

February 24, 2012

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

Re: Conservation Program Tracking Mechanism Rate 90 and Natural Gas
Conservation Portfolio 2012 - 2014
Docket No. NG11-006

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith electronically submits revised exhibits to support its Conservation Tracking Adjustment (CTA), pursuant to the terms of the Company's Conservation Program Tracking Mechanism Rate 90 tariff to be effective April 1, 2012 and its three year Natural Gas Conservation Portfolio for the years 2012 – 2014. Montana-Dakota is continuing to offer the programs authorized in Docket No. NG09-001 until such time the Commission authorizes the new portfolio submitted under this docket.

On October 4, 2011, Montana-Dakota submitted its CTA with actual expenditures for the period September 1, 2010 through August 31, 2011 and estimated expenditures through December 31, 2011 to calculate the CTA rate. The Revised Exhibits attached reflect actual participation and costs through December 31, 2011 and is provided to replace the Exhibits from the filing dated October 4, 2011 in this docket. Montana-Dakota is also proposing to change the new gas conservation portfolio for the 2012-2014 period to reflect the retention of the programmable thermostat program the Company originally proposed to end pursuant to discussions with Staff.

Montana-Dakota is requesting approval of the following tariff changes, attached hereto as Revised Exhibit 1, to Montana-Dakota's natural gas tariff to be effective April 1, 2012 and effective January 1 thereafter:

- 7th Revised Sheet No. 31

The Rate Summary sheet (Sheet No. 1) will be submitted as part of the compliance filing in this docket to reflect the Purchased Gas Cost Adjustment (PGA) effective at the

time of approval.

Revised Exhibit 2, page 1 reflects the CTA rate to be effective April 1, 2012 with updated actual expenditures through December 31, 2011 and additional expenditures for the proposed 2012 program year to include the Programmable Thermostat program. Revised Exhibit 2 pages 1 through 5 is provided to replace Exhibit 2, pages 1 through 5 from the filing dated October 4, 2011 in this docket. The tables below summarize participation by program and the associated expense incorporated to calculate the revised CTA rate:

Black Hills	Participants		
	Sept. 1, 2010 - Aug. 31, 2011	Sept. 1, 2011 - Dec. 31, 2011	Total Participants
High Efficiency Furnace - 92-94%	7	1	8
High Efficiency Furnace - 95%+	128	37	165
Water Heaters	16	4	20
Programmable Thermostat	73	28	101
Attic Insulation	18	6	24
New Construction Bundle	8	0	8
Admin, Promotion & Education			
Total Black Hills	250	76	326

East River	Participants		
	Sept. 1, 2010 - Aug. 31, 2011	Sept. 1, 2011 - Dec. 31, 2011	Total Participants
High Efficiency Furnace - 92-94%	5	5	10
High Efficiency Furnace - 95%+	36	13	49
Water Heaters	2	2	4
Programmable Thermostat	23	10	33
Attic Insulation	0	0	0
New Construction Bundle	0	0	0
Admin, Promotion & Education			
Total East River	66	30	96

Black Hills	Actual Expenditures		Total Expenditures
	Sept. 1, 2010 - Aug. 31, 2011	Sept. 1, 2011 - Dec. 31, 2011	
High Efficiency Furnace - 92-94%	\$1,050	\$150	\$1,200
High Efficiency Furnace - 95%+	38,400	11,100	49,500
Water Heaters	800	200	1,000
Programmable Thermostat	1,460	560	2,020
Attic Insulation	6,331	1,619	7,950
New Construction Bundle	2,100	0	2,100
Admin, Promotion & Education	10,903	6,114	17,017
Total Black Hills	\$61,044	\$19,743	\$80,787

East River	Actual Expenditures		Total Expenditures
	Sept. 1, 2010 - Aug. 31, 2011	Sept. 1, 2011 - Dec. 31, 2011	
High Efficiency Furnace - 92-94%	\$750	\$750	\$1,500
High Efficiency Furnace - 95%+	10,800	3,900	14,700
Water Heaters	100	100	200
Programmable Thermostat	460	200	660
Attic Insulation	0	0	0
New Construction Bundle	0	0	0
Admin, Promotion & Education	2,893	1,038	3,931
Total East River	\$15,003	\$5,988	\$20,991

