

December 21, 2012

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

Re: General Natural Gas Rate Application  
Docket No. NG12-\_\_\_\_

Montana-Dakota Utilities Co. (Montana-Dakota, Company or Applicant), a Division of MDU Resources Group, Inc., herewith submits its application for an increase in natural gas rates in the Black Hills and East River service areas. Montana-Dakota is also proposing to consolidate the Black Hills and East River areas into one rate jurisdiction. Montana-Dakota encloses herein an Original and fourteen (14) copies of this Letter of Transmittal, Application with Appendices A and B, Testimony and Exhibits and supporting Statements that document the need for this request to increase rates for natural gas service. An electronic copy of the filing has also been submitted. This filing is made in accordance with Administrative Rules of South Dakota (ARSD), Sections 20:10:13:26 and 20:10:13:39 through 20:10:13:104 inclusive.

Montana-Dakota will prove by competent evidence that its existing natural gas rates do not allow Montana-Dakota to fully recover the cost of providing gas service to its South Dakota customers and that therefore, the current rates are unjust, unreasonable and not compensatory.

The primary reason for the increase in rates is the increased investment in facilities and the associated depreciation, operation and maintenance expenses and taxes associated with the increase in investment. The gross investment in South Dakota gas operations has increased by approximately \$33 million, or 53 percent, since the last rate cases in 2004 and 2005. In addition to the ongoing investment to serve new customers and to replace existing facilities, investments in a landfill gas production facility, a new operations building, and an automated meter reading system have occurred since the last case, along with a new customer information and billing system to be implemented in February 2013.

Montana-Dakota's last general gas rate case was in 2004 (Docket No. NG04-004) for the Black Hills area and in 2005 (Docket No. NG05-002) for the East River area. The resulting increases were 1.4 percent for the Black Hills area effective in December 2004 and 12.8 percent for East River customers effective in September 2005.

The Company is proposing to consolidate the two rate areas as the East River system, operational since 1993, has matured to a point where it is no longer necessary to maintain two separate rate areas. The rate consolidation recognizes the cost to serve the two areas is similar and provides for consistent tariffs and purchased gas costs for the Company's total South Dakota service territory, resulting in rate administration efficiency for the Company and the Commission and promoting customer understandability of applicable rates.

Montana-Dakota strives to control its costs by continually looking for opportunities that create efficiencies and control costs. Operation and maintenance expenses have decreased on a per customer basis, from an annual cost per customer of \$199 per customer in 2004 to an annual pro forma cost of \$157 per customer. During this same time period the Consumer Price Index (CPI) increased by 21 percent.

Authorization of the requested increase in revenues will provide Montana-Dakota a reasonable opportunity to earn a fair rate of return for its South Dakota natural gas operations.

The Company proposes a total increase in distribution revenues of \$1,548,355, as shown on Statement O, page 1 based on an average test year for the twelve months ended June 30, 2012 adjusted for known and measurable changes. The proposed increase will affect approximately 54,800 natural gas customers in South Dakota. The proposed change in rates, including the affects of the rate consolidation, is shown below:

Class	Amount	Percent Increase
Residential		
Black Hills Area	\$1,478,686	6.3%
East River Area	(88,357)	(2.8)%
Firm General		
Black Hills Area	557,146	3.8%
East River Area	(556,414)	(14.9)%
Small Interruptible	(73)	0.0%
Large Interruptible	157,367	9.8%
Total	\$1,548,355	3.3%

A typical residential customer in the Black Hills area will see an average increase of approximately \$3.00 per month while a typical residential customer in the East River will see an average decrease of approximately \$1.10 per month.

Included in Appendix B of the Application 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.

In accordance with ARSD 20:10:13:39(6), it is noted that the proposed rates may potentially affect 54,800 gas customers located in the Company's Black Hills and East River service area in South Dakota. Attached as Exhibit A is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26.

The Company will comply with ARSD 20:10:13:18 by posting a Notice of the proposed rates, as shown on Exhibit B, in each of its business offices affected by the proposed change.

In support of the Company's request, the following documents are included with this Letter of Transmittal:

- Notice and Certificate of Service
- The Application including:

- Appendix A – Current Rate Schedules
- Appendix B - Proposed Final Rate Schedules including a redlined version of tariffs denoting proposed changes.
- Prefiled Direct Testimony and Exhibits in support of the Application
- Supporting Statements and Workpapers required by the Commission's filing requirements, ARSD §20:10:13:51 through §20:10:13:102

Please refer all inquiries regarding this filing to:

Ms. Rita A. Mulkern  
Director of Regulatory Affairs  
Montana-Dakota Utilities Co.  
400 North Fourth Street  
Bismarck, North Dakota 58501  
Rita.mulkern@mdu.com

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

Mr. Brett Koenecke  
May, Adam, Gerdes & Thompson  
503 South Pierre Street  
P.O. Box 160  
Pierre, South Dakota 57501-0160

All of the materials included in this Application will be available for public inspection at each of Montana-Dakota's business offices and posted on Montana-Dakota's internet site.

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,



David L. Goodin  
President and Chief Executive Officer