

whether express or implied by the Settlement Agreement, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of this Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any changes in or conditions to this Stipulation which are unacceptable to any party, this Stipulation shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.

3. This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any rate making principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be prejudiced or bound thereby in any other current or future proceeding before the Commission. No party or representative thereof shall directly or indirectly refer to this Stipulation or that part of any

order of the Commission referring to this Stipulation as precedent in any other current or future rate proceeding before the Commission.

4. The Parties to this proceeding stipulate that all pre-filed testimony, exhibits, and work papers be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, Staff would have filed pre-filed testimony and Montana-Dakota would have filed rebuttal testimony and the Commission Staff would have responded to certain of the positions contained in Montana-Dakota's rebuttal testimony.

5. It is understood that Commission Staff enters into this Stipulation for the benefit of Montana-Dakota's South Dakota customers affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

The Parties agree that Montana-Dakota's attached rate schedules are designed to produce annual increases in base rate levels (excluding purchased gas cost adjustment and sales taxes and rounded as close as possible to Montana-Dakota's request) of \$850,156 annually for retail natural gas service in Montana-Dakota's East River Natural Gas service area in the State of South Dakota. The parties agree to an overall rate of return of 8.9% for the purposes of Purchased Gas Adjustment and other similar carrying charge calculations.

2. Tariffs

The Tariffs reflect the following basic service charges with the remainder of the applicable revenue increase collected through the Distribution Delivery Charges:

Rate Class

Base Service Charge

| | |
|-----------------------------|--------------|
| Residential | 15 cents/day |
| Firm General | |
| Meters < 500 cubic ft./hour | 25 cents/day |
| Meters > 500 cubic ft./hour | 50 cents/day |

3. Implementation of Rates

The revised rate schedules, attached hereto, shall be implemented with service rendered on and after September 1, 2005, with bills prorated so that usage prior to September 1, 2005, is billed at the previous rates and usage on and after September 1, 2005, is billed at the new rates.

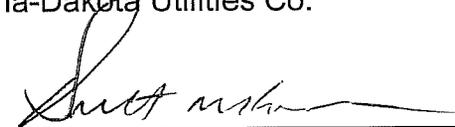
4. Conclusion

This Stipulation is entered into this 22nd day of August, 2005.

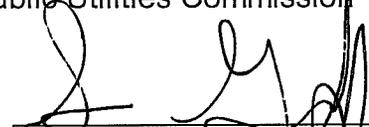
Montana-Dakota Utilities Co.

SD Public Utilities Commission

BY:



BY:



Brett Koenecke
 Attorney
 May, Adam, Gerdes & Thompson, LLP
 503 S. Pierre Street
 P.O. Box 160
 Pierre, SD 57501-0160

Sara B. Greff
 Staff Attorney
 SD Public Utilities Commission
 500 E. Capitol Avenue
 Pierre, SD 57501

DATED:

August 22 2005

DATED:

AUG. 22, 2005

Change in Natural Gas Rates Effective September 1, 2005

On March 24, 2005, Montana-Dakota Utilities Co. (Montana-Dakota) filed an application with the South Dakota Public Utilities Commission (Commission) for an increase in prices charged for natural gas service to its customers in the East River service area, which includes the communities of Agar, Bowdle, Ft. Pierre, Gettysburg, Glenham, Ipswich, Mobridge, Onida, Pierre, Roscoe and Selby. Montana-Dakota identified a need for an annual revenue increase of approximately \$1.8 million, however, recognizing the impact on customers, requested only a portion or approximately \$850,000 in additional revenues. Only non-gas related or distribution costs were a part of the filing. Montana-Dakota's non-gas rates for its East River customers have not increased since the initial rates were implemented in August 1993. The primary reasons for Montana-Dakota's rate filing were increased operating expenses (operation and maintenance costs, depreciation and taxes other than income), an increase in the investment in facilities used to provide natural gas service to customers and because volume levels have been significantly lower than authorized in the initial rates established twelve years ago. On August 30, 2005, the Commission approved a natural gas rate increase in the amount of \$850,156.

Along with the approved rate increase, a new rate structure has also been approved. Under the new rate structure, two separate rates will now be available for service; Residential Gas Service Rate 66 and Firm General Gas Service Rate 76. This rate separation will better reflect the services available to customers under each rate class. Also approved with the rate change is an increase in the Basic Service Charge. The Basic Service Charge will be billed on a per day basis, rather than the former flat monthly charge. The increase, along with the new per day charge, will better reflect the fixed costs associated with providing you safe and reliable natural gas service.

