

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

July 27, 2016

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

Re: Docket No. EL16-_____
2016-2017 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 2016 through June 2017. The proposed energy payments under Rates 95, 96 and 97 reflect a decrease in the energy payment per Kwh attributable to a decrease in the forecasted Midcontinent Independent System Operators, Inc. (MISO) market prices and natural gas prices from those included in the currently approved energy payments.

The proposed capacity payment under Rate 96 reflects the projected levelized cost of a new peaking facility at an estimated cost of \$874/kW, adjusted to 2017 dollars. A higher capital cost, more than offset by an updated capital structure, lowers the capacity payment applicable under Rate 96 from the authorized capacity payment. The effect is a decrease in the Rate 96 capacity payment of \$0.196 per kW per month.

The proposed Rate 97 capacity payment reflects the projected levelized cost of a base

load unit at an estimated cost of \$3,882/kW, adjusted to 2017 dollars for a 185 MW base load unit. The proposed payment reflects a decrease of \$3.538/kW per month. The proposed energy and capacity payments are shown on Attachment A.

The proposed metering charges for Rates 95, 96, and 97 reflect updated meter costs, including the carrying charge and maintenance expenses. The workpapers supporting the proposed metering charges are provided in Attachment B.

In accordance with the Administrative Rules of South Dakota (ARSD), 20:10:13:39(6), Montana-Dakota currently only has one customer taking service under the Company's Avoided Cost Rates 95, 96, and 97. The Rate 95 customer's maximum generation during a given month over the course of the previous twelve month period was 86 Kwh, with the average generation over the past twelve months being 44 Kwh. The proposed annual change in revenue, assuming the same customer load and generation as the past twelve months, would be minimal.

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.

Included as Attachment C is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26. Also included as Attachment D 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 E 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.

Montana-Dakota respectfully requests that the rate schedules set forth herein be approved with an effective date of service rendered on and after September 1, 2016.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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

Mr. Karl A. Liepitz
Senior Attorney
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.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments