



UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

November 3, 2006

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

Re: Minot Air Force Base Distribution Rate
Case No. PU-06-____

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith requests, to the extent required by N.D.C.C. Chapter 49-05, Commission review and approval of the attached tariff sheet governing the charges for provision of natural gas distribution services to the Minot Air Force Base (MAFB). This tariff sheet is being filed in accordance with an Agreement (identified as Contract GS-00P-05-BSC-0369) between Montana-Dakota and MAFB providing for utility privatization at the MAFB pursuant to Montana-Dakota's response to MAFB's Request for Proposal for the purpose of selling the natural gas utility system located on the MAFB (RFP). The proposed tariff sheet is entitled Minot Air Force Distribution System – Rate 65. A revised Table of Contents is also submitted to reflect the addition of the Rate 65 rate schedule.

Montana-Dakota currently provides natural gas service to the MAFB under Air Force Base Service Rate 64. This service provides for the delivery of natural gas to the point of interconnection with the natural gas utility system that MAFB is now selling to Montana-Dakota. Service under Rate 64 will not change as a result of Montana-Dakota's purchase of the MAFB distribution system.

The MAFB natural gas system to be owned and operated by Montana-Dakota consists of all equipment physically connected to the distribution system from the point in which the distribution system enters the MAFB installation. The system includes approximately 232,000 linear feet of underground piping, valves, regulators and meters. Approximately 65 percent of the system is steel pipe installed in 1961 with the remaining 35 percent consisting of polyethylene pipe installed between 1985 and 2003. The distribution system will be operated in accordance with the Department of Transportation Pipeline

Safety Regulations under the authority of this Commission.

Montana-Dakota is acquiring the MAFB distribution system at a purchase price of \$509,197. A monthly distribution fee of \$35,500 will be in effect under proposed Rate 65 for the first 3 years with the monthly fee rising to \$38,000 in year 4. The monthly fees are subject to renegotiation if the MAFB requests system operation or scope changes. The purchase price will be amortized over 360 months at an interest rate of 6% and payment to the MAFB will be in the form of a monthly credit to their bill for service under Rate 65.

A Transition Period provides the Company the opportunity to perform a more thorough examination of the distribution system than was available prior to responding to the MAFB RFP. If this examination reveals conditions that were not revealed during the RFP process, the Company has the right to renegotiate the monthly distribution charge to be resubmitted for Commission approval before taking over operation of the distribution system. The MAFB will pay a transition fee up to \$69,777 for costs associated with a system uprate involving a leak survey to establish a maximum allowable operating pressure in accordance with the requirements of CFR 49 Part 192, and a base line cathodic protection survey to ensure that the pipe is adequately protected in accordance with CFR 49 Part 192, inventory and review of available construction and maintenance records and a physical inspection of above and below ground facilities.

The revenue requirement model supporting the purchase of the natural gas distribution system and operation of that system at the proposed monthly fees is provided as Attachment A. The model includes the capital improvements identified by MAFB, capital expenditures identified by Montana-Dakota for safe operation of the system, estimated direct operation and maintenance expenses and an allocation of corporate costs.

As noted above, Montana-Dakota currently sells and delivers natural gas service to the MAFB under Rate 64. This service will not change and the fixed monthly charge effective under Rate 65 does not include the price of natural gas or the delivery of natural gas to the MAFB delivery point currently provided under Rate 64.

Please refer all inquiries regarding this filing to:

Tamie Aberle
Pricing & Tariff Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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

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

The original and seven (7) copies of this Letter of Transmittal and Attachments are hereby filed with the North Dakota Public Service Commission.

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

Attachments

cc: D. S. Kuntz
Bob Nowak – Minot Air Force Base



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

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Date Filed: November 3, 2006

Effective Date:

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

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State of North Dakota Gas Rate Schedule

NDPSC Volume 7
Original Sheet No. 8

AIR FORCE Distribution System Rate 65

Page 1 of 1

Availability:

Operation and maintenance of the Minot Air Force Base distribution system near Minot, North Dakota.

Rate:

Distribution System Operation and Maintenance Fee	\$35,500.00 per month (months 1-36) \$38,000.00 per month (month 37 forward)
Amortization of Purchase Price	\$(3,053.00) per month

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.

