

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

November 18, 2022

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

Re: Authority to Establish North Deadwood Expansion Area Surcharge Rate 75
Docket No. NG22-_____

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (“Montana-Dakota” or “Company”) herewith electronically submits for South Dakota Public Utilities Commission (“Commission”) approval the Company’s request to establish a new rate schedule, North Deadwood Expansion Surcharge Rate 75 (Rate 75), designated as Original Sheet Nos. 16 and 16.1 of the Company’s electric tariff and attached hereto as Attachment A, for the recovery of costs associated with the construction of a new town border station near Deadwood, South Dakota as explained further herein. Attachment A also includes the corresponding change to the Company’s Table of Contents, 9th Revised Sheet No. 1, to reflect the insertion of the new rate schedule.

In Summer 2022, Montana-Dakota was approached regarding a possible natural gas extension to a new development near Deadwood, South Dakota, now commonly referred to as “the Ridge”. The Ridge is a mixed use residential and commercial development on the north side of Deadwood. The development is projected to have over 400 residential services and approximately twenty commercial services.

The Company has broken down the development of this area into three construction phases. Phase I can be served off of an existing farm tap north of Deadwood, referred to internally as the Hayes Tap and is estimated to bring service up to 120 customers. Currently there is one customer taking natural gas service off of the Hayes Tap. Construction under Phase I is underway as of the date of this filing and is expected to be completed by the end of 2022.

Construction under Phase II will provide the infrastructure for the remainder of the Ridge development and is anticipated to start in November 2022 and be completed in Summer 2023. During this same time period, a large commercial customer, separate from those projected as part of the Ridge, is anticipating needing firm natural gas service in this north Deadwood area.

Phase III, which will be developed concurrently with Phase II, will be the construction of a new town border station (TBS) at the same location as a farm tap used to serve a customer in the area today. This farm tap is located towards the south side of the new development area and is referred to internally as the Tuepal Tap. Absent Phase III, Montana-Dakota would be unable to provide natural gas service to Phase II of the project due to the daily load limitations imposed by the pipeline company on farm taps. Therefore, the construction of the new town border station is necessary for any further expansion to occur in the north Deadwood area. Upon completion of Phase III, the Hayes and Tuepal Taps will be retired and the Ridge area will be served off of the new TBS, along with any additional growth in the north Deadwood area. The construction of Phase III is expected to start Spring 2024 and take three to six months to complete. Please see Attachment B for a map of the Ridge development area, along with the two current farm taps and existing customers identified. The Ridge development area is outlined in red on the map. Montana-Dakota has also outlined in blue an extended area beyond that of the Ridge that would also be served through the new TBS.

Today, Montana-Dakota extends gas service to requesting customers and/or developers in accordance with Interruptible Gas Service Extension Policy Rate 119 (Rate 119) or Firm Gas Service Extension Policy Rate 120 (Rate 120). The Company's extension policies identify the type of costs that are included in a construction estimate, how cost responsibility is determined for an extension project, the acceptable forms of payment if a contribution is required from a customer or developer prior to the start of construction, and the refunding of any contributions paid for by the customer or developer, if applicable. The extension of mains and service lines to and within the Ridge will be in constructed and administered in accordance with Rates 119 and 120.

The construction of Phase III (or the TBS) will be administered separate from Phases I and II due to the anticipated cost, and proposed recovery, of this phase. As previously mentioned, the construction of the new TBS is necessary as the Company's current facilities limit any growth beyond Phase I of the Ridge project and the two customers currently taking service. The cost of the new TBS, as shown in Attachment C, is estimated to be approximately \$1,144,500. The Company recognizes this to be a sizeable cost responsibility for customers taking service off of the new TBS and therefore Montana-Dakota is proposing to utilize an available provision under Rate 120, the Incremental Expansion Surcharge, for the recovery of the TBS costs. This provision allows for the Company, in its sole discretion, to offer an incremental surcharge to groups of customers when the total estimated cost would otherwise have been prohibitive under the Company's present rates and gas service extension policy.

To effectuate the expansion surcharge provision and allow for the recovery of costs beyond five years as provided for under Paragraph 3.a.iii of Rate 120, Montana-Dakota is proposing Rate 75 whereby customers would be charged:

- A minimum up-front payment in accordance with the Down Payment schedule outlined in Rate 75. Montana-Dakota is requesting that the Company be allowed to charge a different down payment by customer class under Rate 75 in recognition of the demand differences customers of different classes of service will place on the new TBS.

- For the recovery of costs projected to be remaining after the initial up-front payments from participating customers, Montana-Dakota proposes that all customers, with the exception of the two current customers, pay a flat Expansion Charge of \$5.00 per month and a volumetric Expansion Commodity Charge of \$4.00 per Dk as shown on page 1 of Attachment C. The surcharge rates will be separately billed and identified on each customer's bill. These charges will be in addition to the rates charged customers under the appropriate South Dakota natural gas rate schedule applicable to their respective service.

The Company is proposing that the two existing customers currently taking service in this area be exempt from the surcharge as their load is adequately served off of the Company's existing facilities. The Company does not believe they should be required to pay for an upgrade in facilities necessary to serve new customers in the surrounding area.

The TBS project will be reviewed annually to determine if sufficient customers and natural gas load have initiated service in the last year to ensure complete recovery of the TBS by the anticipated end date of the surcharge. Montana-Dakota is projecting the end date of the surcharge to be November 2034, or ten years from the in-service date of the TBS. Montana-Dakota reserves the right to revise the surcharge rates under Rate 75 if the projected level of customers and/or volumes are not being attained.

Montana-Dakota believes the establishment of the new rate schedule provides customers interested in establishing service in the north Deadwood area the additional rate information for such service and the Company the ability to offer natural gas service to the area through an affordable option by extending the recovery of the new TBS across ten years. Additionally, the north Deadwood development area will benefit all South Dakota gas customers from the additional distribution revenue collected from these customers.

Included herein is a second set of the affected tariff sheets 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.

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 territory in South Dakota. Included as Attachment E is the South Dakota "Report of Tariff Change" form required pursuant to ARSD 20:10:13:26.

Please refer all inquiries regarding this filing to:

Mr. Travis R. Jacobson
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501
Travis.jacobson@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

Ms. Allison Waldon
Attorney
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, North Dakota 58506-5650
Allison.waldon@MDUResources.com

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,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachments
cc: B. Koenecke
A. Waldon