

DIVIDER

STATE OF NORTH DAKOTA

□ INFORMATION TECHNOLOGY DEPARTMENT

SFN 2053 (4-2002)

PU-06-415

**Montana-Dakota Utilities Co., a Division of MDU Re
Fuel Clause Rate 58**

Tariff

06

Filed 9/18/2006

Closed 8/3/2007

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.,
Division of MDU Resource Group
Fuel Clause Rate 58
Tariff

Case No. PU-06-415

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Paula Kent deposes and says that:

she is over the age of 18 years and not a party to this action and, on the 31st day of May, 2007, she deposited in the United States Mail, Bismarck, North Dakota, three envelopes with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Affidavit of Service, Order, Motion

The envelopes were addressed as follows:

Donald R. Ball
Vice President Regulatory Affairs
Montana Dakota Utilities
400 North Fourth Street
Bismarck, ND 58501
Cert. No. 7006 0100 0003 7161 4815

Rita A. Mulkern
Regulatory Analysis Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501
Cert. No. 7006 0100 0003 7161 4822

Daniel S. Kuntz
Assistant General Counsel
MDU Resources Group, Inc.
PO Box 5650
Bismarck, ND 58506-5650
Cert. No. 7006 0100 0003 7161 4846

Each address shown is the respective addressee's last reasonably ascertainable post office address.

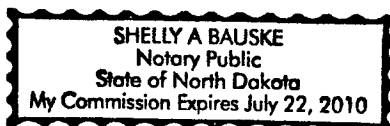
Paula Kent

Subscribed and sworn to before me
this 31st day of May, 2007

Shelly A Bauske

Notary Public

SEAL



8

PU-06-415

Pages: 1

Affidavit of service by certified mail

by Public Service Commission

05/31/2007

CC: Comm Legal Illona Jerry .

APPROVED

DATE: 5-31-07
SAB

MOTION

May 31, 2007

**Montana-Dakota Utilities Co.
Fuel Clause Rate 58
Tariff**

Case No. PU-06-415

I move the Commission adopt the Order approving tariff revisions filed by Montana-Dakota Utilities Co. to its Fuel Clause Rate 58, Case No. PU-06-415.

JRL

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co.
Fuel Clause Rate 58
Tariff**

Case No. PU-06-415

ORDER

May 31, 2007

On September 18, 2006, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU) filed a request for waiver from N.D. Admin. Code subsection 69-09-02-39(3) and revisions to its Fuel Clause Rate 58 tariff schedule to implement an Unrecovered Fuel Cost Account (Account 182.3) with an annual billing surcharge adjustment that would occur on April 1st of each year and would be calculated so as to clear the account balance.

On October 12, 2006, the Commission suspended the effectiveness of MDU's tariff revisions.

On March 21, 2007 the Commission discussed the proposal with representatives of MDU and Commission staff during an informal hearing.

Presently, under subsection 69-09-02-39(3), revenue recoveries from fuel cost adjustment billings that differ from expenses actually incurred are rolled into the next billing period after a two-month accounting lag. MDU requests that over/under recoveries instead be booked into a new Account 182.3 for recovery from a fixed charge component of the fuel cost adjustment that would be reset annually based on the account balance and expected sales volumes. Account balances in Account 182.3 would be subject to interest accruals at the most recent 3-month federal treasury bill rate.

MDU contends that its proposal would provide better matching of monthly costs and prices while reducing volatility and more accurately recovering costs. MDU states that the current method of calculating the monthly fuel cost adjustment under subsection 69-09-02-39(3) creates an undue burden for MDU and its customers. MDU explains that the recent expiration of a long-term power purchase contract has resulted in more volatile system energy costs and the increased volatility is exacerbated by the current balancing methodology. MDU further informs that external auditors advise implementing a deferred account to better match revenue recoveries with corresponding costs under generally accepted accounting principles (GAAP).

Commission staff found MDU's proposal approximately equivalent to the existing balancing process. Staff believes MDU's proposal better recognizes the time value of money with interest on the deferred account while simplifying the fuel cost adjustment calculation and better matching seasonal cost recovery between summer cooling and winter heating loads. Staff cautioned that the deferred account balance should be

monitored so that out-of cycle billing surcharge adjustments can be made if deemed necessary to avoid large rate impacts to customers.

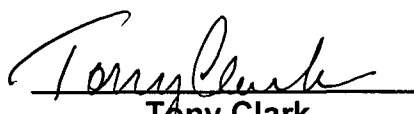
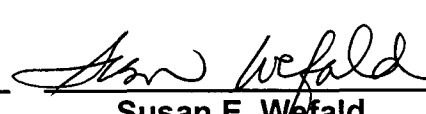
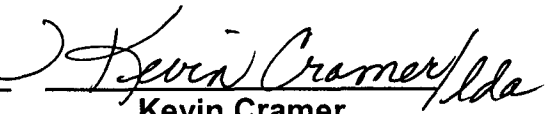
The Commission finds that MDU's tariff revisions should be approved and that MDU's proposal should be implemented subject to review after two years. The Commission further finds that good cause exists under N.D. Admin. Code subsection 69-09-02-39(10) to grant the requested waiver of subsection 69-09-02-39(3).

