



A Division of MDU Resources Group, Inc.

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

June 23, 2014

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501-5070

Re: Docket No. EL14-_____
2014-2015 Avoided Costs Update

Dear Ms. Van Gerpen:

In accordance with South Dakota Codified Laws, Chapter 49-34A, Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith electronically submits for Commission approval revisions to the Company's Occasional Power Purchase Non-Time Differentiated Rate 95, Short-Term Power Purchase Rate 96, and Long-Term Power Purchase Rate 97 tariffs. This filing is made in compliance with the Commission's Order No. F-3365 and in accordance with the Special Terms and Conditions of these tariffs which state that the rate schedules will be reviewed annually and revised when necessary.

The methodology used to develop the proposed energy and capacity payments is consistent with the approved avoided cost rate tariffs. The proposed energy payments for Rates 95, 96 and 97 were generated using Montana-Dakota's production costing model PLEXOS® for Power Systems (PLEXOS), reflecting a test year of July 2014 through June 2015. The proposed energy payments under Rates 95, 96 and 97 reflect an increase in the energy payment per Kwh attributable to an increase in the forecasted Midcontinent Independent System Operators, Inc. (MISO) market prices and natural gas prices from those included in the currently approved energy payments.

The proposed capacity payment under Rate 96 reflects the projected levelized cost of a new peaking facility, specifically Heskett Station 3. The proposed capacity payment reflects an updated capital structure and tax rate, in addition to a lower estimated cost of \$870/kW in 2015 dollars for Heskett 3, thereby lowering the capacity payment applicable under Rate 96 from the capacity payment current authorized. The effect is a decrease in the Rate 96 capacity payment of \$0.772 per kW per month. The proposed capacity payment under Rate 97 was based on the projected levelized costs of a base load unit, estimated at a per kW cost of \$3,520 for a 168 MW base load unit, as used in the current rate, adjusted to 2015 dollars for the 2014 – 2015 avoided cost rate update.

The effect is an increase in the Rate 97 capacity payment of \$1.270 per kW per month. The proposed energy and capacity payments are shown on Attachment A.

The proposed metering charges for Rates 95, 96, and 97 reflected updated meter costs, including the carrying charge and operation and maintenance expenses. The workpapers supporting the proposed metering charges are provided in Attachment B.

In accordance with the Administrative Rules of South Dakota (ARSD), 20:10:13:39(6), Montana-Dakota currently has one customer taking service under Rate 95 in South Dakota. The maximum generation in the previous twelve month period was 155 Kwh and average generation over the past twelve months has been 48 Kwh. The proposed annual change in revenue, assuming the same customer load and generation as the past twelve months, would be minimal.

Included herein 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 clearly highlighting the new language proposed.

Included as Attachment C is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26. Also included as Attachment D is the "Data Requirements" in accordance with the Commission's Order No. F-3563 which discloses certain information for miscellaneous filings.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment E in a conspicuous place in each business office in its affected electric service territory in South Dakota for at least 30 days before the change becomes effective.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Director of Regulatory Affairs
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

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,

A handwritten signature in red ink that reads "Tamie A. Aberle". The signature is written in a cursive style with a large initial "T".

Tamie A. Aberle
Director of Regulatory Affairs

Attachment