The new rates shown below became effective with service rendered on and after September 1, 2005. The first bill you receive may be prorated, depending on your meter reading date. This means that any service provided prior to September 1, 2005 will be billed at the old rates and any service provided on and after September 1, 2005 will be billed at the new rates included in this folder.

Beginning October 1, 2005, Montana-Dakota will apply a Distribution Delivery Stabilization Mechanism (DDSM) adjustment to Residential Gas Service Rate 66 and Firm General Gas Service Rate 76 customers' bills. This mechanism is designed to offset any over- or under-collection of distribution delivery charge revenues during the period from October 1 through April 30 each year. Stated another way, during these months the usage used to bill Rate 66 and Rate 76 customers for the non-gas portion of their rate will be adjusted to reflect consumption at normal temperature levels instead of actual temperature levels.

The effect of this adjustment is to stabilize customer billings by lowering usage levels during times of colder than normal temperatures and raising them during times of warmer than normal temperatures. The adjustment itself is revenue neutral over time, meaning on average it will not increase or decrease the overall revenues to the Company. The DDSM adjustment will be shown as an additional charge or credit amount on your billing statement.

The cost of gas shown below was effective on August 1, 2005, pursuant to the Purchased Gas Adjustment (PGA) filed with the South Dakota Public Utilities Commission. The PGA increases or decreases our retail prices each month to track changes in the cost of natural gas. The PGA mechanism is strictly a pass-through to our customers of costs incurred by Montana-Dakota for the purchase and delivery of natural gas to customers. The PGA provides no mark-up or profit to Montana-Dakota.

Following are the rates effective as of September 1, 2005:

Residential Gas Service – Rate 66

Rate:

Basic Service Charge..... \$0.150 per day
 Distribution Delivery Charge..... \$2.915 per dk
 Cost of Gas \$7.689 per dk
 Minimum bill: Basic Service Charge

Firm General Gas Service – Rate 76

Rate:

Basic Service Charge:
 Meters rated under 500 cubic feet per hour \$0.250 per day
 Meters rated over 500 cubic feet per hour \$0.500 per day
 Distribution Delivery Charge..... \$2.598 per dk
 Cost of Gas \$7.689 per dk
 Minimum bill: Basic Service Charge

Residential Rate Comparison

| Dk | Present Rate | Proposed Rate | Amount of Increase | % Increase |
|----|--------------|---------------|--------------------|------------|
| 2 | \$21.07 | \$25.94 | \$4.87 | 23.11% |
| 4 | 40.14 | 47.32 | 7.18 | 17.89% |
| 7 | 68.75 | 79.39 | 10.64 | 15.48% |
| 9 | 87.82 | 100.77 | 12.95 | 14.75% |
| 11 | 106.90 | 122.15 | 15.25 | 14.27% |
| 15 | 145.04 | 164.91 | 19.87 | 13.70% |

Following is a review of other terms of service:

NSF Check Charge:

A charge of \$20.00 will be collected by the Company for each check charged back to the Company by a bank.

Seasonal Reconnect Charge:

Any customer who requests the reconnection of service at the same address within a 12-month period will be charged the Basic Service Charge applicable during the period while service was not in use or a minimum of \$30.00. The minimum will be based on standard overtime rates for reconnection of service after normal business hours.

Payment:

Bills will be considered past due if not paid by the due date shown on the bill. An amount equal to 1% per month will be applied to any unpaid balance existing on the immediate subsequent billing date.

For further information, applicable rates, rules and regulations are on file at Montana-Dakota's offices and are available for inspection upon request.

ER – 9/05



Montana-Dakota Utilities Co.
A Division of MDU Resources Group, Inc.
 400 N 4th Street
 Bismarck, ND 58501

**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 1
 2nd Revised Sheet No. 1
 Canceling 1st Revised Sheet No. 1

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Montana-Dakota Utilities Co.
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 400 N 4th Street
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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

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**State of South Dakota
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PRELIMINARY STATEMENT

Page 1 of 2

PRELIMINARY STATEMENT

*Designates Region Office

Montana-Dakota Utilities Co. serves twenty-six (26) towns and their environs in eleven (11) counties in South Dakota with natural gas. Counties served are:

| | | |
|---------|------------|----------|
| Butte | Lawrence | Stanley |
| Edmunds | Meade | Sully |
| Harding | Pennington | Walworth |
| Hughes | Potter | |

Communities served under Rate 66 or 76 are designated (66/76), all other communities are served under the otherwise applicable rates.