Order

The Commission Orders:

1. MDU's proposed tariff revisions to its Fuel Clause Rate 58 schedule are approved for service rendered on or after July 1, 2007.
2. MDU is granted a waiver from the existing fuel clause balancing procedure required under N.D. Admin. Code subsection 69-09-02-39(3).
3. MDU shall file a report by August 1, 2009 that includes MDU's best efforts to provide a two-year comparison with what the monthly fuel cost adjustments would have been using the present balancing methodology under subsection 69-09-02-39(3).

PUBLIC SERVICE COMMISSION

		
Tony Clark Commissioner	Susan E. Wefald President	Kevin Cramer Commissioner

North Dakota Public Service Commission
INFORMAL HEARING
March 21, 2007

Montana-Dakota Utilities Co.
Fuel Clause Rate 58
Tariff

PU-06-415
Filed: 9/18/06

Summary of Proposal: MDU requests revisions to its Fuel Clause Rate 58 tariff schedule and a waiver from the Commission's FCA rules to implement an Unrecovered Fuel Cost Account (Account 182.3) with an annual billing surcharge adjustment similar to that of Purchased Gas Adjustments.

Recommendation: Staff has no objection to implementing the proposal and believes that it is approximately equivalent to the existing balancing process. If the Commission finds MDU's proposal acceptable then staff would recommend a rule change be considered in a future rulemaking package. The Commission can approve MDU's waiver request absent the rule change under N.D. Admin. Code subsection 69-09-02-39(10), on a showing that continued use of the existing balancing process would result in an undue burden.

Discussion: Presently, under N.D. Admin. Code section 69-09-02-39(3), previous over/under recoveries are subtracted/added to total actual energy costs incurred during months 1 thru 4. The resulting total is then divided by actual sales volumes experienced during those same four months to calculate a resulting FCA for billing during month 6. MDU requests that over/under recoveries instead be booked into an interest bearing account for recovery from a fixed charge component of the FCA that is reset annually based on the account balance and expected sales volumes. MDU contends that its proposal would provide better matching of monthly costs and prices while reducing volatility and more accurately recovering costs.

Staff finds MDU's proposal roughly equivalent mathematically to the existing process and perhaps more accurate as it better recognizes the time value of money than does the current process, which does not assess interest during the two month lag between an over/under recovery and FCA billing. MDU's proposal would also simplify the FCA calculation while better matching seasonal cost recovery between summer cooling and winter heating customers.

However, the downside risk is that the balancing account might reach a high balance then the interest would become more significant. Perhaps more importantly, customers would face a single larger FCA rate increase instead of the current pay-as-you-go process. Natural gas utilities have attempted to manage this risk in the PGA process by proposing out-of-cycle surcharge adjustments when they believe the balancing account positive or negative balance is getting too large.

MDU seeks a waiver of FCA rules under N.D. Admin. Code 69-09-02-39(3) in order to implement this proposed change. Subsection 69-09-02-39(10) governing the granting of FCA rule waivers provides:

“If a particular circumstance prevents the use of a standard or its use would result in an undue burden, the commission may for good cause shown, permit deviation from a standard.”

Based on this subsection it appears that granting the requested waiver would require a showing by MDU that continued use of the existing process would result in an undue burden.

Prepared by: Jerry Lein

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

April 13, 2007

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505



Re: Fuel Clause Rate 58
Case No. PU-06-415

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits information requested by the Commission at the informal hearing in the above referenced case on March 21, 2007. The Commission, at the hearing, requested that Montana-Dakota submit an example showing that the current method using a monthly true-up specified in North Dakota Rules Chapter 69-09-02-39 3 causes more volatility in the fuel cost adjustment (FCA) as compared to Montana-Dakota's proposed method using an annual true-up. In addition, the Commission requested that Montana-Dakota support its request for a waiver pursuant to Chapter 69-09-02-39 10 that the current method results in an undue burden on Montana-Dakota and its customers.

Attachment A is an example of the calculation of the FCA using the current method and the proposed method. Page 1 lists the assumptions used in the example. Pages 2-3 illustrate the current method and the resulting under(over) recovered balance are illustrated in a graph on page 4. The results using the proposed method using an annual true-up are shown on pages 5-6 with the corresponding graph on page 7. The current method results in more and continuing volatility compared to Montana-Dakota's proposed method.

North Dakota Rules Chapter 69-09-02-39 3 specifies that the monthly energy cost calculation include the unrecovered (or overrecovered) prior cumulative energy costs to be included in the energy cost adjustment two months later in addition to actual energy costs for a four month period. Montana-Dakota filed in the above referenced case to implement an Unrecovered Fuel Cost Account with an annual surcharge in lieu of including the prior cumulative energy costs from second prior month in the current adjustment. In order to facilitate this proposed change Montana-Dakota requested a waiver of Chapter 69-09-02-39 3.

A waiver request is provided for under North Dakota Rules Chapter 69-09-02-39 10 which states that "If a particular circumstance prevents the use of a standard or its use would result in an undue burden, the commission may for good cause shown, permit deviation from a standard."

