

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES CO., a)
Division of MDU Resources Group, Inc.)
for approval of an Electric Generation) Case No. PU-14-____
Resource Recovery Rider and an Initial)
Adjustment to be Effective August 1,)
2014)

I. Summary of Application

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (Montana-Dakota or Applicant), makes this Application pursuant to North Dakota Century Code 49-05-05 for Public Service Commission approval of a Generation Resource Recovery Rider (Generation Rider). The Company is also proposing rate adjustments under the Generation Rider to recover North Dakota's share of the investment in the Heskett III 88 MW Simple Cycle Combustion Turbine Station (Heskett III) expected to be operational in July 2014. The Commission issued an Advance Determination of Prudence for Heskett III in Case No. PU-11-395 and a Certificate of Public Convenience and Necessity in Case No. PU-11-396.

II. Description of Applicant

Montana-Dakota is a Division of MDU Resources Group, Inc., a Delaware corporation duly authorized to do business in the State of North Dakota as a foreign corporation, and doing business in the State of North Dakota as a public utility subject to the jurisdiction of and regulation by the North Dakota Public Service Commission (Commission) under NDCC Title 49. Montana-Dakota's Certificate of Incorporation and

amendments thereto have been previously filed with the Commission and such Certificate and Amendments are hereby incorporated by reference as though fully set forth herein. Montana-Dakota provides electric service to approximately 120,000 in its integrated electric system within North Dakota, Montana and South Dakota with approximately 86,000 of those customers in North Dakota.

III. Proposed Tariffs

Montana-Dakota respectfully submits herewith the following tariff sheets as more fully described below and provided as Exhibit 1, to be effective August 1, 2014:

- Table of Contents 3rd Revised Sheet No. 1
- Residential Electric Service 5th Revised Sheet No. 3
- Optional Residential Thermal Energy Storage 3rd Revised Sheet No. 4.1
- Optional Time-of-Day Residential Electric Service 7th Revised Sheet No. 7
- Small General Electric Service 5th Revised Sheet No. 10
- Irrigation Power Service 4th Revised Sheet No. 14.1
- Optional Time-of-Day Small General Electric Service 7th Revised Sheet No. 15
- General Electric Service 4th Revised Sheet No. 18.1
- Optional Time-of-Day General Electric Service 7th Revised Sheet No. 19.1
- General Electric Space Heating Service 6th Revised Sheet No. 20.1
- Firm Service Economic Development 4th Revised Sheet No. 22.1
- Interruptible Large Power Demand Response 4th Revised Sheet No. 23.1
- Small Municipal Electric Service 5th Revised Sheet No. 25.1
- Municipal Lighting Service 5th Revised Sheet No. 26
- Municipal Pumping Service 5th Revised Sheet No. 32.1
- Outdoor Lighting Service 5th Revised Sheet No. 36
- Generation Tracking Adjustment Original Sheet Nos. 40-40.1.
- Fuel & Purchased Power Tracking Adjustment 4th Revised Sheet No. 42.1

IV. Description of the Project

Montana-Dakota seeks rate adjustments under the proposed Generation Rider to recover the investment costs of Heskett III and associated facilities necessary to interconnect with Montana-Dakota's existing electric system. The Heskett III project

also includes a 10-inch natural gas pipeline, approximately 24 miles in length, interconnecting with Northern Border Pipeline Company (Northern Border) to supply the gas requirements for the turbine.

Heskett III is located near Mandan, North Dakota adjacent to Montana-Dakota's existing coal-fired Heskett Station. The 10-inch natural gas pipeline constructed, owned and operated by Montana-Dakota is interconnected with the Northern Border Pipeline with a tap near St. Anthony, North Dakota and traverses approximately 24 miles in a northerly and easterly direction to the turbine site. The pipeline was sized to meet the needs of the proposed turbine along with the capacity to serve possible future needs. The pipeline was issued a Certificate of Site Compatibility by the Commission in Case No. PU-11-680 and construction began on September 9, 2013. The pipeline construction is largely complete between the interconnection with Northern Border and the Heskett III Plant Site. Construction is approximately 85 percent complete at the interconnection point and approximately 70 percent complete at the terminus of the plant site.