The updated costs for program true-up, DSM Incentive and the proposed portfolio budget total \$61,076 for the Black Hills rate area and \$24,553 for the East River rate area which using the projected dk for April through December 2012 equates to a CTA rate applicable to service under Rates 60, 70 and 72 of \$0.019 per dk, or an increase of \$0.012 per dk from the currently authorized CTA for Black Hills customers, and a CTA applicable to service under Rates 66 and 76 of \$0.050 per dk, or an increase of \$0.042 from the currently authorized CTA for East River customers. The estimated increase is \$1.20 for a Black Hills residential customer and \$4.20 for an East River residential customer using 100 dk annually or \$0.10 and \$0.35 per month respectively. Revised Exhibit 2, page 2 shows the increase in the CTA rate is primarily due to an over collection of revenue in previous years which resulted in a lower CTA rate in the prior period and the amortization of the balances over a shorter time frame. The budget of the proposed portfolio of programs in 2012 is similar to the approved 2011 program budget whereas the true-up from the prior period is the primary reason for the increase in the CTA rate.

Revised Exhibit 3 reflects the Demand-Side Management (DSM) incentive achieved by Montana-Dakota for the 2011 program year of \$9,484 in the Black Hills area. The East River incentive equates to \$2,471 which is higher than the incentive cap of \$2,020, therefore, the cap of \$2,020 will be recovered through the CTA.

Revised Exhibit 5 summarizes the programs for 2012 including the addition of the Programmable Thermostat program and calculates the 2012 Incentive threshold based on the revised 2012 budget. The Company calculates annual savings of 3,906 dk from programs during the period September 1, 2010 through December 31, 2011 which equates to 70,584 dk over the project life of the installed equipment.

Montana-Dakota included the costs for the 2012 Conservation Budget, excluding the budgeted amount for the Energy Audit program, to be recovered through the CTA over the period January 1, 2012 through December 31, 2012. Montana-Dakota proposed to offer an Energy Audit program in its October 4, 2011 filing and issued a Request for Proposal (RFP) to obtain one or more qualified energy auditors to cover its Black Hills and East River service areas to perform the energy audits in 2011 and received the bid responses in early 2012. The pricing in the bid responses were much higher than anticipated, particularly in the Black Hills region, therefore, Montana-Dakota excluded the budget for this program from the 2012 CTA rate, however, the energy audit budget is included in the benefit/cost model shown in Attachment B of Exhibit A, Revised pages 1 through 9 of the Gas Conservation Portfolio Plan. Montana-Dakota will continue to look for a cost-effective way to offer an audit program as it continues to believe in the merits of offering its customers an effective energy audit program and at the time an energy audit program is launched, the Company will file a modification to the CTA to include the energy audit budget.

Attachment B of Exhibit A, revised pages 1 through 9 reflects the revised Gas Conservation Portfolio summary for the 2012 – 2014 program years, benefit/cost ratios and the revised Total Program benefit/cost model reflecting the inclusion of the Programmable Thermostat program. In addition, the benefit/cost model for the Programmable Thermostat program is also provided as Attachment C. Energy Star no longer rates programmable thermostats, therefore, Montana-Dakota eliminated the Programmable Thermostat program from its portfolio, however, the criteria used to deem a programmable thermostat as Energy Star rated is still available and will be utilized by Montana-Dakota to determine the appropriate equipment eligible for a rebate. The table below reflects the anticipated 2012 program participation, expenditure, and dk savings from the benefit/cost model.

Programs	2012		
	Participants	Cost	Lifetime Dk Savings
Residential Program			
Furnaces - 92-94% AFUE	7	\$1,354	1,494
Furnaces - 95+% AFUE - New	12	4,613	1,530
Furnaces - 95+% AFUE - Repl.	170	65,345	40,086
Furnace Tune-Up	50	2,661	290
Water Heating (.62 EF)	17	1,121	240
Water Heating (.67 EF)	3	389	110
Programmable Thermostats	100	2,773	4,350
Total Residential	359	78,256	48,100
Commercial Program			
Furnaces - 92-94% AFUE	3	\$573	1,116
Furnaces - 95+% AFUE - New	5	1,911	1,116
Furnaces - 95+% AFUE - Repl.	7	2,675	2,898
Custom Efficiency	3	2,293	4,500
Total Commercial	18	\$7,452	9,630
Energy Audit Program Costs		\$7,000	
Total Programs	377	\$92,708	57,730

Montana-Dakota respectfully requests Commission approval of the proposed CTA rates and approval of the new portfolio.

Sincerely,



Tamie A. Aberle
Regulatory Affairs Manager

Attachments
cc: D. Kuntz