



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

June 20, 2012

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

Re: Docket No. EL12-_____
2012-2013 Avoided Costs Update

Dear Ms. Van Gerpen:

In accordance with South Dakota Codified Laws, Chapter 49-34A, Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith electronically submits for Commission approval revisions to the Company's Occasional Power Purchase Non-Time Differentiated Rate 95, Short-Term Power Purchase Rate 96, and Long-Term Power Purchase Rate 97 tariffs. This filing is made in compliance with the Commission's Order No. F-3365 and in accordance with the Special Terms and Conditions of these tariffs which state that the rate schedules will be reviewed annually and revised when necessary.

The methodology used to develop the proposed energy and capacity payments is consistent with the approved avoided cost rate tariffs. The proposed energy payments for Rates 95, 96 and 97 were generated using Montana-Dakota's production costing model PLEXOS® for Power Systems (PLEXOS), reflecting a test year of July 2012 through June 2013. PLEXOS® is a power market simulation software that Montana-Dakota began using in 2011 replacing the Prosym production cost model used in past years. PLEXOS® provides Montana-Dakota similar modeling functionality as a production cost program.

The proposed energy payments under Rates 95, 96 and 97 reflect an increase in the energy payment per Kwh attributable to forecasted increases in both coal prices and the Midwest Independent System Operator (MISO) market prices from those included in the currently approved energy payments. Montana-Dakota used the peaking facility approach, specifically, Montana-Dakota's new combustion turbine Heskett Station 3, to calculate the proposed capacity payments. The proposed energy and capacity payments are shown on Attachment A, page 1.

The proposed capacity payments for Rate 96 reflect the projected levelized costs of a

new peaking facility and Rate 97 is based on the projected levelized costs of a base load unit. The avoided cost for Rate 96 was based on the estimated cost of a gas turbine of \$973/KW in 2015, adjusted to 2012 dollars and representing the year capacity is required. The avoided capacity cost for Rate 97 was based on the estimated cost of a base load unit at \$2,560/KW in 2010 dollars adjusted to 2012. The data used to support the proposed capacity payments is included as Attachment A.

Montana-Dakota is also proposing to update the tariff language in Rate 96 to reflect the current methodology to determining the monthly dispatchable resources capacity payment and non-dispatchable resources capacity payment method.

Montana-Dakota has reviewed the metering charges applicable under Rates 95, 96 and 97 and has determined no changes in the monthly charge are necessary in this annual update.

Montana-Dakota is proposing to remove the 600 Kwh per month limit on the energy which a customer will be paid each month as discussed with the South Dakota Staff during the processing of the 2011 avoided cost filing.

Montana-Dakota currently serves one customer under Rate 95 in South Dakota. The maximum generation in the previous twelve month period was 130 Kwh and average generation over the past twelve months has been 63 Kwh.

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 clearly highlighting the new language proposed. In accordance with the Administrative Rules of South Dakota (ARSD), 20:10:13:39(6), Montana-Dakota currently has one customer taking service under Rate 95 in South Dakota. The proposed annual change in revenue, assuming the same customer load and generation as the past twelve months, would be diminutive. Included as Attachment B is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26. Also included as Attachment C is the "Data Requirements" in accordance with the Commission's Order No. F-3563 which discloses certain information for miscellaneous filings.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment D in a conspicuous place in each business office in its affected electric service territory in South Dakota for at least 30 days before the change becomes effective.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Regulatory Affairs 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 58506-5650

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.

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,



Tamie A. Aberle
Regulatory Affairs Manager

Attachment

**On June 20, 2012, Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.,
filed with the South Dakota Public Utilities
Commission revised Rates 95, 96 & 97 which
affect Montana-Dakota Utilities Co.'s
Cogeneration electric customers in South
Dakota. The revised rates and South Dakota
rules and regulations are available in this office
for inspection.**