

July 25, 2007

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

Re: Purchased Gas Cost Adjustment Rate 88
East River Purchased Gas Cost
Adjustment Rate 89
Docket No. NG07- ____

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith requests approval to revise its Purchased Gas Cost Adjustment Rate 88 and East River Natural Gas System Purchased Gas Cost Adjustment Rate 89 (PGA) tariffs. Montana-Dakota submits this Letter of Transmittal along with Exhibit A in support of this request.

Montana-Dakota herewith requests Commission approval to change the date of the annual Surcharge Adjustment filing required under its Purchased Gas Cost Adjustment Rate 88 and East River Purchased Gas Cost Adjustment Rate 89 from May 1 each year to October 1 each year. The change is requested in order to better match the effects of the withdrawals of gas from storage with the replacement of that gas within the same annual PGA period. Currently, the effects of the withdrawals from storage are included in one annual period while the related replacement of gas into storage is in a different annual PGA period. The change of the annual PGA from May 1 to October 1 will result in the withdrawals and related injections being recorded in the same annual PGA period. This will reduce the fluctuations in the annual surcharge as well as reduce the need for out-of-cycle surcharge adjustments.

The Company requests approval of its 2nd Revised Sheet No. 29 and 2nd Revised Sheet No. 29.2 of its Purchased Gas Cost Adjustment Rate 88 tariff and 2nd Revised Sheet No. 30 and 2nd Revised Sheet No. 30.2 of its Purchased Gas Cost Adjustment Rate 89 tariff, reflecting an October 1 Surcharge Adjustment date as provided in Exhibit A. Also included 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 underlining the new proposed language.

Please refer all inquiries regarding this filing to:

Ms. Rita A. Mulkern
Regulatory Analysis 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

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,



Donald R. Ball
Vice President – Regulatory Affairs

Attachments

cc: D. Gerdes

Exhibit A



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

Section No. 3
 2nd Revised Sheet No. 29
 Canceling 1st Revised Sheet No. 29

PURCHASED GAS COST ADJUSTMENT Rate 88

Page 1 of 6

1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Montana-Dakota's rate schedules, with the exception of Rate 66 and Rate 76, in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of change in such PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective October 1 shall be filed each year, regardless of the amount of the change.

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3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for general system supply. General system supply is defined as gas available for use by all customers served under retail sales rate schedules excluding Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the system gas supply and hedging program gains, losses and transaction costs related to system gas supply.
- (b) The PGA shall be computed as follows:
 - (1) Demand costs shall include all annual gathering, transportation and storage demand charges at current rates.

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Effective Date:

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 Vice President – Regulatory Affairs

Docket No.:



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

Section No. 3
2nd Revised Sheet No. 29.2
Canceling 1st Revised Sheet No. 29.2

PURCHASED GAS COST ADJUSTMENT Rate 88

Page 3 of 6

(5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.

(d) The PGA shall be applied to each of Montana-Dakota's rate schedules excluding Rate 66 and Rate 76, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on October 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated dk sales for the twelve months following the effective date of the adjustment.

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5. Unrecovered Purchase Gas Account:

(a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:

- (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
- (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in sales rates.
- (3) Refunds received from supplier(s) with respect to gas supply. Such refunds received shall be credited to the Unrecovered Purchased Gas Cost Account.
- (4) Carrying charges or credits as determined in Section 5(b)(2).
- (5) Demand costs recovered from the large interruptible sales customers will be credited to the residential, firm general service and small interruptible customers.

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

Section No. 3
2nd Revised Sheet No. 30
Canceling 1st Revised Sheet No. 30

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

Page 1 of 6

1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Residential Natural Gas Service Rate 66 (Rate 66) and Firm General Natural Gas Service Rate 76 (Rate 76) in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of such change in PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective October 1 shall be filed each year, regardless of the amount of the change.

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3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply for the East River System as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for delivery at interconnections with South Dakota Intrastate Pipeline (SDIP). The East River System supply is defined as gas available for use by all customers served under Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the East River System gas supply and hedging program gains, losses and transaction costs related to the East River System gas supply.

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

Section No. 3
2nd Revised Sheet No. 30.2
Canceling 1st Revised Sheet No. 30.2

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

Page 3 of 6

The prepaid commodity charges shall be apportioned to all states on the basis of annual dk's sold in each state. The unit cost shall be calculated using a thirteen month average balance and the currently authorized return on rate base.

- (5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.
- (d) The PGA shall be applied to Rate 66 and Rate 76, if applicable, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

Rate 66 and Rate 76 shall be subject to a Surcharge Adjustment to be effective on October 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated Rate 66 and Rate 76 dk sales for the twelve months following the effective date of the adjustment.

C

5. Unrecovered Purchased Gas Cost Account:

- (a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:
 - (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
 - (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in the East River System sales rates.

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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
1st Revised Sheet No. 29
Canceling Original Sheet No. 29

PURCHASED GAS COST ADJUSTMENT Rate 88

Page 1 of 6

1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Montana-Dakota's rate schedules, with the exception of Rate 66 and Rate 76, in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of change in such PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective May-October shall be filed each year, regardless of the amount of the change.

3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for general system supply. General system supply is defined as gas available for use by all customers served under retail sales rate schedules excluding Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the system gas supply and hedging program gains, losses and transaction costs related to system gas supply.
- (b) The PGA shall be computed as follows:
 - (1) Demand costs shall include all annual gathering, transportation and storage demand charges at current rates.

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PURCHASED GAS COST ADJUSTMENT Rate 88

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(5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.

(d) The PGA shall be applied to each of Montana-Dakota's rate schedules excluding Rate 66 and Rate 76, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on ~~May~~October 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated dk sales for the twelve months following the effective date of the adjustment.

5. Unrecovered Purchase Gas Account:

(a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:

- (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
- (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in sales rates.
- (3) Refunds received from supplier(s) with respect to gas supply. Such refunds received shall be credited to the Unrecovered Purchased Gas Cost Account.
- (4) Carrying charges or credits as determined in Section 5(b)(2).
- (5) Demand costs recovered from the large interruptible sales customers will be credited to the residential, firm general service and small interruptible customers.

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

Section No. 3
1st Revised Sheet No. 30
Canceling Original Sheet No. 30

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

Page 1 of 6

1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Residential Natural Gas Service Rate 66 (Rate 66) and Firm General Natural Gas Service Rate 76 (Rate 76) in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of such change in PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective ~~May~~October 1 shall be filed each year, regardless of the amount of the change.

3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply for the East River System as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for delivery at interconnections with South Dakota Intrastate Pipeline (SDIP). The East River System supply is defined as gas available for use by all customers served under Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the East River System gas supply and hedging program gains, losses and transaction costs related to the East River System gas supply.

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Section No. 3
1st Revised Sheet No. 30.2
Canceling Original Sheet No. 30.2

EAST RIVER NATURAL GAS SYSTEM PURCHASED GAS COST ADJUSTMENT Rate 89

Page 3 of 6

The prepaid commodity charges shall be apportioned to all states on the basis of annual dk's sold in each state. The unit cost shall be calculated using a thirteen month average balance and the currently authorized return on rate base.

- (5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.
- (d) The PGA shall be applied to Rate 66 and Rate 76, if applicable, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

Rate 66 and Rate 76 shall be subject to a Surcharge Adjustment to be effective on ~~May~~October 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated Rate 66 and Rate 76 dk sales for the twelve months following the effective date of the adjustment.

5. Unrecovered Purchased Gas Cost Account:

- (a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:
 - (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
 - (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in the East River System sales rates.

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