COST OF GAS – NATURAL GAS Rate 88

1. **Applicability:**
   This rate schedule constitutes a cost of gas (COG) provision and specifies the procedure to be utilized to adjust the rates for natural gas sold under Montana-Dakota's rate schedules in order to reflect: (a) changes in Montana-Dakota's average cost of natural gas supply, (b) amortization of the Unrecovered Purchased Gas Cost Account and (c) grain drying margin sharing.

2. **Effective Date and Limitation on Adjustments:**
   (a) The effective dates of the COG shall be service rendered on and after the first date of each month, unless the Commission shall otherwise order.

   (b) Montana-Dakota shall file to reflect changes in its average cost of gas supply only when the amount of change in such COG is at least twenty-five (25) cents per dk. The adjustment to be effective October 1 shall be filed each year, regardless of the amount of the change.

3. **Cost of Gas:**
   (a) The monthly COG shall reflect changes in Montana-Dakota's cost of gas supply as compared to the cost of gas supply approved in its most recent COG filing. The cost of gas supply shall be the sum of all costs incurred in obtaining gas for general system supply. General system supply is defined as gas available for use by all customers served under retail sales rate schedules. 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 system gas supply.

   (b) The COG shall be computed as follows:

      (1) Demand costs 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 COG will be in effect and annual dk requirements.

(4) The return on prepaid demand and commodity balances and storage balances 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 adjusted to reflect losses.

(c) Monthly gas costs shall be calculated as follows:

(1) Demand costs for firm customers shall be apportioned to all state jurisdictions served by Montana-Dakota on the basis of the overall ratio of each state's Maximum Daily Delivery Quantity (MDDQ).

(2) Demand costs for interruptible sales customers shall be stated on a 100% load factor basis.

(3) Demand costs for firm general contracted demand customers shall be stated on the incremental MDDQ basis.

(4) All commodity costs and other costs associated with the acquisition of gas for general system supply shall be apportioned to each state on the basis of total dks sold in each state, regardless of the actual points of delivery of such gas.

(5) The return requirement related to prepaid demand and commodity charges and gas storage balances 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. The prepaid commodity charges shall be apportioned to all states on the basis of annual dks sold in each state. The unit cost shall be calculated using a thirteen-month average balance and the currently authorized return on rate base.

(6) 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 COG shall be applied to each of Montana-Dakota's rate schedules recognizing differences among customer classes consistent with the cost of gas supply included in the applicable class sales rate.

4. Surcharge Adjustment:

(a) All sales rate schedules 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 dk sales for the twelve months following the effective date of the adjustment.

5. Unrecovered Purchased Gas Account:

(a) Items to be included in the Unrecovered Purchased Gas Account (Account 191), as calculated in accordance with Subsection 5(b) are:

(1) Charges for gas supply which Montana-Dakota is unable to reflect in the COG by reason of the twenty-five 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 sales rates.

(3) Refunds received from supplier(s) with respect to gas supply.

(4) Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.

(5) Demand costs recovered from the firm general contracted demand and interruptible sales customers will be credited to the residential and firm general service customers.

(b) (1) The amount to be included in Account 191 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.

Such adjustment to levelize supplier(s) demand charges shall be calculated as follows:

The supplier's 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 COG.

(iii) The resulting difference (which may be positive or negative) shall be multiplied by the dks sold during that month under each rate schedule. The resulting amounts shall be reflected in an Account 191 for each rate schedule.

(2) Montana-Dakota will calculate carrying charges on the amounts in Account 191 at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board. 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 Account 191 for each rate schedule, and carrying charges shall not be computed on the amounts in such supplementary account.

(c) Reduction of Amounts in Account 191:

(1) The amounts in Account 191 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 during that month under each rate schedule. The account shall be increased in the event the adjustment is a negative amount.

(2) The amount amortized each month shall be applied pro rata between the amounts in Account 191 specified in Subsections 5(a)(1), (2), (3) and (5) and the amounts in the supplementary Account 191 specified in Subsection 5(a)(4).

6. Grain Drying Margin Sharing Mechanism:
At the time of each surcharge adjustment, pursuant to Paragraph 4, the Company will compute a credit to firm service Rates 60, 62, 63, 70, 72, 73, and 74 based on 90 percent of the margin revenues collected from Grain Drying customers served under interruptible service Rates 71 and 85 as established in Case No. PU-13-803, including prior period over or under collected balances.

7. Time and Manner of Filing:

(a) Montana-Dakota shall file to change the COG at least 20 days prior to the proposed effective date. Each filing by Montana-Dakota shall be made by means of revised COG sheets identifying the amounts of the adjustments and the resulting currently effective COG rates.

(b) Each filing shall be accompanied by detailed computations, which clearly show the derivation of the relevant amounts, a concise statement of the reasons for any change and copies of any relevant pipeline tariff sheets supporting costs claimed.