



Montana-Dakota Utilities Co.

400 N 4th Street
Bismarck, ND 58501

**State of South Dakota
Gas Rate Schedule – SDPUC Volume No. 3**

Section No. 5
Original Sheet No. 20

FIRM GAS SERVICE EXTENSION POLICY Rate 120

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The policy of Montana-Dakota Utilities Co. for gas extensions necessary to provide firm sales or firm transportation service to customers is as follows:

A. General Rules and Regulations Applicable to all Firm Service Extensions

1. An extension will be constructed without a contribution if the estimated capital expenditure is cost justified as defined in paragraph A.3.
2. The Company may require customer or developer cost participation if the estimated capital expenditure is not cost justified.
3. The extension will be considered cost justified if the calculated maximum allowable investment equals or exceeds the estimated capital expenditure using the following formula:

Maximum Allowable Investment (MAI) =

$$\frac{[\text{Annual Basic Service Charge} + (\text{Project's Estimated 3}^{\text{rd}} \text{ Year Annual Dk} \times \text{Distribution Delivery or Demand Charge})]}{\text{Levelized Annual Revenue Requirement Factor (LARR)}}$$

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4. Cost of the extension shall include, if applicable, the gas main extension(s), valves, tap setting and associated equipment, barricade, service line(s), any required payments made by the Company to the transmission pipeline company to accommodate the extension(s), and other costs excluding the distribution meter and regulator.

The service line is that portion of the gas service extending from the main to the connection at the house regulator and/or meter.

5. Where cost participation is required, such extension is subject to execution of the Company's standard agreement for extensions by the customer or the developer and Company.
6. A refund will be made only when there is a reduction in the amount of contribution required within a five-year period from the extension(s) in service date. Interest will be calculated annually by the Company on any refund

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amounts and shall be equal to the average commercial paper interest rate (A1/P1), not to exceed 12 percent per annum.

No refund shall be made by Company after the five-year refund period and in no case shall the refund excluding interest, exceed the amount of the contribution.

7. The Company reserves the right to charge customer the cost associated with providing service to customer if service is not initiated within 12 months of such installation.

B. Customer Extensions

Cost participation for extensions where customers will be immediately available for service is as follows:

1. Contribution -
 - a. When a contribution is required, the customer(s) shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with paragraph A.3.
 - b. The contribution shall be made by:
 - i. A one-time payment prior to construction, or
 - ii. Payment of 25% of the contribution prior to construction and the balance in no more than twenty-four equal monthly installments. If customer discontinues service within the twenty-four month period, the balance will be due and payable upon discontinuance of service, or
 - iii. Customer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, letter of credit, or written guarantee commitment, shall be effective for the original five-year

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term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety or guarantor shall reimburse the Company for such recalculated contribution requirement, or

- iv. Customer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.
- c. Upon completion of construction, the contribution amount will be adjusted to reflect actual costs, and an additional charge may be levied or a refund may be made.
- d. If within the five-year period from the extension(s) in service date, the number of active customers and related volume exceeds the third-year projections, the Company shall recompute the contribution requirement by recalculating the maximum allowable investment.
- e. The recalculated contribution requirement shall be collected from the new applicant(s).

2. Refund -

- a. The Company will refund to the original contributor(s) the amount required to reduce their contribution to the recalculated contribution requirement. No refunds will be made for amounts less than \$25.00. Customers who have posted a bond, letter of credit, or written guarantee commitment will be notified of any reduction in surety or guarantee requirements.
- b. No refunds will be made until the new applicants begin taking service from the Company.

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- c. If the addition of new customers will increase the contribution required from existing customer(s), the extension will be considered a new extension and treated separately.
3. Incremental Expansion Surcharge -
- a. The Company, in its sole discretion, may offer an Incremental Expansion Surcharge (Surcharge) to groups of customers requesting service totaling 10 or more when the total estimated cost would otherwise have been prohibitive under the Company's present rates and gas service extension policy. The contribution requirement to be collected under the Surcharge shall be the amount of the capital expenditure in excess of the Maximum Allowable Investment determined in accordance with paragraph A.3.
 - i. A minimum up-front payment of \$100.00 will be collected from each customer who signs an agreement to participate in the expansion.
 - ii. For projects that are expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge of \$5.00 per month plus \$1.50 per dk.
 - iii. For projects that are not expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge of \$5.00 per month plus a commodity charge designed to provide recovery of the contribution requirement.
 - b. The Surcharge shall remain in effect until the net present value of the contribution requirement, calculated using a discount rate equal to the overall rate of return authorized in the last rate case, is collected.
 - c. The Surcharge shall apply to all customers connecting to natural gas service within the expansion area until the contribution requirement is satisfied.
 - d. The net present value of the Surcharge will be treated as a contribution-in-aid of construction for accounting purposes.

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C. Developer Extensions

Cost participation may be required for extensions such as a subdivision or mobile home court, in which a developer is installing roads, utilities, etc., before housing is built.

1. Contribution -

- a. When a contribution is required, the developer shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with paragraph A.3.
- b. The contribution shall be made by:
 - i. A one-time payment prior to construction, or
 - ii. Developer may post a bond, irrevocable letter of credit, or a written guarantee commitment in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, letter of credit, or a written guarantee commitment, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety shall reimburse the Company for such recalculated contribution requirement, or
 - iii. Developer, upon approval by Company, may finance the amount of the required contribution subject to the following conditions: 1) maximum contribution to be financed shall be determined by the Company at its sole discretion, 2) maximum term shall be five years, 3) interest will be charged at the Company's incremental weighted cost of capital.
- c. Upon completion of construction, the contribution amount will be adjusted to reflect actual costs, and an additional charge may be levied or a refund may be made.

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2. Refund -
 - a. If within the five-year period from the extension(s) in service date, the number of active customers and related volumes exceeds the third-year projections, the Company shall recompute the contribution requirement by recalculating the maximum allowable investment. Such recalculation shall be done annually based upon the anniversary of the extension(s) in service date.
 - b. The Company will refund to the developer the amount required to reduce their contribution to the recalculated contribution requirement. No refunds will be made for amounts less than \$25.00. Developers who have posted a bond, letter of credit, or written guarantee commitment will be notified of any reduction in surety or guarantee requirements.
 - c. If the addition of new customer(s) will increase the contribution required from the developer, the extension will be considered a new extension and treated separately.

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