Bismarck Region

| | | |
|--------------------|------------------|----------------|
| Agar (66/76) | Glenham (66/76) | Pierre (66/76) |
| Bowdle (66/76) | Ipswich (66/76) | Roscoe (66/76) |
| Ft. Pierre (66/76) | Mobridge (66/76) | Selby (66/76) |
| Gettysburg (66/76) | Onida (66/76) | |

Rapid City Region

| | | |
|---------------|-------------|------------|
| Belle Fourche | Deadwood | St. Onge |
| Black Hawk | Lead | Spearfish |
| Box Elder | Piedmont | Sturgis |
| Camp Crook | Pluma | Terraville |
| Central City | *Rapid City | Whitewood |

| | | | |
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Section No. 3
 2nd Revised Sheet No. 2
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RESIDENTIAL GAS SERVICE Rate 60

Page 1 of 1

Availability:

In all communities served, except for those communities set forth on Rate 66 or Rate 76, for all domestic uses. See Rate 100, §V.3, for definition of class of service.

Rate:

| | |
|-------------------------------|--|
| Basic Service Charge: | \$0.25 per day |
| Distribution Delivery Charge: | \$1.571 per dk |
| Cost of Gas: | Determined Monthly – See Rate Summary Sheet for Current Rate |

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

General Terms and Conditions:

RULES - The foregoing schedule is subject to Rates 100 through 134 and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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 400 N 4th Street
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**State of South Dakota
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Section No. 3
 1st Revised Sheet No. 7
 Canceling Original Sheet No. 7

**EAST RIVER NATURAL GAS SYSTEM
 RESIDENTIAL GAS SERVICE Rate 66**

Page 1 of 2

Availability:

In the following communities, for all domestic uses except for resale. See Rate 100 §V.3, for definition on class of service.

| | | |
|------------|----------|--------|
| Agar | Glenham | Pierre |
| Bowdle | Ipswich | Roscoe |
| Ft. Pierre | Mobridge | Selby |
| Gettysburg | Onida | |

Rate:

| | |
|-------------------------------|--|
| Basic Service Charge: | \$0.15 per day |
| Distribution Delivery Charge: | \$2.915 per dk |
| Cost of Gas: | Determined Monthly – See Rate Summary Sheet for Current Rate |

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 89 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87, or any amendments or alterations thereto.

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400 N 4th Street
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**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
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**EAST RIVER NATURAL GAS SYSTEM
RESIDENTIAL GAS SERVICE Rate 66**

Page 2 of 2

General Terms and Conditions:

RULES – The foregoing schedule is subject to Rates 100 through 134, and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 2nd Revised Sheet No. 11
 Canceling 1st Revised Sheet No. 11

FIRM GENERAL GAS SERVICE Rate 70

Page 1 of 2

Availability:

In all communities served, except for those communities set forth on Rate 66 or Rate 76, for all purposes except for resale. See Rate 100, §V.3, for definition on class of service.

T
|

Rate:

| | |
|---|--|
| Basic Service Charge: | |
| For customers with meters rated under 500 cubic feet per hour | \$0.35 per day |
| For customers with meters rated over 500 cubic feet per hour | \$0.70 per day |
| Distribution Delivery Charge: | \$1.175 per dk |
| Cost of Gas: | Determined Monthly – See Rate Summary Sheet for Current Rate |

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87 or any amendments or alterations thereto.

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Section No. 3
 1st Revised Sheet No. 12
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SMALL INTERRUPTIBLE GENERAL GAS SERVICE Rate 71

Page 1 of 3

Availability:

In all communities served, except for communities set forth on Rate 66 or Rate 76, for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will not exceed 40,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruption purposes, the maximum daily firm requirement shall be set forth in the firm service agreement.

Rate:

| | |
|-------------------------------|---|
| Basic Service Charge: | \$50.00 per month |
| Distribution Delivery Charge: | |
| Maximum Rate | \$0.453 per dk |
| Minimum Rate | \$0.131 per dk |
| Cost of Gas: | Determined Monthly – See Rate Summary Sheet for Current Rate |

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

| | | | |
|--------------------|---|------------------------|--|
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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 3rd Revised Sheet No. 13
 Canceling 2nd Revised Sheet No. 13

OPTIONAL SEASONAL GENERAL GAS SERVICE Rate 72

Page 1 of 2

Availability:

In all communities served, except for those communities set forth on Rate 76, for customers otherwise qualifying for service under Firm General Gas Service Rate 70. See Rate 100, §V.3, for definition of class of service.