V. Need and Justification for the Project

Heskett III was provided an Advance Determination of Prudence in Case No. PU-11-395 and a Certificate of Public Convenience and Necessity in Case No. PU-11-396. As noted in the 2013 Integrated Resource Plan submitted to the Commission on July 1, 2013, the Heskett III unit was considered a committed resource as part of the supply resource analysis for requirements starting in 2014. Heskett III will supplant an expiring capacity purchase agreement the cost of which is being recovered under Montana-Dakota's Fuel and Purchased Power Adjustment tariff (Rate 58).

VI. Generation Resource Recovery Rider

Montana-Dakota is proposing the Generation Rider to recover a return on North Dakota's share of the Heskett III project including associated operation and maintenance, depreciation and tax expenses.

The revenue requirement for the Heskett III project, provided in Exhibit No. ___(TAA-2) of Ms. Aberle's testimony, reflects actual capital expenditures; including allowance for funds used during construction, through December 31, 2013 and estimated capital costs through completion of the project in July 2014. The total amount requested to be recovered through the Generation Rider for this initial period is \$7,390,494. This amount represents the revenue requirement associated with the Heskett III project consisting of the following components:

<u>Cost of Service</u>	
O&M	\$531,804
Depreciation	1,161,351
Taxes Other than Income	299,232
Return	3,793,110
Income Taxes	1,604,997
Total	<u>\$7,390,494</u>

The revenue requirement was allocated to the rate classes using a class demand factor based on projected 2014 requirements. A separate Generation Rider rate adjustment is being proposed for each of the classes shown below, similar to Montana-Dakota's currently effective Environmental Cost Recovery Rider (Rate 57) and Transmission Cost Adjustment (Rate 59), and will be shown as a separate line item on customers' bills denoted as "Generation Resource Rider".

Residential and Small General	\$0.00405 per Kwh
Large General	\$0.00324 per Kwh
Lighting	\$0.00195 per Kwh

A typical residential customer using 894 Kwh would see an increase of \$3.62 per month under the proposed Generation Rider. This increase will be partially offset by a future reduction in the Fuel and Purchased Power Adjustment of approximately \$.00145 per Kwh in association with the expiration of the capacity purchase agreement expiring in May 2015.

Montana-Dakota proposes to track all costs recovered through the Generation Rider until the costs have been fully recovered for the Heskett III project, or future projects deemed recoverable under the Generation Rider, are included in rate base in a general rate proceeding. Montana-Dakota will file a true-up of the Generation Rider annually with the Commission to reflect the over/under recovery from the previous year and costs/revenues projected for the subsequent year. The first Generation Rider is proposed to be effective the monthly following the Heskett III in-service date or approximately August 1, 2014.

VII. Conclusion

Applicant respectfully requests that the Commission:

1. Give Notice of Opportunity to request a hearing to interested parties and, if no hearing is requested within twenty days, to waive the hearing;
2. Enter an Order authorizing the implementation of a Generation Resource Recovery Rider, proposed tariff sheets and rate adjustments to be effective the month following the Heskett III in-service date or approximately August 1, 2014.
3. Grant such other relief as the Commission shall deem appropriate.

Dated this 27th day of February, 2014.

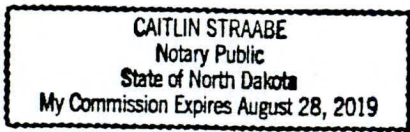
Garret Senger

Garret Senger
Vice President Regulatory & CAO

Subscribed and sworn to before me this 27th day of February, 2014.

Caitlin Straabe

Caitlin Straabe, Notary Public
Burleigh County
State of North Dakota
My Commission Expires: 08/28/2019



Of Counsel:

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