into a new agreement which will satisfy Customer's request for firm sales gas service;

NOW, THEREFORE, Company and Customer, each in consideration of the terms and conditions of this Agreement, agree as follows:

1. Customer requests and Company agrees to provide to Customer 2,800 decatherms (dk) of firm natural gas as a maximum daily delivery quantity (MDDQ) constituting firm service equating to an estimated annual quantity of 720,000 dk per year. Company and Customer agree that the annual quantity set forth is an estimate and that the actual annual quantity may be higher or lower depending upon the actual need of Customer from year to year, which will vary depending on weather and other conditions. In no event s Company obligated to provide more than 2,800 dk of firm gas on any day.

2. Deliveries and charges hereunder shall commence upon the approval date specified by the South Dakota Public Utilities Commission. Customer agrees to service hereunder from the date of approval through October 31, 2003, and year to year thereafter unless written notice of termination is given sixty (60) days prior to October 31 of any contract year by either party.

3. Interstate Transmission Pipeline Charges. Customer agrees to pay Company the pipeline transportation charges incurred by Company under Federal Energy Regulatory Commission (FERC) approved rates in effect during the term of this Agreement on the Williston Basin Interstate Pipeline Company (WBI) system in order to provide natural gas service to Customer. WBI's FT-1 or successor Transportation Service tariff will be utilized to provide service to customer. Pipeline transportation charges shall include, but not be limited to, the Reservation Charge - Maximum Daily Delivery Quantity (MDDQ), commodity and fuel charges applicable under WBI's FT-1 or successor Transportation Service tariff effective at

the time of billing. The Maximum Daily Delivery Quantity (MDDQ) charge shall be restated to reflect a 100% load factor equivalent commodity charge (current MDDQ charge divided by 30.4). The restated MDDQ charge, commodity charge and the fuel charge reimbursement applicable under rate schedule FT-1 shall be applied to actual volumes used by Customer each month. The rates charged by WBI are subject to change through unilateral rate filings with and approval by the FERC.

4. Distribution Charges: Customer agrees to pay Company a base rate of $150.00 per month and a distribution commodity charge of $0.348 per dk for firm natural gas service hereunder.

5. Gas Commodity Charges: Company agrees to provide Customer with fixed price quotations for gas commodity supply on the first business day following August 31 of each contract year, and at such other times as are mutually agreeable to both parties. The initial quotation shall cover the period through October 31, 1998, and subsequent price quotations shall be effective for one (1) year periods thereafter. It is understood that the fixed price quotations will be subject to prevailing market conditions which are largely beyond the control of Company. Customer shall have the option of accepting the proposed fixed price for their full natural gas commodity requirement by notifying Company, in writing, of their intent to do so within twenty-four (24) hours of receiving a quotation. If Customer chooses not to accept the proposed fixed price, Customer shall pay a commodity price per dk as reported in the first issue of the month of delivery of Inside FERC's Gas Market Report in the table titled "Prices of Spot Gas Delivered to Pipelines, - *under the heading* - Index for Colorado Interstate Gas Co. - Rocky Mountains," plus currently effective distribution fuel requirements. In the event the aforementioned Index ceases to be published, or is not representative of system gas prices, the parties hereto agree to negotiate in good faith an alternative index which shall be representative of the pricing set forth herein. Customer agrees to pay Company monthly for the actual quantity of natural gas delivered, regardless of the gas commodity pricing option selected.

6. Daily Nominations: Company shall perform all nominations for deliveries hereunder, provided, however, that the Customer and the Company shall consult on a periodic basis regarding natural gas service requirements and the Customer shall provide timely notice to the

Company of potential non-weather related gas requirement changes that may appreciably affect daily or monthly natural gas usage levels.

7. Penalties: In the event customer uses natural gas in excess of the MDDQ set forth in Paragraph 1, any associated penalties assessed by WBI shall be passed on to Customer. The Company, in its discretion, may physically restrict Customer's supply of natural gas to the MDDQ set forth in Paragraph 1 in the event Customer fails to curtail or interrupt use of natural gas in excess of this MDDQ.

8. Taxes: In addition to the rates specified above, Company shall collect from Customer and Customer agrees to pay Company the sales, use, excise, or other such taxes and city fees that are legally effective and applicable to the service provided hereunder.

9. Delivery Point: Delivery of natural gas under this Agreement shall be at the Company's meter and regulation facilities located on Customer's property at 4300 S. Highway 79, Rapid City, SD 57709.

10. Metering and Measurement: Company will meter the quantity of natural gas delivered to Customer at the delivery point set forth in Paragraph 9. Such meter measurement will be conclusive upon both parties unless such meter is found to be inaccurate by more than two percent, in which case the quantity supplied Customer shall be determined between Company and Customer by as correct an estimate as it is possible to make, taking into consideration the time of year, the schedule of Customer's operations and other pertinent facts. Company will test meters in accordance with applicable state utility rules and regulations. Customer shall maintain and pay for necessary electric power and telephone service required for Company's electronic metering equipment.