T

Rate:

| | |
|---|---|
| Basic Service Charge: | |
| For customers with meters rated under 500 cubic feet per hour | \$0.35 per day |
| For customers with meters rated over 500 cubic feet per hour | \$0.70 per day |
| Distribution Delivery Charge: | \$1.175 per dk |
| Cost of Gas: | |
| Winter – Bills rendered October 1 through May 31 | Determined Monthly – See Rate Summary Sheet for Current Rate |
| Summer – Bills rendered June 1 through September 30 | Determined Monthly – See Rate Summary Sheet for Current Rate |

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 88 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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 400 N 4th Street
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**State of South Dakota
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Section No. 3
 Original Sheet No. 17

**EAST RIVER NATURAL GAS SYSTEM
 FIRM GENERAL GAS SERVICE Rate 76**

Page 1 of 2

Availability:

In the following communities, for all purposes except for resale. See Rate 100 §V.3, for definition on class of service.

| | | |
|------------|----------|--------|
| Agar | Glenham | Pierre |
| Bowdle | Ipswich | Roscoe |
| Ft. Pierre | Mobridge | Selby |
| Gettysburg | Onida | |

Rate:

Basic Service Charge:
 For customers with meters rated under 500 cubic feet per hour \$0.25 per day
 For customers with meters rated over 500 cubic feet per hour \$0.50 per day
 Distribution Delivery Charge: \$2.598 per dk
 Cost of Gas: Determined Monthly – See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

Cost of Gas:

The cost of gas includes all applicable cost of gas items as defined in Purchased Gas Cost Adjustment Rate 89 or any amendments or alterations thereto. The cost of gas component is subject to change on a monthly basis.

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Montana-Dakota Utilities Co.
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**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
Original Sheet No. 17.1

**EAST RIVER NATURAL GAS SYSTEM
FIRM GENERAL GAS SERVICE Rate 76**

Page 2 of 2

Distribution Delivery Stabilization Mechanism:

Service under this rate schedule is subject to an adjustment for the effects of weather in accordance with the Distribution Delivery Stabilization Mechanism Rate 87, or any amendments or alterations thereto.

General Terms and Conditions:

RULES – The foregoing schedule is subject to Rates 100 through 134, and any amendments or alterations thereto or additional rules and regulations promulgated by the Company under the laws of the state.

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Section No. 3
 1st Revised Sheet No. 22
 Canceling Original Sheet No. 22

TRANSPORTATION SERVICE Rates 81 and 82

Page 1 of 9

Availability:

This service is applicable, except for customers served on Rate 66 or Rate 76, for transportation of natural gas to customer's premise (metered at a single delivery point) through Company's distribution facilities. In order to obtain transportation service, customer must qualify under an applicable gas transportation service rate; meet the general terms and conditions of service provided hereunder; and enter into a gas transportation agreement upon request by the Company.

T

The transportation services are as follows:

Small Interruptible General Gas Transportation Service Rate 81:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point whose average use of natural gas will not exceed 40,000 dk annually, and who, absent the request for transportation service, are eligible for natural gas service, on an interruptible basis, pursuant to Company's effective Small Interruptible General Gas Service Rate 71. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

Large Interruptible General Gas Transportation Service Rate 82:

Transportation service is available for all general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point, whose average use of natural gas will exceed 40,000 dk annually, and who, absent the request for transportation service, are eligible for natural gas service on an interruptible basis, pursuant to Company's effective Large Interruptible General Gas Service Rate 85. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be treated and billed in accordance with the provisions of Firm General Gas Service Rate 70.

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Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
2nd Revised Sheet No. 26
Canceling 1st Revised Sheet No. 26

LARGE INTERRUPTIBLE GENERAL GAS SERVICE Rate 85

Availability:

In all communities served, except those communities set forth on Rate 66 or Rate 76, for all interruptible general gas service customers whose interruptible natural gas load will exceed an input rate of 2,500,000 Btu per hour, metered at a single delivery point and whose use of natural gas will exceed 40,000 dk annually. The rates herein are applicable only to customer's interruptible load. Customer's firm natural gas requirements must be separately metered or specified in a firm service agreement. Customer's firm load shall be billed at Firm General Gas Service Rate 70. For interruption purposes, the maximum daily firm requirement shall be set forth in the firm service agreement. The Company reserves the right to refuse the initiation of service under this rate schedule based on the availability of gas supply.

