MONTANA-DAKOTA UTILITIES CO.
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION STAFF
DATA REQUEST
DATED NOVEMBER 1, 2012
DOCKET NO. NG12-006

1. **Please provide a list of customers expected to take East River transportation service and their respective estimated volumes of throughput. Please explain whether the expected transportation volumes are merely offsetting existing sales volumes or if MDU expects to experience new additional throughput on the East River system. Provide an estimate of initial additional volumes if an increase is expected.**

Response:

Montana-Dakota was contacted by a representative of Constellation Energy Resources, LLC (Constellation) regarding the availability of transportation service on its East River natural gas system. Constellation indicated they have one East River customer that is interested in taking transportation service with potential for more East River customers to take transportation service in the future. Montana-Dakota expects the transportation volumes to offset existing sales volumes and does not anticipate additional throughput on the East River natural gas system.

[Confidential begins] [Confidential ends]

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2. Has MDU recently conducted an analysis of its earned return on the East River System? If so, please provide.

Response:

Montana-Dakota is in the process of conducting an in-depth review of its earned return on the East River System. Montana-Dakota does not anticipate that its offering of transportation service on the East River system will materially change its earned return.

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3. Please explain why MDU is proposing an interruptible transportation rate vs. a firm transportation rate. Explain how the proposed interruptible transport rate can be priced at a higher total rate (maximum commodity rate plus basic service charge) than existing East River firm sales Rate 76. Provide a discussion on why this would not be discriminatory to interruptible transport customers. Please provide the number of interruptions actually experienced during the last five years on the East River system and the causes of those interruptions. Explain whether MDU expects more frequent interruptions on the East River system in the future and if so, why.

Response:

Montana-Dakota proposes to offer an interruptible transportation service rate rather than a firm transportation service rate because a firm transportation service rate would result in an open access natural gas system and affect Montana-Dakota's gas purchasing practices. In addition, Montana-Dakota is unable to provide a backup or standby service for transportation customers' gas supplies that are not delivered on a firm basis to its East River distribution system.

In the past five years, Montana-Dakota experienced one interruption on its East River distribution system on August 4, 2011 that was caused by damage to the South Dakota Intrastate Pipeline (SDIP) line. Montana-Dakota has not interrupted its customers on the East River distribution system as a result of scheduled gas not being delivered or as a result of curtailment from extreme cold weather conditions. Montana-Dakota does not anticipate more frequent interruptions but may avoid future capacity additions with the introduction of an interruptible service rate.

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4. **Please describe the costs the proposed basic service charge is designed to recover. Explain why the existing East River rate 76 basic service charge is significantly lower than Black Hills Rate 81 and Rate 82. Do any expected East River transport customers fit the rate availability parameters of Rate 82 or are all expected to be of the size that would meet rate 81 availability criteria (above or below 40,000 dk annually)? If certain customers are expected meet Rate 81 criteria and certain are expected to meet Rate 82 criteria, wouldn't two like East River rates be appropriate? Currently when Rate 81 and 82 customers also take sales service, one of the basic service charges is waived. Why has MDU not proposed that treatment in the instant filing?**

Response:

The proposed Basic Service Charge is designed to recover the fixed customer related costs associated with providing transportation service. As noted, Montana-Dakota proposes to utilize the $125.00 Basic Service Charge currently authorized for its Black Hills Service area under Rate Schedule 81 and is not based on a specific cost study. The charge includes the incremental costs associated with providing transportation service. The incremental costs are primarily administrative in nature and include items such as maintaining the electronic measurement equipment necessary to secure hourly reads, monitoring customer loads for nomination purposes and interruption if gas supplies are not delivered on behalf of the customer.

The current Firm General Service Rate 76 Basic Service Charge applicable in the East River service area is significantly lower than the corresponding Black Hills Basic Service Charge because of rate design considerations other than cost of service authorized in the last East River case.

Montana-Dakota anticipates the East River transportation customers will fit the rate availability parameters of Rate Schedule 81, where the average use of natural gas will not exceed 40,000 dk annually based upon the annual throughput of the Company's existing customers on Rate Schedule 76.

Montana-Dakota will be addressing the Base Rate waiver currently applicable under the Black Hills rate schedules in its rate case expected to be filed later this year. In the event an East River transportation service customer does occasionally take service under Rate 76 the charge is inconsequential at $.050 per day.

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5. Provide further support for the proposed $50 per dk curtailment penalty, ie. has $30 recently been inadequate in the Black Hills or other MDU systems?

Response:

The intent of the charge is to penalize an interruptible customer for using natural gas service after a call to interrupt or curtail has been made by the Company. Montana-Dakota proposes the higher penalty to minimize the potential ramifications to the firm customers should interruptible customers decide to continue to use natural gas after receiving a curtailment or interruption notification. Montana-Dakota does not have specific instances to point to in regard to the Black Hills penalty charge of $30 being inadequate but proposes to move to a higher penalty charge at the onset of offering this service.

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6. Provide further explanation as to why the difference in treatment of imbalances from the Black Hills system, such as carry over, Undertake Purchase Rate and Overtake Charge Rate, is appropriate.

Response:

Montana-Dakota proposes to implement a cash-out balancing mechanism in its East River Transportation rate schedule in order to simplify the monthly imbalance process for both the customer and the Company as any imbalance is disposed of in the current month. The proposed mechanism provides a clear price signal to the customer and recognizes a purchase rate or overtakes charge commensurate with the severity of the imbalance. Montana-Dakota proposes to implement the cash-out imbalance policy in its Black Hills Transportation Rate Schedules 81 and 82 in its next general rate case.

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7. Please describe how MDU treats curtailment penalties, imbalance penalties and similar such receipts from customers that are in excess of direct costs incurred by MDU.

Response:

Penalty revenues collected are recorded as Other Revenues as an offset to any costs incurred.

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8. Does MDU consider the language on proposed Section 6, Original Sheet 25.2, section 4.0, paragraph 2, to be adequate to significantly change the rate proposed in this filing at the time of the next East River general rate case?

Response:

Yes, Montana-Dakota considers the language adequate to change the rate at the time of a general rate case.

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9. Would MDU accept the proposition that if the Commission approves the flex rate proposed by MDU, that MDU is at risk of having shareholders be responsible for recovery of the discount below maximum rates unless MDU can demonstrate than the discount was absolutely necessary to retain the customer or for the customer to viably exist, that the discount was minimized to the possible, and that the discounted rate still provided benefits to other customers, such as fixed cost recovery, which would not otherwise exist if the discounted customer was not served?

Response:

The Company accepts the proposition that the differential between the maximum rate and a discounted rate may not be recoverable from other customers if the discounted rate is not shown to be the maximum discount necessary to attain or retain the customer while still providing a benefit to other customers.