



Gary Hanson, Chairperson
Chris Nelson, Vice Chairperson
Kristie Fiegen, Commissioner

South Dakota

PUBLIC UTILITIES COMMISSION

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April 16, 2013

Daniel Ainslie, City Manager
City of Sturgis
1040 2nd Street, Suite 103
Sturgis, SD 57785

Dear Mr. Ainslie:

Thank you for your letter regarding the Montana Dakota Utilities rate increase docket, NG12-008.

Since this is an open docket on which commissioners will ultimately vote, Chairman Hanson forwarded your letter to commission staff to respond. Commissioners must refrain from addressing or discussing open dockets outside of noticed, public meetings. Your letter was provided to each of the commissioners for their review and will be added to the Comments and Responses section of the docket. You can access the complete docket online at www.puc.sd.gov and click on Commission Actions, Commission Dockets, Natural Gas Dockets, 2012 Natural Gas Dockets, and scroll down to NG12-008. You can follow the progress of the docket via online filings and the public meetings in which the docket is discussed.

Your first item of concern is MDU's typical **residential customer impact calculation**. The annual usage of 75 dk for the typical Black Hills area customer and 61 dk for the typical East River customer is based on average data for the residential classes. Individual customer use can vary based on several reasons. Customers use natural gas for various purposes, including heating their homes, water heating, indoor cooking, and cooking with an outdoor grill. Some customers may use natural gas to serve all these purposes while others may only use natural gas for one or two of these functions.

Efficiencies in the home can also impact the level of usage per customer. The East River system is a relatively new system, established in 1993. Thus, many East River customers have newer, efficient homes. Customers with established homes may not use natural gas for heating as they were already using another form of heating, such as electricity, prior to the establishment of MDU's east river system. These are some possible reasons why the average usage per customer is lower for the East River region as compared to the Black Hills region.

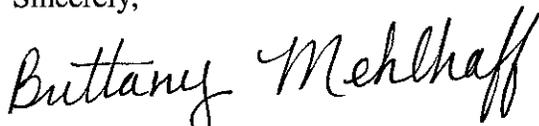
Your second concern regards MDU's justification in proposing **consolidation of two rate areas**. Commission staff is currently analyzing this rate case, including evaluating MDU's proposal to consolidate the two rate areas. Staff will request necessary information through the discovery process to examine this issue in detail. The commission will make a determination at the conclusion of this case regarding the rate consolidation proposal based on the facts presented to them in this case.

Your letter states, ***“The City is concerned that this statement likely does not include the costs associated with the transport and other costs necessary to provide services to the East River customers.”*** Transport costs are handled through MDU’s Purchased Gas Adjustment (PGA). The PGA is adjusted monthly and reflects changes in MDU’s cost of gas supply. Any changes to the PGA as a result of the proposed rate consolidation will be reviewed in this case.

Your letter also states, ***“It appears as though MDU is seeking to reduce costs for a small portion of its customer base by drastically increasing the pricing for the majority of its customers.”*** The commission will not allow drastic and unfair increases for one group of customers over another due to rate consolidation. Rates must be based on the costs necessary to serve customers and allocated among customer groups in a reasonable manner. The commission will fully examine this issue to ensure rates are just and reasonable for both Black Hills and East River customers.

I hope this information is helpful to you in understanding how the commission and state law deals with the issues you raised. I have enclosed a document you may also find helpful, the “Natural Gas Rate Increase Requests Info Guide.” This is available via the commission’s Web site. Again, I encourage you to follow the rate case process and contact me if I can assist you with any other concerns.

Sincerely,

A handwritten signature in cursive script that reads "Brittany Mehlhaff". The signature is written in black ink and is positioned above the typed name.

Brittany Mehlhaff
Utility Analyst

enclosure