This rate schedule shall not apply for service to U. S. Government installations, which are covered by separate special contracts.

Rate:

Basic Service Charge: \$175.00 per month

Distribution Delivery Charge:

Maximum Rate \$0.187 per dk
Minimum Rate \$0.090 per dk

Cost of Gas: Determined Monthly – See Rate Summary Sheet for Current Rate

Minimum Bill:

Basic Service Charge.

Payment:

Billed amounts will be considered past due if not paid by the due date shown on the bill. Past due bills are subject to a late payment charge in accordance with the provisions of Rate 100, §V.11, or any amendments or alterations thereto.

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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 2nd Revised Sheet No. 28
 Canceling 1st Revised Sheet No. 28

DISTRIBUTION DELIVERY STABILIZATION MECHANISM – Rate 87

Page 1 of 2

APPLICABILITY:

This rate schedule represents a Distribution Delivery Stabilization Mechanism (DDSM) and specifies the procedure to be utilized to correct for the over/under collection of distribution delivery charge revenues due to weather fluctuations during the period from October 1 through April 30. Service provided under the Company's Residential Rates 60 and 66 and Firm General Service Rates 70 and 76 shall be subject to decreases or increases under the DDSM.

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DISTRIBUTION DELIVERY STABILIZATION MECHANISM:

A DDSM will be determined for each customer taking service under Residential Service Rates 60 and 66 and Firm General Service Rates 70 and 76 beginning with the first billing cycle starting November 1 through the billing cycle ending May 1. The DDSM adjustment will be applied as a surcharge or credit on all rate schedules to which the DDSM is applicable.

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DDSM ADJUSTMENT CALCULATION:

The DDSM Adjustment shall be determined for each customer taking service under Residential Rates 60 and 66 or Firm General Service Rates 70 and 76. In order to calculate the respective DDSM adjustment, the ratio of the normal HDDs as compared to the actual HDDs will be determined and multiplied by the temperature sensitive consumption per customer per HDD, as determined in the most recent general rate case. The resulting product shall be multiplied by the applicable Distribution Delivery Charge rate per dk.

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$$DDSM_i = R_i (DDF_i ((NDD-ADD)/ADD))$$

Where:

- DDSM_i = Distribution Delivery Stabilization Adjustment
- i = Customer served under Rate Schedule 60, 66, 70 or 76
- R_i = Applicable Distribution Delivery Charge per dk
- DDF_i = Temperature sensitive use per customer
- NDD = Normal degree days for the applicable bill cycle
- ADD = Actual heating degree days for the applicable bill cycle

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Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
1st Revised Sheet No. 28.1
Canceling Original Sheet No. 28.1

DISTRIBUTION DELIVERY STABILIZATION MECHANISM – Rate 87

Page 2 of 2

DEFINITIONS:

| | | |
|--|---|---|
| Heating Degree Days | - | The difference between the average of the daily high and low temperatures as reported by the National Weather Service station subtracted from 65 degrees Fahrenheit. |
| Normal Degree Days | - | The heating degree days based on the 30-year average for the period 1970-2000. |
| Temperature Sensitive Use per Customer | - | Customer's actual use less the base use per customer per day, denoted below, multiplied by days in the billing period. <u>Black Hills</u> Residential (Rate Code 600 and 601) = 0.0630 Dk/Degree Day Firm General (Rate Code 700) = 0.0929 Dk/Degree Day Firm General (Rate Code 701) = 1.2728 Dk/Degree Day <u>East River</u> Residential (Rate Code 660 and 661) = 0.0251 Dk/Degree Day Firm General (Rate Code 760) = 0.0615 Dk/Degree Day Firm General (Rate Code 761) = 1.7964 Dk/Degree Day |
| Actual Degree Days | - | The actual degree days reported by the National Weather Service Stations for applicable service areas in South Dakota. |

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 Bismarck, ND 58501

**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 1st Revised Sheet No. 29
 Canceling Original Sheet No. 29

PURCHASED GAS COST ADJUSTMENT Rate 88

Page 1 of 6

1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Montana-Dakota's rate schedules, with the exception of Rate 66 and Rate 76, in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of change in such PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective May 1 shall be filed each year, regardless of the amount of the change.

3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for general system supply. General system supply is defined as gas available for use by all customers served under retail sales rate schedules excluding Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the system gas supply and hedging program gains, losses and transaction costs related to system gas supply.
- (b) The PGA shall be computed as follows:
 - (1) Demand costs shall include all annual gathering, transportation and storage demand charges at current rates.

