

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE FILING OF THE)
INVESTIGATION OF THE NATURAL GAS) SETTLEMENT AGREEMENT
INCIDENT OF FEBRUARY 20, 2008, ON)
MONTANA-DAKOTA UTILITIES CO.'S) PS08-001
SYSTEM IN PIERRE, SOUTH DAKOTA)**

This Settlement Agreement is entered into as of November 12, 2008 by and among Montana Dakota Utilities Co. ("MDU"), with a business address of 400 North 4th Street, Bismarck, ND 58501, South Dakota Intrastate Pipeline Company ("SDIP"), with a business address of 1415 North Airport Road, Pierre, SD 57501 and the Staff of the South Dakota Public Utilities Commission ("Staff") (collectively, the "Parties").

RECITALS:

A. MDU is the owner and operator of natural gas distribution pipeline facilities over which the South Dakota Public Utilities Commission ("Commission") has jurisdiction pursuant to SDCL Chapter 49-34B.

B. SDIP is the owner and operator of an intrastate natural gas transmission pipeline over which the Commission has jurisdiction pursuant to SDCL Chapter 49-34B.

C. SDIP delivers gas to MDU at several points in central South Dakota including Pierre, South Dakota. A release of gas occurred at the Pierre location in February, 2008. As a result of the gas release and property damage, a reportable incident occurred requiring Staff to conduct an investigation. The cause of such release, although investigated by both companies and Staff, has not been determined by the Commission.

D. Staff's investigation did not show that either Party violated any federal or state pipeline safety statute or rule and indicated that both parties were diligent in their responses to the release and attempts to determine the cause of the gas release.

E. Although it has not been determined by the Commission to have caused the gas release, it is not disputed that a pipeline inspection gauge ("PIG") is located in SDIP's system and may complicate operations in either SDIP or MDU's system at a future unknown date, and it is further not disputed that it would be beneficial to remove the PIG from SDIP's pipeline.

NOW THEREFORE, in order to facilitate prompt actions to attempt to recover the PIG and to resolve this matter without further time, expense, and litigation, the Parties agree as follows:

1. SDIP agrees to bear the expense of the first \$5,000 (Five Thousand Dollars) of expense to vent gas for the purpose of recovery of the PIG. Five Thousand Dollars represents approximately 720,000 SCF of gas. It is recognized that MDU will have title to the gas being vented and that MDU will deduct SDIP's \$5,000 portion from the next monthly bill from SDIP to MDU.

2. MDU agrees to bear the expense of up to the second \$5,000 (Five Thousand Dollars) of expense to vent gas for the purpose of recovery of the PIG. Five Thousand Dollars represents approximately 720,000 SCF of gas.

3. The gas venting procedure shall be executed and monitored by SDIP personnel with MDU allowed to be present and observe, if desired. MDU agrees to have personnel available throughout the venting to respond to any contingencies that may arise as a result of the venting or the arrival of the PIG. The determination of the rate at which gas will be vented and the resulting duration of venting to meet the commitments in paragraphs 1 and 2 shall be made in accordance with a methodology approved by Commission Staff and agreed to by the parties. The Parties recognize that such rates, times and methodology can only achieve an approximation of the dollar amounts of gas authorized to be released as provided in paragraphs 1 and 2, and the Parties agree that neither of them will seek recovery from the other, or be liable to the other, for claimed overages in gas released in accordance with such methodology, rate and duration.

4. The gas shall be vented as soon as possible beginning on a date to be agreed among the Parties based upon weather conditions and other relevant considerations but in no case later than November 19, 2008.

5. The Parties agree that to the extent they have not already done so, they will immediately implement, to the extent applicable to them, the measures set forth in Staff's revised recommendations 2 and 3 as ordered by the Commission in its Order Approving Pipeline Safety Staff Recommendations Two and Three dated October 3, 2008. These measures were recommended to reduce the potential risk from the arrival of the PIG and any associated debris and include proper assembly and torquing of all flanges and removal of the ignition source at the border station.

6. In the event the gas venting provided for in this agreement does not result in the recovery of the PIG, the following additional measures shall be implemented by the parties to further minimize the potential risk from arrival of the PIG:

a. As soon as possible following the conclusion of the gas venting, SDIP shall complete the installation of the PIG alarm instrumentation at the Pierre border station to which it referred at the September 23, 2008 Commission meeting.

b. SDIP and MDU each agree to exercise an increased level of vigilance over their instrumentation and facilities until the PIG is recovered and to provide the other Party with immediate notification of any anomalous conditions observed on their systems that could potentially indicate movement or arrival of the PIG or other system effect associated with the PIG or its movement.

c. SDIP and MDU each agree to provide one or more contact persons who can be available twenty four hours a day, seven days a week to receive and respond to such notifications.

7. The parties agree that unlimited venting of gas in an effort to remove the PIG is not reasonable. In the event the combined approximate \$10,000 (Ten Thousand Dollar) gas release does not dislodge the PIG, the parties shall not be responsible for any additional venting or other PIG retrieval method absent a Commission Order requiring such additional measures after an opportunity for hearing and a finding by the Commission that additional facts have become known or a change in circumstances has occurred from what is known now that would justify such additional measures.


8. The limitation of paragraph 7 notwithstanding, SDIP and MDU each agree that at least one person who will be present on behalf of such company at the venting of gas shall be authorized by the company to agree on behalf of such company to the venting of gas in excess of the amounts as set forth in paragraphs 1 and 2 as determined in accordance with paragraph 3 if such representatives believe based upon their judgment at the time that the venting of additional gas is prudent. The venting of additional gas shall only be done if both SDIP and MDU, acting through their on-site representatives, agree to such additional venting. At such time as the representative of either Party directs the additional venting to cease, the venting shall be terminated as soon as is technically feasible. The Parties shall bear the expense of such additional venting equally.

9. In exchange for the parties agreeing to and complying with the provisions of this Settlement Agreement, neither Party shall be responsible for gas venting beyond the dollar amounts specified above or for incurring other additional costs except for those associated with the actions ordered by the Commission on October 3, 2008 adopting Staff's revised recommendations 2 and 3 and those agreed to in this Settlement Agreement absent an order of the Commission following an opportunity for hearing as set forth in paragraph 7. A successful gas venting resulting in a recovered PIG shall represent final disposition of this docket.

10. SDIP, MDU and Commission Staff have entered into this Settlement Agreement for settlement purposes only to resolve the issues currently before the Commission in this proceeding, namely, how best to prevent a future gas release on either company's system. This Settlement Agreement does not constitute any finding against, or an admission by, any Party for any purpose of any fact or of a violation of any state or federal law, rule, or regulation, nor does this Agreement constitute evidence of any liability, fault, or wrongdoing.

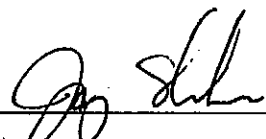
WHEREFORE, the Parties have indicated their agreement to the above settlement provisions by the signatures of their authorized representatives below as of the date set forth in the introductory paragraph of this Settlement Agreement.

COMMISSION STAFF




John J. Smith, General Counsel
South Dakota Public Utilities Commission
500 E. Capitol Ave
Pierre, SD 57501
(605)773-3201

MONTANA DAKOTA UTILITIES CO.

By: 

Name: JAY SKABO
Title: VICE PRESIDENT - OPERATIONS

SOUTH DAKOTA INTRASTATE PIPELINE COMPANY

By: 

Name: Gordon Woods
Title: VICE PRESIDENT & COO