The continuation of the current method of calculating the monthly fuel cost adjustment has created an undue burden for Montana-Dakota and its customers for the following reasons:

- ◆ The Company's external auditing firm, Deloitte & Touche LLP, advised Montana-Dakota to implement a deferred, or (over)under recovered, account for fuel costs, similar to the procedure used to track over/under recoveries of natural gas costs, in order to comply with generally accepted accounting principles (GAAP) matching principles. The current method does not match the revenue recovery with the corresponding cost while the proposed method would provide matching under GAAP.
- ◆ Montana-Dakota's contract with Basin for power purchases from AVS II expired October 31, 2006. With the expiration of the contract, Montana-Dakota now purchases the requirements formerly provided under the long-term contract through the Midwest Independent System Operator energy market, which has resulted in more volatility in the energy costs recovered through the FCA.
- ◆ The current method established in the rule exacerbates the volatility in the FCA adjustment.

The Company's proposal to collect over/under recoveries through a surcharge adjusted on an annual basis will serve to alleviate some of this volatility in the FCA.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Donald R. Ball

Vice President – Regulatory Affairs

Attachment

cc: D. S. Kuntz

Assumptions on FCA Balancing Scenario

All months have equal fuel costs except Month 2, which is \$1,000,000 higher
Kwh volumes are equal each month for both total system and North Dakota
North Dakota's portion of total system is 65% each month

The only variable is the \$1,000,000 additional expense in Month 2 (reflected in the FCA in Month 4)

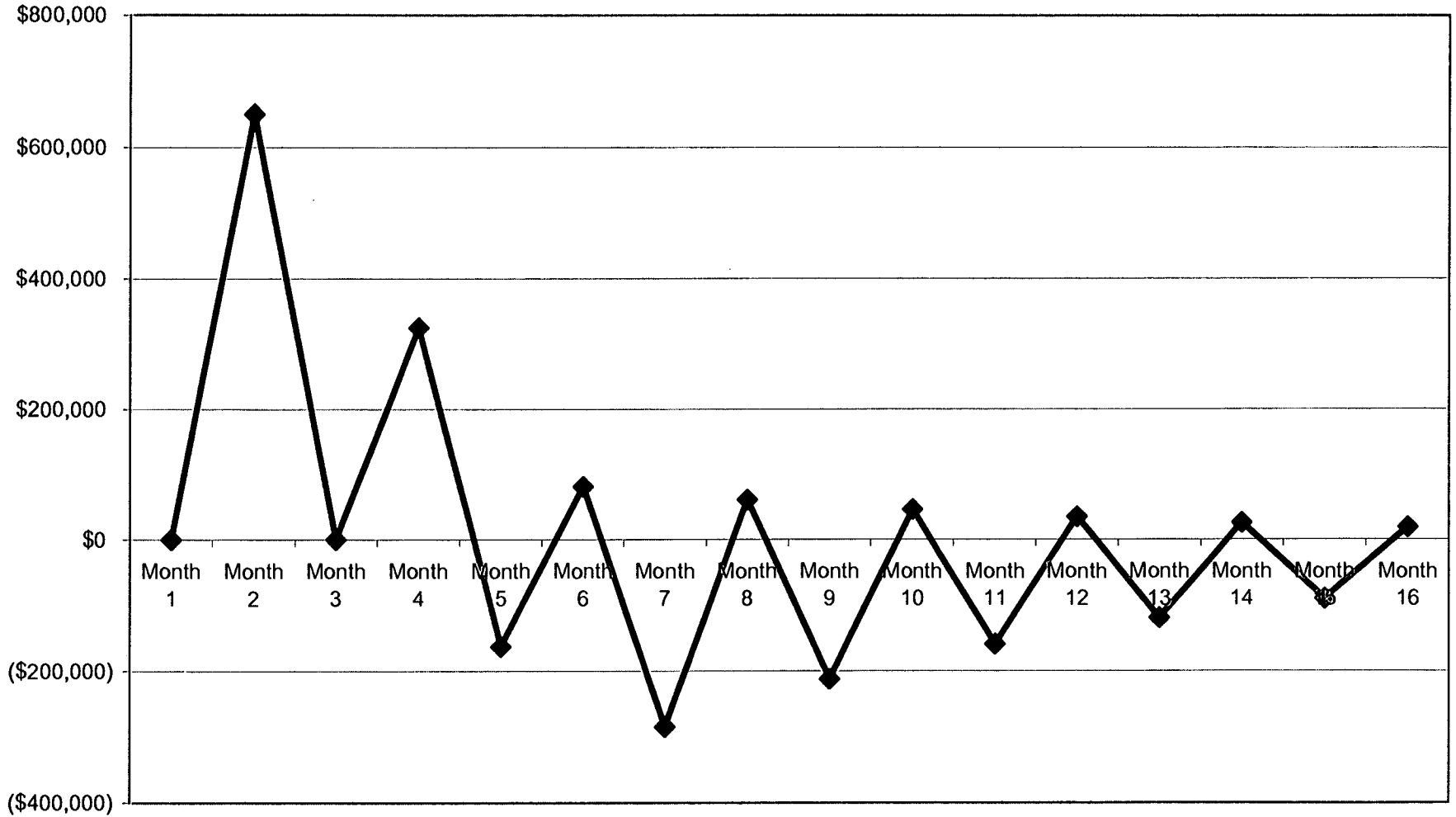
**MONTANA-DAKOTA UTILITIES CO.
FUEL COST CALCULATION - MONTHLY TRUE-UP**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9
<u>Fuel Cost Adjustment Effective</u>									
4 month Fuel Cost	\$9,100,000	9,100,000	9,100,000	10,100,000	10,100,000	10,100,000	10,100,000	9,100,000	9,100,000
2nd priod month under(Over)	0		0	1,000,000	0	499,498	(250,251)	124,997	(437,502)
Net Fuel Costs	9,100,000	9,100,000	9,100,000	11,100,000	10,100,000	10,599,498	9,849,749	9,224,997	8,662,498
Kwh - 4 month total	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000
<u>FCA</u>									
Current	\$0.01300	\$0.01300	\$0.01300	\$0.01443	\$0.01443	\$0.01443	\$0.01443	\$0.01300	\$0.01300
Under(Over) Recovery	0.00000	0.00000	0.00000	0.00143	0.00000	0.00071	(0.00036)	0.00018	(0.00063)
	\$0.01300	\$0.01300	\$0.01300	\$0.01586	\$0.01443	\$0.01514	\$0.01407	\$0.01318	\$0.01237
<u>Actual Results for Month</u>									
Kwh Sales - ND	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000
Actual Fuel Costs	\$2,275,000	\$3,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000
ND %	65%	65%	65%	65%	65%	65%	65%	65%	65%
ND Fuel Costs	\$1,478,750	\$2,128,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750
<u>Recovery</u>									
Current	1,478,750	1,478,750	1,478,750	1,641,413	1,641,413	1,641,413	1,641,413	1,478,750	1,478,750
Under(Over) recovery	0	0	0	162,663	0	80,763	(40,950)	20,475	(71,663)
	1,478,750	1,478,750	1,478,750	1,804,076	1,641,413	1,722,176	1,600,463	1,499,225	1,407,087
Net Under(Over)recovery	0	650,000	0	(325,326)	(162,663)	(243,426)	(121,713)	(20,475)	71,663
Prior Under (Over) Recovery	0	0	0	650,000	0	324,674	(162,663)	81,248	(284,376)
Net Under(Over) Recovery - ND	\$0	\$650,000	\$0	\$324,674	(\$162,663)	\$81,248	(\$284,376)	\$60,773	(\$212,713)
Net Under(Over) Recovery - System	0	1,000,000	0	499,498	(250,251)	124,997	(437,502)	93,497	(327,251)