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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 1st Revised Sheet No. 29.2
 Canceling Original Sheet No. 29.2

PURCHASED GAS COST ADJUSTMENT Rate 88

Page 3 of 6

- (5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.
- (d) The PGA shall be applied to each of Montana-Dakota's rate schedules excluding Rate 66 and Rate 76, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on May 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated dk sales for the twelve months following the effective date of the adjustment.

5. Unrecovered Purchase Gas Account:

- (a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:
 - (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
 - (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in sales rates.
 - (3) Refunds received from supplier(s) with respect to gas supply. Such refunds received shall be credited to the Unrecovered Purchased Gas Cost Account.
 - (4) Carrying charges or credits as determined in Section 5(b)(2).
 - (5) Demand costs recovered from the large interruptible sales customers will be credited to the residential, firm general service and small interruptible customers.

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**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 2**

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1st Revised Sheet No. 29.4
Canceling Original Sheet No. 29.4

PURCHASED GAS COST ADJUSTMENT Rate 88

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- (2) Montana-Dakota will calculate carrying charges on the amounts in the Unrecovered Purchased Gas Cost Account, Account 191, at the rate of interest for a three-month Treasury Bill as published monthly by the Federal Reserve Board for the preceding month. The amount to be included in Account 191 for carrying charges shall be determined as follows: each month, Account 191 shall be debited (if the balance in said account is a debit balance) and shall be credited (if the balance in said account is a credit balance) for a carrying charge, which shall be the product of (i) and (ii) below:
- (i) The balance in Account 191 as of the end of the immediately preceding month, exclusive of carrying charges accrued pursuant to this Subsection (b)(2) and net of the related deferred tax amounts in Accounts 283 or 190, as appropriate.
 - (ii) One-twelfth of the annual interest rate as set forth in this Subsection (b)(2). The carrying charges shall be accrued in a supplementary Unrecovered Purchased Gas Cost Account for each rate schedule, and carrying charges shall not be computed on the amounts in such supplementary account.
- (c) Reduction of Amounts in the Unrecovered Purchased Gas Cost Account:
- (1) The amounts in the Unrecovered Purchased Gas Cost Account shall be decreased each month by an amount determined by multiplying the currently effective surcharge adjustment included in rates for that month (as calculated in Section 4) by the dks sold during that month under each rate schedule excluding Rate 66 and Rate 76. The account shall be increased in the event the adjustment is a negative amount.
 - (2) The amount amortized each month shall be applied pro rata between the amounts in the Unrecovered Purchased Gas Cost Account specified in Subsections 5(a)(1), (2), (3) and (5) and the amounts in the supplementary Unrecovered Purchased Gas Cost Account specified in Subsection 5(a)(4).

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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 1st Revised Sheet No. 30
 Canceling Original Sheet No. 30

**EAST RIVER NATURAL GAS SYSTEM
 PURCHASED GAS COST ADJUSTMENT Rate 89**

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1. Applicability:

This rate schedule constitutes a purchased gas cost adjustment (PGA) provision and specifies the procedure to be utilized to adjust the rates for gas sold under Residential Natural Gas Service Rate 66 (Rate 66) and Firm General Natural Gas Service Rate 76 (Rate 76) in order to reflect: (a) changes in Montana-Dakota's average cost of gas supply and (b) amortization of the Unrecovered Purchased Gas Cost Account.

2. Effective Date and Limitation on Adjustments:

- (a) The effective dates of the PGA shall be bills rendered on and after the first day of each month, unless the Commission shall otherwise order.
- (b) Montana-Dakota shall file a PGA to reflect changes in its average cost of gas supply only when the amount of such change in PGA is at least 10 (ten) cents per dk compared to the currently effective adjustment. The adjustment to be effective May 1 shall be filed each year, regardless of the amount of the change.

3. Purchased Gas Cost Adjustment:

- (a) The monthly PGA shall reflect changes in Montana-Dakota's cost of gas supply for the East River System as compared to the cost of gas supply approved in its most recent PGA. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for delivery at interconnections with South Dakota Intrastate Pipeline (SDIP). The East River System supply is defined as gas available for use by all customers served under Rate 66 and Rate 76. The cost of gas supply shall include, but not be limited to, all demand, commodity, storage, gathering, and transportation charges incurred by Montana-Dakota for such gas supply, the overall rate of return on prepaid demand and commodity charges and gas storage balances required to maintain the East River System gas supply and hedging program gains, losses and transaction costs related to the East River System gas supply.

