



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

October 8, 2009

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

Re: Natural Gas Conservation Programs & Conservation Tracking Adjustment
Docket No. NG09-001

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. hereby requests Commission approval to implement the Conservation Program Tracking Mechanism Rate 90, Section 3, 5th Revised Sheet No. 31 included herein as Exhibit 1 to be effective November 1, 2009. The revised tariff is filed to (1) remove the expiration of the Company's gas conservation programs on October 31, 2009 under the Conservation Program Tracking Mechanism Rate 90 tariff, (2) implement a portfolio of gas conservation programs and proposed budgets to be effective for calendar years 2010 and 2011, (3) implement the Conservation Tracking Adjustment (CTA) rate to reflect actual expenditures through August 31, 2009 and the budgeted 2010 expenditures and (4) introduce an incentive component and eliminate the lost distribution revenue recovery mechanism.

On March 2, 2009, Montana-Dakota requested Commission approval to remove the experimental qualifier associated with its Gas Conservation Program in Docket No. NG09-001. The Company also proposed a portfolio of gas conservation programs to be offered to customers for the 2010 – 2011 time frame. On April 1, 2009, the Company filed a supplement to the March 2 filing requesting a change in the Conservation Tracking Adjustment (CTA) to be effective May 1, 2009 to reflect the recovery of expenditures through February 28, 2009. The Commission approved the CTA and a change to the CTA tariff that continued the existing Gas Conservation programs through September 30, 2009. On September 16, 2009, Montana-Dakota requested an extension of time and continuance of the conservation programs through October 31, 2009 allowing Montana-Dakota personnel and Commission staff to continue to resolve all issues before filing a revised plan with the Commission. Montana-Dakota's request was granted on September 22, 2009.

Montana-Dakota is now filing a revised portfolio of natural gas conservation programs and a revised Rate 90 tariff, included herein as Exhibit 1, to reflect a demand-side management (DSM) financial incentive in lieu of collecting lost distribution revenues, pursuant to discussions between Montana-Dakota personnel and Commission Staff. Other changes are also being proposed including (1) changing the cost recovery time period to start on November 1 to coincide with Commission approval of the new programs. The program start date is currently May 1; (2) removal of the 90% and 91% High Efficiency Furnaces as qualifying purchases for an incentive under the Furnace Rebate Program. The Company has seen very few rebates for these units and believes now is the appropriate time to eliminate these units as a qualifying appliance; and (3) inclusion of a carrying charge provision applicable to the over or under recovery of the collected amount.

A summary of the 2010 – 2011 portfolio of gas conservation programs is included as Exhibit 2. Montana-Dakota plans to continue with its current offering of programs (rebates for qualifying high efficiency furnaces and programmable thermostats) through December 31, 2009 with commencement of the new portfolio on January 1, 2010.

As the Company is proposing to change the start of the conservation program year to November 1, Montana-Dakota is requesting to revise the CTA rate applicable under Rate 90 for updated costs through August 31, 2009, include the 2010 budget and the remaining costs not yet recovered through the current CTAs implemented May 1, 2009 under this same docket. Total program expenses to be recovered over the next twelve months amounts to \$106,733 for the Black Hills system and \$14,763 for the East River System as shown on Exhibit 3, page 1. These totals equate to a CTA applicable to service under Rates 60, 70 and 72 of \$0.019 per dk, or an increase of \$0.014 per dk, and a CTA applicable to service under Rates 66 and 76 of \$0.019 per dk, or an increase of \$0.015 for service under Rates 66 and 76.

On February 10, 2006, the Commission approved the Company's current offering of programs and authorized Montana-Dakota to recover the program costs and associated lost margin due to customer participation. While recovery of lost margin revenue remains an important element to a utility offering gas conservation programs, Montana-Dakota is proposing a DSM financial incentive in lieu of recovery of the lost distribution revenue. Under the Company's proposed incentive, included herein as Exhibit 4, incentive levels would be established for each area, using the Commission authorized DSM budgets and the Company's authorized South Dakota gas overall rate of returns from the last general rate cases (Docket No. NG04-004 for the Black Hills system and Docket No. NG05-002 for the East River system), adjusted for taxes. The use of the authorized return component positions the portfolio of gas programs on a level playing field with other supply side options from a utility shareholder perspective. An incentive

range has been established for each area with the minimum the Company can earn equal to 5 percent of each year's budget (\$4,049 for the Black Hills system and \$599 for the East River system for 2010) and an incentive cap equal to 125 percent of the budgets and the authorized return, adjusted for taxes (\$11,883 for the Black Hills system and \$1,763 for the East River system for 2010). The actual incentive achieved will be based on total program expenses incurred multiplied by the authorized return, adjusted for taxes and limited to the minimum and maximum range established herein. If the Company were to foresee increased costs beyond the levels authorized by the Commission, Montana-Dakota would file a revised DSM plan demonstrating the Company's need to increase the authorized budget.