11. Customer agrees it will not assign this Agreement except upon written consent of Company.

12. The terms of this Agreement are subject to approval by the South Dakota Public Utilities Commission and to all valid laws, orders, rules and regulations of any and all other duly constituted authorities having jurisdiction over the subject matter herein. This Agreement supersedes any and all previously executed Firm Gas Service Agreements, which are or may

be in effect at the delivery point specified in Section 9 above and in effect at the time this Agreement is executed by both parties.

13. Customer shall furnish Company all information as may be required or appropriate to comply with reporting requirements of duly constituted authorities having jurisdiction over the matter herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date and year above written.

CUSTOMER	COMPANY
MERILLAT CORPORATION	MONTANA-DAKOTA UTILITIES CO. A Division of MDU Resources Group, Inc.
By: [signature] John D. Thurman Vice President Finance & Treasurer	By: [signature] Ronald G. Skarphol Vice President Marketing & Business Development

Witness: [signature]
* Tammy Prince
Title: Executive Secretary
*Please type or print the names below the signature lines.

[illegible]

Report of Tariff Schedule Change

NAME OF UTILITY: Montana-Dakota Utilities Co.
ADDRESS: 400 North Fourth Street
Bismarck, ND 58501

Section No.		New Sheet No.
4	List of Gas Contracts with Deviations	[illegible]

Change: New service agreement
(State part of tariff schedule affected by change, such as: Applicability, availability, rates, etc.)

Reason for Change: New Agreement signed between [illegible] and Montana-Dakota

Present rates .... N/A
Proposed Rates .... N/A
Approximate annual reduction in revenue .... N/A
Approximate annual increase in revenue .... N/A

Points Affected	Estimated Number of Customers Whose Cost of Service will be:					
South Dakota Excluding East River	Reduced		Increased		No Change	
	# of Customers	Amount in $	# of Customers	Amount in $	# of Customers	Amount in $
	1	[illegible]				

Include Statement of Facts, expert opinions, documents and exhibits supporting the change requested.

Received: ______________________

By: ______________________
Executive Director
South Dakota
Public Utilities Commission

By: [illegible], Vice President
Regulatory Affairs & General Services
(Name and Title)

[illegible]

Merillat

AMERICA'S CABINETMAKER

June 8, 1998

Mr. Jim Burg, Chairman
Ms. Pam Nelson, Vice-Chairman
Ms. Lafka Schoenfelder, Commissioner
South Dakota Public Utilities Commission
State Capitol Building
500 E. Capitol Avenue
Pierre, SD 57501-5070

Dear Ms. Nelson, Ms. Schoenfelder, and Mr. Burg:

I am writing in regard to Docket No. NG98-002 filed by Montana-Dakota Utilities Company (MDU) on May 6, 1998. The filed agreement between Merillat Corporation and MDU ensures that Merillat's natural gas service is as cost effective as possible. In the past two years, our gas consumption has increased over ten (10) times its previous historical usage. As you can imagine, natural gas has become a significant operating cost factor for our plant. This increase is due primarily to the switch from wood dust to natural gas in our two wood chip dryers, thus reducing our facility's emissions and impacting the air quality in the Black Hills area.

The agreement before you is in response to our need to reduce a major operating cost, to ensure our continued viability as a supplier of particleboard to Merillat's cabinet and assembly plants. I know there have been questions regarding the timing of this new agreement, after just six months have lapsed on the original agreement. Simply put, the first agreement was not one we were totally satisfied with, but was our only true alternative given the short lead time prior to this past winter period. The agreement increased our costs over $300,000 on an annual basis.

Due to this substantial cost increase, we worked throughout the winter to investigate alternatives to MDU. This led to the development of a project to bypass MDU and terminate our relationship at the end of the contract term in October of 1998.

Once MDU became aware of our direction, they requested the opportunity to discuss our concerns and work with us to address them in order to keep us on the system and continuing to contribute to system costs. These discussions led to the long-term, five-year agreement that you have before you, which effectively rendered our bypass project nonessential and met our cost reduction needs.

Mr. Jim Burg, Ms. Pam Nelson, and Ms. Lafka Schoenfelder
Page 2
June 8, 1998

The new agreement between Merillat and MDU is one of a true partnership that meets the needs of both parties. It assists Merillat in Rapid City in remaining a competitive, viable employer and helps MDU maintain a very high-load factor, large volume customer, who is making ongoing contributions to system costs.

I would appreciate it if the Commission would act expeditiously and approve the agreement to assist a valued business citizen in South Dakota.