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**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
1st Revised Sheet No. 30.1
Canceling Original Sheet No. 30.1

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

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- (b) The PGA shall be computed as follows:
- (1) Demand Costs, if applicable, shall include all annual gathering, transportation and storage demand charges at current rates.
 - (2) Commodity costs shall include all annual gathering, transportation and storage charges at current rates.
 - (3) The gas commodity cost shall reflect all commodity related gas costs estimated to be in effect for the month the PGA will be in effect and annual dk requirements.
 - (4) The return on prepaid demand and commodity balances and storage balances, if applicable, shall be computed on an annual basis at the overall rate of return on rate base.

The cost per dk for the month is the sum of the above divided by annual, weather normalized dk deliveries for the most recent twelve-month period adjusted to reflect losses.

- (c) Monthly gas costs shall be calculated as follows:
- (1) Demand costs if applicable, shall be apportioned to all state jurisdictions served by Montana-Dakota on the basis of the overall ratio of each state's Maximum Daily Delivery Quantity (MDDQ).
 - (2) Demand costs for interruptible and specified contract service customers shall be stated on a 100% load factor basis.
 - (3) All commodity costs and other costs associated with the acquisition of gas for the East River System Supply.
 - (4) The return requirement related to prepaid demand and commodity charges and gas storage balances, if applicable, shall be included on a per dk basis. The prepaid demand and storage balances shall be apportioned to all states on the basis of each state's MDDQ.

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**State of South Dakota
 Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
 1st Revised Sheet No. 30.2
 Canceling Original Sheet No. 30.2

**EAST RIVER NATURAL GAS SYSTEM
 PURCHASED GAS COST ADJUSTMENT Rate 89**

The prepaid commodity charges shall be apportioned to all states on the basis of annual dk's sold in each state. The unit cost shall be calculated using a thirteen month average balance and the currently authorized return on rate base.

- (5) All costs related to specific end-use transactions shall not be included in the cost of gas supply determination but shall be directly billed to the customer(s) contracting for such service.
- (d) The PGA shall be applied to Rate 66 and Rate 76, if applicable, recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate. T

4. Surcharge Adjustment:

Rate 66 and Rate 76 shall be subject to a Surcharge Adjustment to be effective on May 1 of each year. The Surcharge Adjustment per dk sold shall reflect amortization of the applicable balance in the Unrecovered Purchased Gas Cost Account calculated by dividing the applicable balance by the estimated Rate 66 and Rate 76 dk sales for the twelve months following the effective date of the adjustment. T

5. Unrecovered Purchased Gas Cost Account:

- (a) Items to be included in the Unrecovered Purchased Gas Cost Account, as calculated in accordance with Subsection 5(b) are:
 - (1) Charges for gas supply which Montana-Dakota is unable to reflect in a Purchased Gas Cost Adjustment by reason of the ten cent minimum limitation set forth in Subsection 2(b).
 - (2) Amounts of increased/decreased charges for gas supplies which were paid during any period after the effective date of the most recent general rate case, but not yet included in the East River System sales rates. T

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Gas Rate Schedule – SDPUC Volume No. 2**

Section No. 3
1st Revised Sheet No. 30.3
Canceling Original Sheet No. 30.3

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

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- (3) Refunds received from supplier(s) with respect to gas supply. Such refunds received shall be credited to the Unrecovered Purchased Gas Cost Account.
- (4) Carrying charges or credits as determined in Section 5(b)(2).
- (b) (1) The amount to be included in the Unrecovered Purchased Gas Cost Account in order to reflect the items specified in Subsections 5(a)(1), (2), and (3) shall be calculated as follows:
 - (i) Montana-Dakota shall first determine each month the unit cost for that month's natural gas supply as adjusted to levelize demand charges, if applicable. Such adjustment to levelize supplier(s) demand charges shall be calculated as follows:

The suppliers' annual (calendar or fiscal) demand charges, which are payable in equal monthly payments, shall be accumulated in a prepaid account (FERC Account 165). Each month a portion of such accumulated prepaid amount shall be amortized to cost of natural gas purchased (FERC Account 804).

Such monthly amortization shall be based on a rate calculated by dividing the annual supplier(s) demand charges by projected annual natural gas sales units (calendar or fiscal, as appropriate). The resulting product shall then be multiplied by the projected natural gas unit sales for the current month. Such amount shall constitute the monthly amortization of prepaid supplier(s) demand charges to cost of natural gas supply.
 - (ii) Montana-Dakota shall then subtract from each month's unit cost the unit cost for gas supply which is reflected in the currently effective PGA.