Montana-Dakota is also proposing a carrying charge provision be applied to the over or under collected balance each month. The carrying charge would be at the rate of interest for a three-month Treasury Bill as published monthly by the Federal Reserve Board for the preceding month.

The average residential customer using 107 dk a year will see an annual increase of approximately \$1.50 for the Black Hills system and an annual increase of \$1.60 for the East River system. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after November 1, 2009.

Included herein is a second set of the affected tariff 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.

Attached as Exhibit 5 is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26. The Rate Summary Sheet reflecting the proposed CTA amounts will be submitted in conjunction with the Purchased Gas Cost Adjustment filing to be submitted on October 9, 2009.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Exhibit 6 in a conspicuous place in each business office in its affected gas service territory in South Dakota and requests that the Commission approve, on less than 30 days notice pursuant to ARSD 20:10:13:20, the Rate 90 tariff amendment.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Pricing & Tariff Manager
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 58503-5650

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,



Donald R. Ball
Vice President – Regulatory Affairs

Attachments

cc: D. A. Gerdes

Exhibit 1



**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 5th Revised Sheet No. 31
 Canceling 4th Revised Sheet No. 31

**CONSERVATION PROGRAM
 TRACKING MECHANISM Rate 90**

Applicability:

This rate schedule represents a Conservation Program Tracking Mechanism and specifies the procedure to be utilized to recover the costs of a portfolio of conservation programs, as authorized by the Commission, including a DSM financial performance incentive. Service provided under the Company's Residential Service Rates 60 and 66 and Firm General Service Rates 70, 72 and 76 shall be subject to this tracking mechanism.

N

Conservation Program Tracker:

An adjustment per dk will be determined for each rate schedule subject to the Conservation Program Tracking Mechanism. Monthly bills beginning with the first billing cycle each November 1 will be adjusted by the application of the Conservation Tracking Adjustment rate indicated below. The total program costs including the DSM financial incentive will be amortized over projected volumes to be sold over the next 12 month period. Following the initial one-year term, and annually thereafter, the Conservation Program Tracker rate calculation shall include any over or under collection of revenue from the preceding twelve month recovery period plus carrying costs on the monthly over or under collected amount. Montana-Dakota will apply carrying charges at the rate of interest for a three-month Treasury Bill as published monthly by the Federal Reserve for the preceding month.

C
 N

N

Conservation Tracking Adjustment:

Black Hills	\$0.019 per dk	N
East River	\$0.019 per dk	N

Date Filed: October 8, 2009

Effective Date:

Issued By: Donald R. Ball
 Vice President-Regulatory Affairs

Docket No.:



Montana-Dakota Utilities Co.
 A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 4th Revised Sheet No. 31
 Canceling 3rd Revised Sheet No. 31

**CONSERVATION PROGRAM
 TRACKING MECHANISM Rate 90**

Page 1 of 1

Applicability:

This rate schedule represents a Conservation Program Tracking Mechanism and specifies the procedure to be utilized to recover the costs of a portfolio of conservation programs, as authorized by the Commission, including ~~the recovery of distribution delivery charge revenues reduced as a result of the conservation programs~~ a DSM financial performance incentive. Service provided under the Company's Residential Service Rates 60 and 66 and Firm General Service Rates 70, 72 and 76 shall be subject to this tracking mechanism. ~~This program shall expire on October 31, 2009 unless otherwise authorized by the Commission.~~

D
N
TD

Conservation Program Tracker:

An adjustment per dk will be determined for each rate schedule subject to the Conservation Program Tracking Mechanism. Monthly bills beginning with the first billing cycle each ~~May~~ November 1 will be adjusted by the application of the Conservation Tracking Adjustment rate indicated below. ~~The rate will reflect the amortization of the conservation program costs including the dk savings associated with each measure implemented in the prior 12 month period. The currently authorized Distribution Delivery Charge applicable to qualifying customers that participated in a conservation program will be applied to the dk savings to compute the reduction in Distribution Delivery revenues associated with the conservation programs. The total program costs including the lost distribution revenues~~ DSM financial incentive will be amortized over projected volumes to be sold over the next 12 month period. Following the initial one-year term, and annually thereafter, the Conservation Program Tracker rate calculation shall include any over or under collection of revenue from the preceding twelve month recovery period plus carrying costs on the monthly over or under collected amount. Montana-Dakota will apply carrying charges at the rate of interest for a three-month Treasury Bill as published monthly by the Federal Reserve for the preceding month.