**MONTANA-DAKOTA UTILITIES CO.
FUEL COST CALCULATION - MONTHLY TRUE-UP**

	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16
<u>Fuel Cost Adjustment Effective</u>							
4 month Fuel Cost	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000
2nd priod month under(Over)	93,497	(327,251)	70,746	(245,000)	53,246	(183,749)	39,246
Net Fuel Costs	9,193,497	8,772,749	9,170,746	8,855,000	9,153,246	8,916,251	9,139,246
 Kwh - 4 month total	 700,000,000	 700,000,000	 700,000,000	 700,000,000	 700,000,000	 700,000,000	 700,000,000
<u>FCA</u>							
Current	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300
Under(Over) Recovery	0.00013	(0.00047)	0.00010	(0.00035)	0.00008	(0.00026)	0.00006
	\$0.01313	\$0.01253	\$0.01310	\$0.01265	\$0.01308	\$0.01274	\$0.01306
 <u>Actual Results for Month</u>							
Kwh Sales - ND	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000
Actual Fuel Costs	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000
ND %	65%	65%	65%	65%	65%	65%	65%
ND Fuel Costs	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750
Recovery							
Current	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750
Under(Over) recovery	14,788	(53,463)	11,375	(39,813)	9,100	(29,575)	6,825
	1,493,538	1,425,287	1,490,125	1,438,937	1,487,850	1,449,175	1,485,575
Net Under(Over)recovery	(14,788)	53,463	(11,375)	39,813	(9,100)	29,575	(6,825)
Prior Under (Over) Recovery	60,773	(212,713)	45,985	(159,250)	34,610	(119,437)	25,510
Net Under(Over) Recovery - ND	\$45,985	(\$159,250)	\$34,610	(\$119,437)	\$25,510	(\$89,862)	\$18,685
Net Under(Over) Recovery - System	70,746	(245,000)	53,246	(183,749)	39,246	(138,249)	28,746