If you or your staff have any questions, please feel free to call me at (605) 348-1900. I am also available to come to Pierre to appear before the Commission if that would help. Thank you for your consideration regarding this matter.

Sincerely,

Richard Krull
Plant Manager

cc
jh

C.W. Fox
W. Huether
D. LeBlanc
G. Steward
S. Wegman

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE FILING BY MONTANA-DAKOTA UTILITIES CO., A DIVISION OF MDU RESOURCES GROUP, INC. FOR APPROVAL OF A CONTRACT WITH DEVIATIONS WITH MERILLAT CORPORATION	)))))	ORDER APPROVING CONTRACT WITH DEVIATIONS NG98-002

On May 7, 1998, the Public Utilities Commission (Commission) received a filing by Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU), requesting approval of its 8th Revised Sheet No. 1, Section No. 4, of MDU's State of South Dakota Gas Rate Schedule, covering Contracts with Deviations and the underlying contract with Merillat Corporation (Merillat) of Rapid City, South Dakota. The proposed contract becomes effective on the date of Commission approval through October 31, 2003, and year to year thereafter unless written notice of termination is given sixty (60) days prior to October 31, of any contract year by either party.

The proposed agreement provides for the sale of a maximum daily delivery quantity of 2,800 dk of firm natural gas to Merillat at a charge comprised of the following components:

1. The interstate pipeline charges, based on FERC approved rates on Williston Basin Interstate Pipeline Company's System for service under Firm Transportation Rate, will be assessed on a 100% load factor commodity basis, which is approximately a 20¢ per dk net decrease from the current pipeline charges.

2. A distribution charge of 34.8¢ per dk, which is a decrease of 11¢ per dk from the currently effective distribution charge of 45.8¢ per dk.

3. Upon Commission approval, a reduced gas commodity charge to $1.83 per dk, plus distribution losses will be retroactively applied to natural gas delivered to Merillat on and after April 1, 1998, and continue through October 31, 1998; subsequent price quotations shall be effective for one (1) year periods thereafter or the gas commodity charge will be the price as reported in the first issue of the month of delivery of Inside FERC's Gas Market Report plus distribution fuel requirements of 1.12%.

4. A monthly base rate of $150.00 per month, which is identical to the base rate charge applicable under the current contract.

Merillat, which is a large volume, high load factor customer, proposed that this agreement is in the best interest of the other customers for MDU because it satisfies Merillat's request for firm sales gas service at a competitive price and serves to avoid a bypass of MDU's distribution facilities. The existing firm customers will continue to benefit under this negotiated agreement through Merillat's contribution toward transmission pipeline demand costs and distribution cost recovery, which would not exist if Merillat were to bypass MDU's distribution system. The proposed agreement has been signed by the customer. MDU further requested a waiver of any and all applicable notice requirements.

On July 1, 1998, at an ad hoc meeting, the Commission considered the request for approval of the Contract with Deviations.

The Commission finds that it has jurisdiction over this matter pursuant to SDCL 49-34A, specifically, 49-34A-6, 49-34A-8, 49-34A-10, and 49-34A-11. Further, the Commission finds that MDU's request for approval of a Contract with Deviations is just and reasonable and shall be approved. As the Commission's final decision in this matter, it is therefore

ORDERED, that as of July 1, 1998, the request seeking approval of a Contract with Deviations is in the public interest and is hereby granted; and it is further

ORDERED, that a waiver of the notice requirements of ARSD 20:10:13:15 and 20:10:13:17 shall be granted; and it is further

ORDERED, that the above-mentioned tariff is approved and is effective for service rendered on and after July 1, 1998.

Dated at Pierre, South Dakota, this 24th day of July, 1998.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 7/27/98

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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

October 12, 1998

Mr. William Bullard, Jr.
South Dakota Public Utilities
Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501

Re: Contract with Deviation
Docket No. NG98-002

Dear Mr. Bullard:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits its 8th Revised Sheet No. 1, as originally filed on May 7, 1998, reflecting an effective date of service rendered on and after July 1, 1998 pursuant to the Commission's Order dated July 24, 1998 approving the Merillat contract.

The original and ten (10) copies of this letter and tariff have been provided to the South Dakota Public Utilities Commission.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

C. Wayne Fox

C. Wayne Fox
Vice President
Regulatory Affairs & General Services

Attachments
cc: D. Schulz
D. Ball

MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.
400 North Fourth Street
Bismarck, ND 58501

STATE OF SOUTH DAKOTA
GAS RATE SCHEDULE

LIST OF GAS CONTRACTS WITH DEVIATIONS

Name and Location of Customer	Type or Class of Service	Execution and Expiration Dates	Most Comparable Regular Tariff Schedule No.	Contract Differences
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Merillat Corporation	Firm Commercial	05-01-98 to 10-31-03	Rate 70	Rate