C
D
N
N

Conservation Tracking Adjustment:

Black Hills	\$-.0050.019 per dk
East River	\$-.0040.019 per dk

N
N

Date Filed:

Effective Date:

Issued By: Donald R. Ball
 Vice President-Regulatory Affairs

Docket No.:

Montana-Dakota Utilities Co.

SD Gas Conservation Program Summary

Benefit/Cost Ratios				
Program	RIM	Utility	Societal	Participant
High Eff Furnace 92%	2.50	3.59	1.83	2.45
High Eff Furnace 94%	1.91	2.49	1.07	1.50
High Eff Water Heater	1.80	2.31	1.22	1.83
Programmable Thermostats	3.00	4.77	4.56	11.53
Attic Insulation	2.10	2.83	1.87	2.87
New Construction Bundle	1.76	2.26	1.22	1.78
Education and Outreach	N/A	N/A	N/A	N/A
Total Portfolio	1.88	2.44	1.59	2.41

Program	2010 Participation	Cost per Dk saved	2010 Total Cost	2010 Dk Saved	2011 Participation	Cost per Dk Saved	2011 Total Cost	2011 Dk Saved
High Eff Furnace 92%	60	\$25.37	\$11,111	438	60	\$24.72	\$10,829	438
High Eff Furnace 94%	30	39.25	10,126	258	30	38.16	9,844	258
High Eff Water Heater	55	44.95	4,720	105	85	35.03	11,033	315
Programmable Thermostats	110	19.25	6,140	319	135	17.30	6,780	392
Attic Insulation	55	36.43	18,250	501	85	35.78	27,693	774
New Construction Bundle	78	50.78	30,114	593	78	40.32	29,551	733
Education and Outreach	N/A	N/A	12,500	N/A	N/A	N/A	12,500	NA
Totals	388	\$36.01	\$92,961	2,214	473	\$31.89	\$108,230	2,910

Montana-Dakota Utilites Co.
Gas Utility - South Dakota

Gas Conservation Tracking Adjustment Rate 90
Effective November 1, 2009

	<u>Black Hills</u>	<u>East River</u>
DSM Expenditures 1/	\$25,752	\$2,783
2010 Budget 2/	<u>80,981</u>	<u>11,980</u>
Gas DSM Costs to be Recovered	\$106,733	\$14,763
Projected Volumes 3/	<u>5,571,000</u>	<u>779,962</u>
CTA Rate Effective November 1, 2009	<u><u>\$0.019</u></u>	<u><u>\$0.019</u></u>

1/ Exhibit 3, Page 2.

2/ Exhibit 4, Pages 1 and 2.

3/ Exhibit 3, Page 4.

Montana-Dakota Utilities Co.
Gas Utility - South Dakota

CTA Activity for May 1 through August 31, 2009

	Black Hills	East River
Balance Remaining	<u>\$24,842</u>	<u>\$2,601</u>
Actual Expenditures for March 1, 2009 through August 31, 2009 1/	<u>3,770</u>	<u>432</u>
Total Costs to be Recovered	28,612	3,033
Estimated Recovery September 1 - October 31, 2009 2/	<u>2,860</u>	<u>250</u>
DSM Balance as of August 31, 2009	<u><u>\$25,752</u></u>	<u><u>\$2,783</u></u>

1/ Exhibit 3, Page 3.

2/ Estimated CTA recovery based on projected volumes and CTA rate effective May 1, 2009 in Docket No. NG09-001.

	<u>CTA</u>	<u>Projected Volumes</u>	<u>Estimated Recovery</u>
Black Hills	\$0.005	572,000	\$2,860
East River	0.004	62,534	250

**Montana-Dakota Utilities Co.
Gas Utility - South Dakota**

**Summary of Actual DSM Expenditures
March 2009 through August 31, 2009**

<u>Black Hills DSM Programs</u>	<u>Incentive</u>	<u># of Participants</u>	<u>Cost</u>
Space Heating Furnace	\$150	16	\$2,400
Programmable Thermostat	20	20	400
Admin and Education Costs			970
Total		36	\$3,770

<u>East River DSM Programs</u>	<u>Incentive</u>	<u># of Participants</u>	<u>Cost</u>
Space Heating Furnace	\$150	2	\$300
Programmable Thermostat	20	0	0
Admin and Education Costs			132
Total		2	\$432

<u>Total South Dakota DSM Programs</u>		<u># of Participants</u>	<u>Cost</u>
Space Heating Furnace		18	\$2,700
Programmable Thermostat		20	400
Administrative Costs			1,102
Admin and Education Costs		38	\$4,202