**MONTANA-DAKOTA UTILITIES CO.
NET (OVER)UNDER RECOVERY - MONTHLY TRUE-UP
NORTH DAKOTA BALANCE
EXAMPLE**



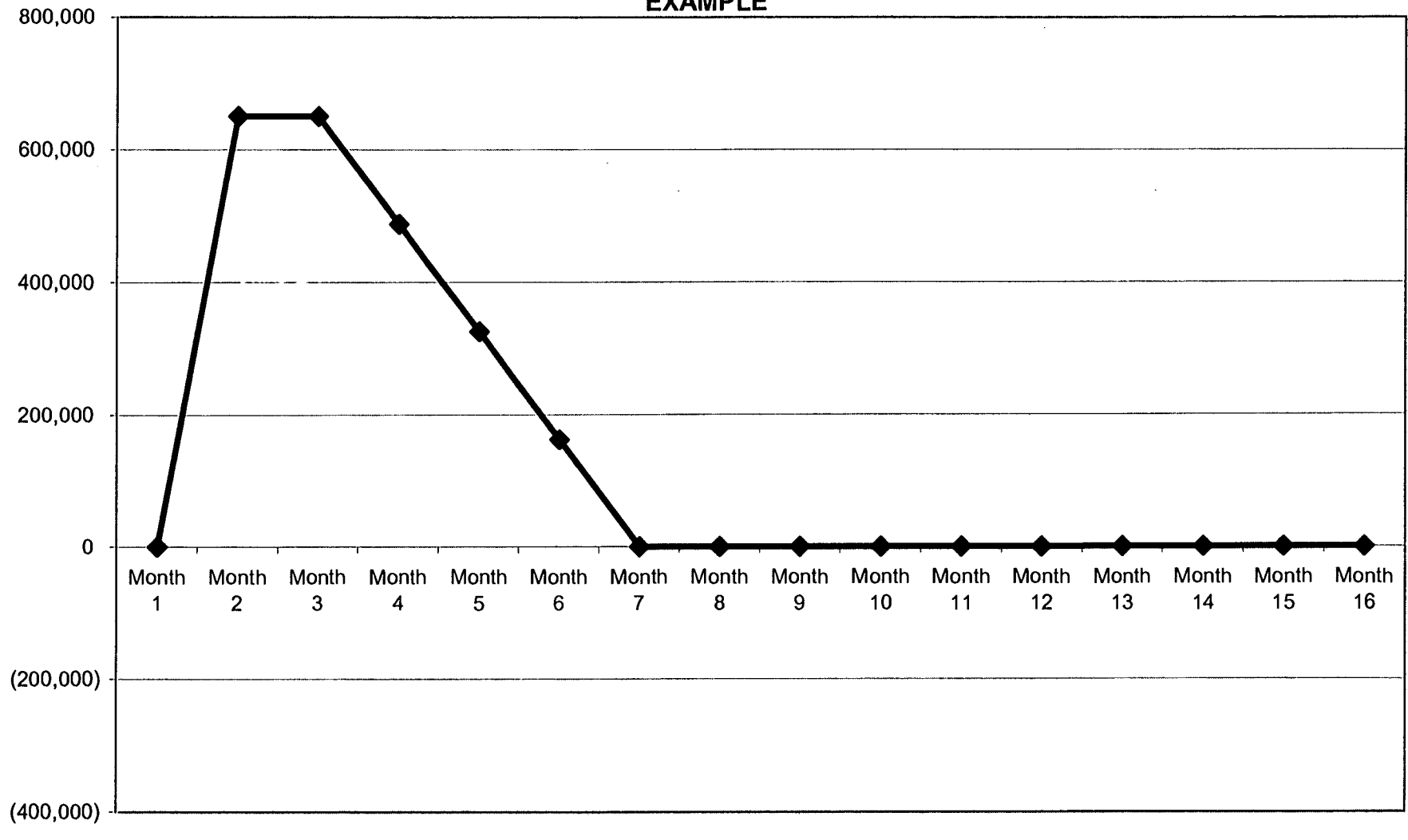
**MONTANA-DAKOTA UTILITIES CO.
FUEL COST CALCULATION - ANNUAL SURCHARGE**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9
<u>Fuel Cost Adjustment Effective</u>									
4 month Fuel Cost	\$9,100,000	9,100,000	9,100,000	10,100,000	10,100,000	10,100,000	10,100,000	9,100,000	9,100,000
2nd priod month under(Over)	0	0	0	0	0	0	0	0	0
Net Fuel Costs	9,100,000	9,100,000	9,100,000	10,100,000	10,100,000	10,100,000	10,100,000	9,100,000	9,100,000
Kwh - 4 month total	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000
<u>FCA</u>									
Current	\$0.01300	\$0.01300	\$0.01300	\$0.01443	\$0.01443	\$0.01443	\$0.01443	\$0.01300	\$0.01300
Under(Over) Recovery	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
	\$0.01300	\$0.01300	\$0.01300	\$0.01443	\$0.01443	\$0.01443	\$0.01443	\$0.01300	\$0.013
<u>Actual Results for Month</u>									
Kwh Sales - ND	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000
Actual Fuel Costs	\$2,275,000	\$3,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000
ND %	65%	65%	65%	65%	65%	65%	65%	65%	65%
ND Fuel Costs	\$1,478,750	\$2,128,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750
Recovery									
Current	1,478,750	1,478,750	1,478,750	1,641,413	1,641,413	1,641,413	1,641,413	1,478,750	1,478,750
Under(Over) recovery	0	0	0	0	0	0	0	0	0
	1,478,750	1,478,750	1,478,750	1,641,413	1,641,413	1,641,413	1,641,413	1,478,750	1,478,750
Net Under(Over)recovery	0	650,000	0	(162,663)	(162,663)	(162,663)	(162,663)	0	0
Balance	0	650,000	650,000	487,337	324,674	162,011	(652)	(652)	(652)
Annual surcharge									