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1st Revised Sheet No. 30.4
Canceling Original Sheet No. 30.4

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

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- (iii) The resulting difference (which may be positive or negative) shall be multiplied by the dks sold during that month under Rate 66 and Rate 76. The resulting amounts shall be reflected in an Unrecovered Purchased Gas Cost Account for each rate schedule.
- (2) Montana-Dakota will calculate carrying charges on the amounts in the Unrecovered Purchased Gas Cost Account, Account 191, at the rate of interest for a three-month Treasury Bill as published monthly by the Federal Reserve Board for the preceding month. The amount to be included in Account 191 for carrying charges shall be determined as follows: each month, Account 191 shall be debited (if the balance in said account is a debit balance) and shall be credited (if the balance in said account is a credit balance) for a carrying charge, which shall be the product of (i) and (ii) below:
- (i) The balance in Account 191 as of the end of the immediately preceding month, exclusive of carrying charges accrued pursuant to this Subsection (b)(2) and net of the related deferred tax amounts in Accounts 283 or 190, as appropriate.
- (ii) One-twelfth of the annual interest rate as set forth in this Subsection (b)(2). The carrying charges shall be accrued in a supplementary Unrecovered Purchased Gas Cost Account for each rate schedule, and carrying charges shall not be computed on the amounts in such supplementary account.
- (c) Reduction of Amounts in the Unrecovered Purchased Gas Cost Account:
- (1) The amounts in the Unrecovered Purchased Gas Cost Account shall be decreased each month by an amount determined by multiplying the currently effective surcharge adjustment included in rates for that month (as calculated in Section 4) by the dks sold

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1st Revised Sheet No. 30.5
Canceling Original Sheet No. 30.5

**EAST RIVER NATURAL GAS SYSTEM
PURCHASED GAS COST ADJUSTMENT Rate 89**

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during that month under Rate 66 and Rate 76. The account shall be increased in the event the adjustment is a negative amount. T

- (2) The amount amortized each month shall be applied pro rata between the amounts in the Unrecovered Purchased Gas Cost Account specified in Subsections 5(a)(1), (2), (3) and the amounts in the supplementary Unrecovered Purchased Gas Cost Account specified in Subsection 5(a)(4).

6. Time and Manner of Filing:

- (a) Each filing by Montana-Dakota shall be made by means of revised PGA sheets identifying the amounts of the adjustments and the resulting currently effective PGA rates.
- (b) Each filing shall be accompanied by detailed computations which clearly show the derivation of the relevant amounts.

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 3rd Revised Sheet No. 1
 Canceling 2nd Revised Sheet No. 1

LIST OF GAS CONTRACTS WITH DEVIATIONS

Page 1 of 1

| <u>Name and Location of Customer</u> | <u>Type or Class of Service</u> | <u>Execution and Expiration Dates</u> | <u>Most Comparable Regular Tariff</u> | | |
|--|-------------------------------------|---|---|---------------------------------|---|
| | | | <u>Schedule No.</u> | <u>Contract Differences</u> | |
| Morris, Inc. | Firm Commercial | 05-10-01 To 11-16-11 | Rate 76 | Rate | C |
| Merillat Corporation | Firm Commercial | 11-01-04 To 10-31-05 | Rate 70 | Rate | |

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Section No. 5
 1st Revised Sheet No. 19
 Canceling Original Sheet No. 19

**INTERRUPTIBLE GAS SERVICE EXTENSION POLICY
 Rate 119**

Page 1 of 2

The policy of Montana-Dakota Utilities Co. for gas extensions necessary to provide interruptible sales or interruptible transportation service to customers, except for customers served on Rate 66 and Rate 76, is as follows:

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1. Contribution
 - a. Prior to construction, the customer shall contribute an amount equal to the total cost of construction including all gas main extensions, valves, tap setting and associated equipment, barricade, service line(s), regulators, meters (excluding remote data acquisition equipment), any required payments made by the Company to the transmission pipeline to accommodate the extensions, and other costs as adjusted for federal and state income taxes.
 - b. The contribution shall be made by:
 - i. A one-time payment prior to construction or,
 - ii. The customer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the total contribution required prior to construction. Such bond, issued by a bonding company authorized to do business in the state, letter of credit, or written guarantee commitment, shall be effective for a five-year period commencing at the plant in service date, and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists for the subject project, the surety or guarantor shall pay the Company for such contribution requirement, or
 - iii. Customer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.

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