**Montana-Dakota Utilities Co.
Gas Utility - South Dakota**

**Projected Firm Sales
November 2009 through October 2010**

<u>Projected Dk</u>	<u>Black Hills System</u>			<u>East River System</u>			<u>Total South Dakota</u>
	<u>Residential</u>	<u>Firm General</u>	<u>Total</u>	<u>Residential</u>	<u>Firm General</u>	<u>Total</u>	
November 2009	398,000	273,000	671,000	44,000	51,000	95,000	766,000
December	527,000	358,000	885,000	65,000	72,000	137,000	1,022,000
January 2010	559,000	379,000	938,000	72,000	79,000	151,000	1,089,000
February	446,000	307,000	753,000	53,000	61,000	114,000	867,000
March	393,000	271,000	664,000	44,000	53,000	97,000	761,000
April	257,000	183,000	440,000	24,000	31,000	55,000	495,000
May	144,000	110,000	254,000	9,000	18,000	27,000	281,000
June	75,000	64,000	139,000	3,000	13,000	16,000	155,000
July	65,000	59,000	124,000	3,000	11,000	14,000	138,000
August	66,000	59,000	125,000	3,000	11,000	14,000	139,000
September	107,000	85,000	192,000	6,000	14,000	20,000	212,000
October	224,000	162,000	386,000	20,000	28,000	48,000	434,000
Total	3,261,000	2,310,000	5,571,000	346,000	442,000	788,000	6,359,000
Less: Firm Contract					8,038 ^{2/}	8,038	8,038
Total SD Projected Dk	<u>3,261,000</u>	<u>2,310,000</u>	<u>5,571,000</u>	<u>346,000</u>	<u>433,962</u>	<u>779,962</u>	<u>6,350,962</u>

1/ Per books volumes for large firm contract sales for September and October 2008.

2/ Per books volumes for large firm contract sales for the twelve months ended August 2009.

Montana-Dakota Utilities Co.
Gas Utility - South Dakota

Black Hills
DSM Performance Target Financial Incentive
Summary of Programs and Incentive Threshold
2010 and 2011 Program Years

Program	2010		2011	
	Goal	Budget	Goal	Budget
Space Heating - 92% Furnace	50	\$9,679	50	\$9,456
Space Heating - 94% Furnace	25	8,821	25	8,595
Water Heater	50	4,112	75	9,633
Programmable Thermostats	100	5,349	125	5,920
Attic Insulation	50	15,898	75	24,180
New Construction Bundle	63	26,233	63	25,803
Administration & Education		10,889		10,914
Total	338	\$80,981	413	\$94,501
Incentive Range 1/				
Minimum incentive 2/		\$4,049		\$4,725
Incentive cap 3/		11,883		\$13,867

- 1/ Threshold established using authorized return of 8.917% adjusted for taxes.
2/ 5% of budget.
3/ Return earned at 125% of Budget, adjusted for taxes.

Montana-Dakota Utilities Co.
Gas Utility - South Dakota

East River
DSM Performance Target Financial Incentive
Summary of Programs and Incentive Threshold
2010 and 2011 Program Years

Program	2010		2011	
	Goal	Budget	Goal	Budget
Space Heating - 92% Furnace	10	\$1,432	10	\$1,373
Space Heating - 94% Furnace	5	1,305	5	1,249
Water Heater	5	608	10	1,400
Programmable Thermostats	10	791	10	860
Attic Insulation	5	2,352	10	3,513
New Construction Bundle	15	3,881	15	3,748
Administration & Education		1,611		1,586
Total	50	\$11,980	60	\$13,729

Incentive Range 1/		
Minimum incentive 2/	\$599	\$686
Incentive cap 3/	1,763	\$2,020

1/ Threshold established using authorized return of 8.90% adjusted for taxes.

2/ 5% of budget.

3/ Return earned at 125% of Budget, adjusted for taxes.

Report of Tariff Schedule Change

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

Section No.	Class of Service	New Sheet No.
3	Conservation Program Tracking Mechanism	5th Revised Sheet No. 31

Change: Conservation Tracking Adjustment
 (State part of tariff schedule affected by change, such as: Applicability, availability, rates, etc.)

Reason for Change Reflect updated Conservation Program costs, remove the lost margin provision and introduce a financial performance incentive

Present Rates
 Proposed Rates
 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:					
	Reduced		Increased		Unchanged	
	# of Customers	Amount in \$	# of Customers	Amount in \$	# of Customers	Amount in \$
All	N/A	N/A	52,832	89,693	N/A	N/A

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

Received: _____

Montana-Dakota Utilities Co.
 (Reporting Utility)

By: _____
 Executive Director
 South Dakota
 Public Utilities Commission

By: Donald R. Ball
 Vice President- Regulatory Affairs
 (Name and Title)

On October 8, 2009 Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., filed with the South Dakota Public Utilities Commission revised Rate 90 which affects Montana-Dakota Utilities Co.'s residential and firm general gas customers in South Dakota. The revised rate and South Dakota rules and regulations are available in this office for inspection. Please inquire at cashier's desk.