**MONTANA-DAKOTA UTILITIES CO.
FUEL COST CALCULATION - ANNUAL SURCHARGE**

	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16
<u>Fuel Cost Adjustment Effective</u>							
4 month Fuel Cost	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000
2nd priod month under(Over)	0	0	0	0	0	0	0
Net Fuel Costs	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000	9,100,000
Kwh - 4 month total	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000	700,000,000
<u>FCA</u>							
Current	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300
Under(Over) Recovery	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300	\$0.01300
<u>Actual Results for Month</u>							
Kwh Sales - ND	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000	113,750,000
Actual Fuel Costs	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000	\$2,275,000
ND %	65%	65%	65%	65%	65%	65%	65%
ND Fuel Costs	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750	\$1,478,750
Recovery							
Current	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750
Under(Over) recovery	0	0	0	0	0	0	0
	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750	1,478,750
Net Under(Over)recovery	0	0	0	0	0	0	0
Balance	(652)	(652)	(652)	0	0	0	0
Annual surcharge			\$0.00000				

**MONTANA-DAKOTA UTILITIES CO.
NET (OVER)UNDER RECOVERY - ANNUAL TRUE-UP
NORTH DAKOTA BALANCE
EXAMPLE**





Public Service Commission

State of North Dakota

COMMISSIONERS

Tony Clark, President
Susan E. Wefald
Kevin Cramer

Executive Secretary
Ilona A. Jeffcoat-Sacco

600 E. Boulevard Ave. Dept 408
Bismarck, North Dakota 58505-0480
web: www.psc.state.nd.us
e-mail: ndpsc@nd.gov
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

October 16, 2006

Don Ball
Montana-Dakota Utilities Co
400 N 4th St
Bismarck ND 58501

Dear Mr. Ball:

On October 12, 2006, the Public Service Commission suspended Montana-Dakota Utilities Co.'s Fuel Clause Rate 58 tariff, Case No. PU-06-415.

Sincerely,

Sharon Helbling
Public Utilities Division

sdh

c: Rita Mulkern
Dan Kuntz

3

PU-06-415

Pages: 1

Letter re suspension of tariff

by Public Service Commission

10/16/2006

CC: Comm Legal Ilona Jerry

MOTION

APPROVED

DATE: 10-12-06
SW

October 12, 2006

**Montana-Dakota Utilities Co.
Fuel Clause Rate 58
Tariff**

Case No. PU-06-415

I move the Commission suspend Montana-Dakota Utilities Co.'s Fuel Clause
Rate 58 Tariff, Case No. PU-06-415.

sdh

Public Service Commission
Receipt of Paymer

Received: 9/21/2006 Check# 1203007 for \$50.00 Receipt# 6672

Subject: Fuel Clause Rate 58 Tariff

Docket # PU-06-415

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

dw_psc_receipt



MONTANA-DAKOTA

UTILITIES CO.
A Division of MDU Resources Group, Inc.

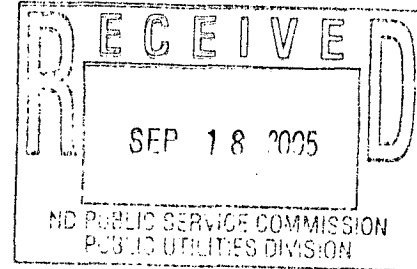
ORIGINAL

02-563

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

September 15, 2006

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505



Re: Fuel Clause Rate 58
Case No. PU-06-___

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits an original and seven (7) copies of a revised Fuel Clause Rate 58 in accordance with Title 49 of the North Dakota Century Code and the rules and regulations promulgated by the North Dakota Public Service Commission.

The Company seeks revisions to its Fuel Clause Rate 58 (FCA) to implement an Unrecovered Fuel Cost Account (Account 182.3) with an annual surcharge to replace the unrecovered prior cumulative energy costs currently included in the FCA calculation.

Presently, Montana-Dakota calculates the over or under recovery of fuel costs each month and includes that balance in the calculation of the FCA, with a two month lag.

Montana-Dakota is proposing to revise the FCA to set up an Unrecovered Fuel Cost Account to record the over or under recovery of fuel costs each month. Montana-Dakota will implement an annual surcharge adjustment to be effective April 1 each year to amortize the over or under recovered balance over the next twelve months on a per kwh basis. Montana-Dakota proposes that the first surcharge adjustment be effective on April 1, 2007.