General Terms and Conditions:

1. Terms of service including transition period fees shall be specified by contract between Minot Air Force Base and the Company.
2. The amortization on purchase price amount shall be a credit to the Minot Air Force Bill each month.
3. The foregoing schedule is subject to Rates 100 through 124 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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**MONTANA-DAKOTA UTILITIES CO.
REVENUE REQUIREMENT
Minot Air Force Base**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Revenues										
Annual Fee	\$426,000	\$426,000	\$426,000	\$456,000	\$456,000	\$456,000	\$456,000	\$456,000	\$456,000	\$456,000
Operating Expenses										
O&M	251,770	251,770	251,770	251,770	251,770	251,770	251,770	251,770	251,770	251,770
Depreciation 2/	27,778	30,597	32,443	34,289	35,635	36,685	37,735	38,785	39,835	40,885
Taxes Other Than Income	8,334	9,179	9,733	10,287	10,690	11,005	11,320	11,635	11,950	12,265
Total Exp.	287,882	291,546	293,946	296,346	298,095	299,460	300,825	302,190	303,555	304,920
Income before Taxes	138,118	134,454	132,054	159,654	157,905	156,540	155,175	153,810	152,445	151,080
Interest Expense	22,659	38,788	41,018	41,834	42,443	42,864	42,403	41,848	41,199	40,457
Taxable income	115,459	95,666	91,036	117,820	115,462	113,676	112,772	111,962	111,246	110,623
Income Taxes	48,493	40,180	38,235	49,484	48,494	47,744	47,364	47,024	46,723	46,461
Operating Income	\$89,625	\$94,274	\$93,819	\$110,170	\$109,411	\$108,796	\$107,811	\$106,786	\$105,722	\$104,619
Rate Base										
Plant in Service	\$509,197	\$833,357	\$917,927	\$973,297	\$1,028,667	\$1,069,037	\$1,100,537	\$1,132,037	\$1,163,537	\$1,195,037
Investment	324,160	84,570	55,370	55,370	40,370	31,500	31,500	31,500	31,500	31,500
Additional Facilities	\$833,357	\$917,927	\$973,297	\$1,028,667	\$1,069,037	\$1,100,537	\$1,132,037	\$1,163,537	\$1,195,037	\$1,226,537
Accumulated Reserve	27,778	58,375	90,818	125,107	160,742	197,427	235,162	273,947	313,782	354,667
Rate base	\$805,579	\$859,552	\$882,479	\$903,560	\$908,295	\$903,110	\$896,875	\$889,590	\$881,255	\$871,870

1/ Monthly fee of \$35,500 Years 1-3; \$38,000 Years 4-10.

2/ Initial investment plus anticipated plant additions as shown on Attachment A, Page 2.

**Montana-Dakota Utilities Co.
Minot Air Force Base Capital Improvements**

Year	Project	Required By MAFB	Renewal & Replacement	
1	1 Remove 10 Rockwell Figure 143 cast iron flanged valves	\$15,000		
	2 Replace 20 regulators on existing meter sets on Base Proper Side	10,600		
	3 Replace 1,128 existing regulators on the Base Housing Side	153,560		
	4 Install 19 new meters required by RFP	7,600		
	5 Install 19 new regulators required by RFP for meters above	7,930		
	6 Install new service line to Building 999	47,400		
	7 Construct office/storage building		75,000	
	8 Permitting costs		1,200	
	9 Install one temporary service connection		1,070	
	10 Install 3 new service connections		3,000	
	11 Install 3 new meters and regulator sets		1,800	
Total		\$242,090	82,070	\$324,160
2	1 Replace 1 ½" plastic main		8,300	
	2 Inspect and test existing meters	\$45,300		
	3 Remove 10 Rockwell Figure 143 cast iron flanged valves	15,000		
	4 Permitting costs		1,200	
	5 Install one temporary service connection		1,070	
	6 Install 3 new service connections		3,000	
	7 Install 3 new meters and regulator sets		1,800	
	8 Equipment and tool replacements		8,900	
Total		\$60,300	24,270	\$84,570
3	1 Remove 10 Rockwell Figure 143 cast iron flanged valves	\$15,000		
	2 Permitting costs		1,200	
	3 Install one temporary service connection		1,070	
	4 Install 3 new service connections		3,000	
	5 Install 3 new meters and regulator sets		1,800	
	6 Equipment and tool replacements		8,300	
	7 Miscellaneous Replacements		25,000	
Total		\$15,000	40,370	\$55,370
4	1 Remove 10 Rockwell Figure 143 cast iron flanged valves	\$15,000		
	2 Permitting costs		1,200	
	3 Install one temporary service connection		1,070	
	4 Install 3 new service connections		3,000	
	5 Install 3 new meters and regulator sets		1,800	
	6 Equipment and tool replacements		8,300	
	7 Miscellaneous Replacements		25,000	
Total		\$15,000	40,370	\$55,370
5	1 Permitting costs		1,200	
	2 Install one temporary service connection		1,070	
	3 Install 3 new service connections		3,000	
	4 Install 3 new meters and regulator sets		1,800	
	5 Equipment and tool replacements		8,300	
	6 Miscellaneous Replacements		25,000	
Total		\$0	40,370	\$40,370
6-30	1 Permits, Service Connections & Meters		8,200	
	2 Equipment and tool replacements		8,300	
	3 Miscellaneous Renewal & Replacement		15,000	
Total		\$0	31,500	\$31,500