MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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

July 2, 2007

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

Re: Annual DSM and Renewable Programs Report Pursuant to the Order in Docket EL05-022

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., hereby submits its first annual report on the Company's ongoing Demand Side Management (DSM) and Renewable Programs in compliance with the South Dakota Public Utilities Commission Order in Docket No. EL05-22, dated July 21, 2006 in the Big Stone II Energy Conversion Facility Permitting case.

Sincerely,

Donald R. Ball

Donald R. Ball
Vice President – Regulatory Affairs

**Montana-Dakota Utilities Co.**
**Demand Side Management (DSM) & Renewable Programs**
**Annual Report to the South Dakota Public Utilities Commission**
**Docket No. EL05-022**

On July 21, 2005, Otter Tail Power Company (Otter Tail) filed with the South Dakota Public Utilities Commission an application for an Energy Conversion Facility Permit for the Construction of the Big Stone II Project on behalf of the Big Stone II Co-owners. On July 26, 2006, in Docket No. EL05-022, the Commission issued its Final Decision and Order granting the permit and also requiring Montana-Dakota Utilities Co. (Montana-Dakota) and Otter Tail to file annually beginning July 1, 2007 a report on the ongoing DSM and renewable programs, a forecast of its near- and long-term initiatives to optimize the benefits related to demand-side management and renewable energy programs.

Montana-Dakota respectfully submits this report in compliance with the Commission's order.

## Demand Side Management (DSM)

Montana-Dakota, as part of the Company's integrated resource planning process, evaluates potential DSM programs that correlate with the Company's load shape along with existing and potential supply side resources in order to consider all resource options reasonably available to meet customers demand for reliable and cost effective electricity. A copy of Montana-Dakota's 2007 Integrated Resource Plan recently filed with the Montana Public Service Commission was submitted to the South Dakota Public Utilities Commission on May 15, 2007.

In developing the 2007 IRP, the Company, along with the IRP Public Advisory Group (PAG) identified 14 potential DSM programs for exploration. In order to balance all interests and achieve cost-effective DSM for the utility, customers/ratepayers and society as a whole, a cost-benefit analysis from different perspectives was performed on potential DSM programs. The perspectives or "tests" are not intended to be used individually or in isolation, and must be compared to each other. This multi-perspective approach allows consideration for tradeoffs between various tests, however the impacts measured from the customer/ratepayer perspective and societal perspective will determine if a program is feasible. Once a program is determined feasible, all test results are considered to determine if a program is implemented. Therefore even if a program is feasible it may not be implemented due to tradeoffs with other tests and other identified factors.

Based on the benefit/cost analysis and the practicality of installation, the following nine programs have been identified as beneficial DSM programs and

will be implemented:

1. ENERGY STAR® refrigerator rebates
2. ENERGY STAR® freezer rebates
3. Residential air conditioning cycling program
4. Refrigerator round-up program
5. Interruptible Demand Response Rate in North Dakota, South Dakota and Montana.
6. High efficiency motor rebates
7. ENERGY STAR® commercial central air conditioner rebates
8. Commercial air conditioner cycling program
9. Light-emitting diode (LED) exit sign lighting rebates.

As shown below the new DSM programs will provide Montana-Dakota an estimated additional demand reduction of 13.8 MW once implementation is complete. The DSM program cost is approximately $344/kW in total. The first year program costs are estimated to be approximately $1,988,179, with a total estimated cost of approximately $4,747,576.

| Programs | Available Date | Annual kWh Savings | Peak kW Savings | Installed Cost/kWh | Installed Cost/kW |
|---|---|---|---|---|---|
| ENERGY STAR® refrigerators | 2008 | 312,191 | 195 | $0.027 | $636 |
| ENERGY STAR® freezers | 2008 | 175,574 | 127 | $0.042 | $867 |
| Refrigerator round-up | 2008 | 473,999 | 503 | $0.034 | $324 |
| LED exit signs | 2008 | 86,944 | 124 | $0.014 | $971 |
| Residential A/C Cycling | 2009 | 238,782 | 7,151 | $0.126 | $419 |
| Commercial A/C Cycling | 2009 | 29,157 | 873 | $0.126 | $421 |
| Commercial High Efficiency A/C | 2008 | 203,689 | 199 | $0.054 | $835 |
| High Efficiency Motors | 2008 | 567,063 | 138 | $0.017 | $1045 |
| IT Rate - Demand Response | 2008 | 340,025 | 4,500 | $0.163 | $123 |
| Total | | 2,427,424 | 13,810 | | |

The addition of the above mentioned nine programs will bring the total DSM programs Montana-Dakota is offering to twelve. In 2006, Montana-Dakota implemented the following three DSM programs as identified in the Company's 2005 IRP:

1. ENERGY STAR® Partnership
2. ENERGY STAR® residential central air conditioning rebates
3. Commercial retro-fit lighting rebates

All of the DSM programs are fully described in Montana-Dakota's 2007 IRP.

## Renewable Programs Overview

Wind Resources

In July 1993, Montana-Dakota was instrumental in developing a seven utility agreement to coordinate the installation of seven wind-monitoring towers in North Dakota. At the end of three years, the data collected from the seven sites were delivered free of charge to the state of North Dakota to be used by any interested party.

Montana-Dakota initiated a program, approved by the North Dakota Public Service Commission, in April 2001, to provide renewable power to its customers located in North Dakota by adding wind generation to its system in the amount contracted by customers who signed up for the program. There was insufficient customer interest to cost effectively build or purchase an increment of wind generation, therefore the program was abandoned.

In 2002, Montana-Dakota executed a contract to purchase approximately 20 MW of generation from a wind farm to be built near Ellendale, ND. This agreement was the first agreement to be signed for a wind farm built in North Dakota. The developer never built the facility and the contract was terminated. In 2005, Montana-Dakota entered into another power purchase agreement to purchase up to 31.5 MW of power from a wind farm located near Java, South Dakota. That contract went into default in November 2006.

In 2005, the Montana legislature passed a law requiring the purchase of renewable energy to serve fifteen percent of a utility's Montana retail energy requirement by 2015. Montana-Dakota is in the process of constructing a 20 MW wind farm near Baker, Montana and will install an additional 10 MW in 2014.

Montana-Dakota continues to evaluate wind and other renewable resources available on the system and will incorporate such resources as part of the resource mix when reasonable and economic to do so.