Pursuant to Chapter 69-09-02-39 3, Montana-Dakota has included the unrecovered prior cumulative balance in its FCA calculation, which functioned as a true-up for under or over recoveries of fuel costs. The over or under recovery for each month would be included in the FCA calculation with a two month lag, and a portion was recovered in the next month. Over time, and with the advent of the Midwest Independent System Operator (MISO) Market, it has become more desirable to set up and track the over and under recoveries in a separate account, similar to the Unrecovered Purchased Gas Cost Account in order to:

- Provide better matching on a monthly basis as the cumulative over or

- under recovered balance from two months ago can distort the current month calculation;
- Smooth out the FCA and reduce volatility as the amortization of the unrecovered fuel cost account will change annually rather than monthly; and
 - More accurately recover fuel costs as the implementation of the unrecovered fuel cost account will ensure that Montana-Dakota recovers no more and no less than its actual fuel costs.

A waiver of Chapter 69-09-02-39 3, which specifies that the prior unrecovered cumulative costs be included in the monthly calculation is required and Montana-Dakota herewith requests such waiver.

Montana-Dakota is also providing a copy of the proposed Rate 58 that shows the proposed revisions by underlining the new proposed language.

Please refer all inquiries regarding this filing to:

Ms. Rita A. Mulkern
Regulatory Analysis Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

Also, please send copies of all written inquiries, correspondence and pleading to:

Mr. Daniel S. Kuntz
Assistant General Counsel
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58506-5650

Montana-Dakota also herewith submits a check for \$50.00 pursuant to the requirements of Section 49-05-05 of the North Dakota Century Code.

Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Donald R. Ball
Vice President – Regulatory Affairs

Attachment

cc: D. S. Kuntz



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
2nd Revised Sheet No. 42
Canceling 1st Revised Sheet No. 42

FUEL CLAUSE Rate 58

Page 1 of 3

There shall be added to or deducted from the net monthly bill computed according to the applicable schedule .001¢ (one thousandth of one cent) per kilowatt-hour for each .001¢ increase above or decrease below the base fuel cost per kilowatt-hour. The base fuel cost shall be 1.303¢ per Kwh.

The fuel cost shall be the energy related fuel and purchased power costs plus the annual Surcharge Adjustment.

- A. The energy related fuel and purchased power costs shall include the sum of the following costs for the most recent four month period:
1. The cost of fossil and other fuels, including but not limited to tire derived fuel (TDF) and refuse derived fuel (RDF) consumed in the Company's own generating stations and the Company's share of fuel consumed in jointly owned generating stations as recorded in Account 151.
 2. The net energy cost of energy purchases as recorded in Account 555 exclusive of capacity or demand charges including but not limited to:
 - a. Energy that is purchased on an economic dispatch basis;
 - b. Energy purchased from a renewable energy source, including but not limited to hydropower, wood, windpower, and biomass;
 - c. Net costs linked to the utility's load serving obligation, associated with participation in wholesale electric energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the energy markets.
 3. The actual identifiable fossil and other fuel costs associated with energy purchased for reasons other than identified in (2) above, less;
 4. The cost of fossil and other fuel recovered through intersystem sales, including the fuel costs and/or renewable energy costs related to economy energy sales and other energy sold on an economic dispatch basis.

Date Filed: September 15, 2006

Effective Date:

Issued By: Donald R. Ball
Vice President -
Regulatory Affairs

Case No.: PU-06_____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
1st Revised Sheet No. 42.1
Canceling Original Sheet No. 42.1

FUEL CLAUSE Rate 58

Page 2 of 3

- B. The sum of the costs calculated in A. shall be divided by all kilowatt hours sold excluding intersystem sales for the most recent four month period as herein defined to arrive at the cost per kwh.
- C. All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on April 1 each year. The Surcharge Adjustment per kwh sold shall reflect the amortization of the applicable balance in the Unrecovered Fuel Cost Account calculated by dividing the applicable balance by the estimated kwh sales for the twelve months following the effective date of the adjustment.
1. The balance in the Unrecovered Fuel Cost Account (Account 182.3) includes:
 - a. The current month over or under recovery, determined as follows:
 1. Montana-Dakota shall determine each month the unit cost for that month's fuel and purchased power.
 2. Montana-Dakota shall subtract from the month's unit cost the unit cost reflected in rates for that month.
 3. The resulting difference (positive or negative) shall be multiplied by the kwhs sold that month under each rate schedule.
 - b. Refunds from supplier(s) and market operators with respect to fuel and purchased power costs.
 - c. Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.
 - d. The balance in the Unrecovered Fuel Cost Account shall be decreased each month by the amount of the Surcharge Adjustment multiplied by the kwh sales for the month. The amount amortized shall be applied pro rata between the Unrecovered Fuel Cost Account and the interest balance.

Date Filed: September 15, 2006

Effective Date:

Issued By: Donald R. Ball
Vice President -
Regulatory Affairs

Case No.: PU-06_____



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 42.2

FUEL CLAUSE Rate 58

Page 3 of 3

The Company shall file a monthly statement showing the calculation of the Fuel Cost Adjustment with the Commission prior to implementing the monthly adjustment. The adjustment in rates shall be effective with the bills rendered on and after the first day of each month, unless the Commission shall otherwise order.

