



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
3rd Revised Sheet No. 30
Canceling 2nd Revised Sheet No. 30

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

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 service 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 October 1 shall be filed each year, regardless of the amount of the change.

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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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- (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 ration 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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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.

4. Surcharge Adjustment:

Rate 66 and Rate 76 shall be subject to a Surcharge Adjustment to be effective on October 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.

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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.

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

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- (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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