Date Filed: September 15, 2006

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Vice President -
Regulatory Affairs

Case No.: PU-06-_____

Tariffs Reflecting Proposed Changes



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 42.1

FUEL CLAUSE Rate 58

Page 1 of 3

There shall be added to or deducted from the net monthly bill computed according to the applicable schedule .001¢ (one thousandth of one cent) per kilowatt-hour for each .001¢ increase above or decrease below the base fuel cost per kilowatt-hour. The base fuel cost shall be 1.303¢ per Kwh.

The fuel cost shall be the energy related fuel and purchased power costs plus the annual Surcharge Adjustment ~~sum of the following for the most recent four month period plus unrecovered (or less over recovered) prior cumulative energy costs:~~

A. The energy related fuel and purchased power costs shall include the sum of the following costs for the most recent four month period:

1. The cost of fossil and other fuels, including but not limited to tire derived fuel (TDF) and refuse derived fuel (RDF) consumed in the Company's own generating stations and the Company's share of fuel consumed in jointly owned generating stations as recorded in Account 151.
2. The net energy cost of energy purchases as recorded in Account 555 exclusive of capacity or demand charges including but not limited to:
 - a. Energy that is purchased on an economic dispatch basis;
 - b. Energy purchased from a renewable energy source, including but not limited to hydropower, wood, windpower, and biomass;
 - c. Net costs linked to the utility's load serving obligation, associated with participation in wholesale electric energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the energy markets.
3. The actual identifiable fossil and other fuel costs associated with energy purchased for reasons other than identified in (2) above, less;
4. The cost of fossil and other fuel recovered through intersystem sales, including the fuel costs and/or renewable energy costs related to economy energy sales and other energy sold on an economic dispatch basis.

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 42.1

FUEL CLAUSE Rate 58

Page 2 of 3

- B. The sum of the costs calculated in A. shall be divided by The kilowatt-hour sales shall be all kilowatt hours sold excluding intersystem sales for the most recent four month period as herein defined to arrive at the cost per kwh.
- C. All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on April 1 each year. The Surcharge Adjustment per kwh sold shall reflect the amortization of the applicable balance in the Unrecovered Fuel Cost Account calculated by dividing the applicable balance by the estimated kwh sales for the twelve months following the effective date of the adjustment.
1. The balance in the Unrecovered Fuel Cost Account (Account 182.3) includes:
 - a. The current month over or under recovery, determined as follows:
 1. Montana-Dakota shall determine each month the unit cost for that month's fuel and purchased power.
 2. Montana-Dakota shall subtract from the month's unit cost the unit cost reflected in rates for that month.
 3. The resulting difference (positive or negative) shall be multiplied by the kwhs sold that month under each rate schedule.
 - b. Refunds from supplier(s) and market operators with respect to fuel and purchased power costs.
 - c. Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.
 - d. The balance in the Unrecovered Fuel Cost Account shall be decreased each month by the amount of the Surcharge Adjustment multiplied by the kwh sales for the month. The amount amortized shall be applied pro rata between the Unrecovered Fuel Cost Account and the interest balance.

Date Filed:

Effective Date:

Issued By:

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 42.1

FUEL CLAUSE Rate 58

Page 3 of 3

~~This adjustment shall be made monthly and shall be based on the average fuel cost per kilowatt hour for the most recent four month period for which actual cost data is available. The Company shall file a monthly statement showing the calculation of the Fuel Cost Adjustment with the Commission prior to making an implementing the monthly adjustment, a monthly statement, under oath, setting forth the fuel cost per kilowatt hour for the most recent four month period, as set forth above. Any The adjustment in rates occasioned thereby shall be effective with the bills rendered on and after the first day of each month, unless the Commission shall otherwise order.~~

Date Filed:

Effective Date:

Issued By:

Case No.:

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Donald R. Ball
 Vice President Regulatory
 Affairs - Montana/Dakota Utilities
 400 N. 4th Street
 Bismarck ND 58501
 58501

A. Signature

X

Agent

Addressee

B. Received by (Printed Name)

Donald R. Ball

C. Date of Delivery

6-4-05

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C.O.D.

4. Restricted Delivery? (Extra Fee)

Yes

2. Article Number

(Transfer from service label)

7006 0100 0003 7161 4815

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Daniel S. Kentry
 Assistant General Counsel
 MDU Resources Group
 PO Box 5650
 Bismarck, ND 58506
 5650

A. Signature

X

Agent

Addressee

B. Received by (Printed Name)

Daniel S. Kentry

C. Date of Delivery

8-1-05

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C.O.D.

4. Restricted Delivery? (Extra Fee)

Yes

2. Article Number

(Transfer from service label)

7006 0100 0003 7161 4846

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Rita A. Mulhern
 Regulatory Analysis Manager
 Montana/Dakota Utilities
 400 N Fourth St
 Bismarck, ND 58501

A. Signature

X

Agent

Addressee

B. Received by (Printed Name)

Rita A. Mulhern

C. Date of Delivery

6-4-05

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type

Certified Mail

Express Mail

Registered

Return Receipt for Merchandise

Insured Mail

C.O.D.

4. Restricted Delivery? (Extra Fee)

Yes

2. Article Number

(Transfer from service label)

7006 0100 0003 7161 4822

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540