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June 19, 2009

Ms. Patricia Van Gerpen  
Executive Director  
South Dakota Public Utilities  
Commission  
State Capitol Building  
500 East Capitol  
Pierre, SD 57501

Re: Docket No. EL08-28  
In the Matter of the Consideration of the  
New PURPA Standards

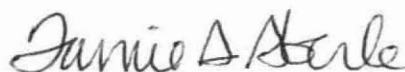
Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group Inc., herewith submits comments in response to the Commission's Order For and Notice of Procedural Schedule and Hearing issued on March 9, 2009 and the Commission Staff's request to address specific questions in a letter dated April 29, 2009.

Montana-Dakota looks forward to working with the Commission and Staff as the PURPA standards under the Energy Independence and Security Act are considered for implementation by the Commission.

If you have any questions regarding the attached comments, please contact Tamie Aberle at (701) 222-7856 or Don Ball at (701) 222-7630.

Sincerely,



Tamie A. Aberle  
Pricing & Tariff Manager

Cc: Dave Gerdes

**State of South Dakota  
Before the  
South Dakota Public Utilities Commission**

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.	) ) )	Docket No. EL08-028
In the Matter of the Consideration of the New PURPA Standards	) )	Comments

***Introduction***

Pursuant to the South Dakota Public Utilities Commission (Commission) Order for and Notice of Procedural Schedule and Hearing in this matter issued on March 9, 2009 and the Staff's questions issued on April 29, 2009, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. offers the following comments in this proceeding in the form of responses to the Staff's questions.

***Integrated Resource Planning (IRP)***

**1. Are you currently required to go through an IRP process in any of your regulated jurisdictions?**

Yes.

**If yes:**

**a. Which jurisdiction(s)?**

Montana-Dakota prepares an electric IRP for its interconnected electric system which encompasses portions of South Dakota, Montana and North Dakota. A separate IRP is prepared for Montana-Dakota's Wyoming electric service territory which is not electrically connected to the rest of its system. Montana-Dakota is required to formally file its plans in the states of Montana and North Dakota every two years. Montana-Dakota has no similar requirements regarding gas IRPs.

**b. How long has this been required?**

An IRP has been filed with the North Dakota Public Service Commission since 1989 pursuant to a Commission Order in Docket No. 10, 799 issued on January 27, 1987 in an electric rate case application filed by Montana-Dakota. The IRP requirement in Montana was initiated by Administrative Rules of Montana 38.5.2001 in 1992.

**c. Explain the input process.**

Montana-Dakota's electric IRP consists of four primary areas:

- ◆ A load forecast based on an econometric forecasting method to predict the integrated system customers' future demand for electricity. The long-term forecast is an estimate of energy requirements and peak demand for twenty years into the future. Various forecast scenarios are developed to address forecast uncertainty including sensitivity analyses regarding the effect of temperature on peak demand and simulation of high-growth and low-growth scenario forecasts.
- ◆ Assessment of demand-side options to determine the potentially feasible demand-side management (DSM) programs applicable to Montana-Dakota's system. Two primary objectives are considered when evaluating DSM programs: 1) those that will potentially offset future generation resource costs through load management and/or conservation measures and 2) programs that will enhance customer service through the offering of programs to customers that will serve to reduce their overall demand and/or energy requirements.
- ◆ Assessment of supply-side resource options to determine the potentially feasible generation options applicable to Montana-Dakota's system.
- ◆ The integration and risk process integrates the feasible supply-side and demand-side options to determine an expansion plan with risk assessed and incorporated to ultimately determine the best resource plan for Montana-Dakota's customers. For the supply-side and integration analysis, the Company utilizes the Electric Generation Expansion Analysis System (EGEAS) computer model developed by the Electric Power Research Institute to perform the resource expansion analysis and develop the least cost integrated resource expansion plan. EGEAS is a dynamic program that considers each scenario based on load forecast assumptions, resource availability, fuel prices and economic variables, one year at a time to satisfy the reliability constraints and to fulfill the expected energy and capacity needed.

**d. How often is the plan revised/reviewed?**

The IRP is revised/reviewed on an as required basis for planning purposes. The formal report is completed and filed every two years in Montana and North Dakota. Montana-Dakota also utilizes an IRP Public Advisory Group (PAG) for review and evaluation of the Company's IRP process. Participants in the PAG are non-utility personnel located in Montana-Dakota's integrated electric system (Montana, North Dakota and South Dakota).

**e. Historically, have you followed the resulting plans?**

Yes, with the caveat that the IRP process is a dynamic process that requires adjustment as changes in assumptions regarding energy requirements, supply resources, demand side management options and other economic variables occur.

**f. Explain how energy efficiency resources have been integrated into this process.**

The Company's IRP includes energy efficiency programs as part of the demand-side management assessment described above.

**g. Please provide an analysis of the cost and benefits associated with the current process.**

Montana-Dakota has not performed a cost/benefit analysis as the IRP is required in two states, however, the IRP tools are an integral part of the Company's planning process which would continue regardless of the requirement to file the plan.

**2. Were you previously required to go through an IRP process in another jurisdiction that no longer requires it?**

No.

**3. Should the Commission adopt an IRP process? Explain.**

Given the dynamic nature of the IRP process, Montana-Dakota does not see a need to adopt an IRP process in South Dakota. The Commission has sufficient purview over the various components of the IRP process described above and has the opportunity to review the system-wide IRP filed in North Dakota or Montana every two years. Montana-Dakota has historically submitted a copy to the South Dakota Commission for informational purposes

**4. If the commission adopted an IRP process in South Dakota:**

**a. How should energy efficiency resources be integrated?**

Demand-side management options including energy efficiency resources should be integrated as discussed in response to Question 1.

**b. How often should the plan be revised/reviewed?**

Montana-Dakota would recommend a biennial filing requirement if the Commission deems implementing an IRP filing requirement as providing value to customers.

**c. How would this benefit you?**

Montana-Dakota cannot identify any benefits to employing a requirement to file an IRP in South Dakota. Montana-Dakota will continue to provide the South Dakota Commission with a copy of the system-wide IRP.

**d. How would you be negatively affected?**

Given the dynamic nature of the IRP process and the fact that Montana-Dakota would have to make efforts to provide the most up-to-date information at the time of such a filing, a requirement to file an IRP in South Dakota would result in additional analysis and reporting work due to a potential different filing date and particular South Dakota IRP requirements. Additional administrative costs without added value would negatively affect Montana-Dakota's customers.

***Rate Design Modifications to promote energy efficiency Investments***

**1. If a federal or state energy efficiency resource standard is established, what is the best way to meet the target? Or will several programs need to be employed? If so, what are those programs?**

Energy resource standards, if adopted, would best be delivered by utilities serving the retail customers. A portfolio of cost effective programs designed to meet the needs of the customers being served would provide the best approach. Montana-Dakota identified such a portfolio of electric conservation and demand-side management programs in its most recent IRP filed in 2007 and is completing a review of the appropriate portfolio of cost effective programs in the IRP process underway and due to be filed in North Dakota on July 1, 2009. As with the supply-side resources, Montana-Dakota has developed its portfolio of programs on an integrated system basis and offers such programs on that basis. The current electric portfolio includes: Energy Star appliance rebates, a commercial lighting program, a refrigerator round-up program and customer education. Montana-Dakota also identified an air-conditioning cycling program as cost beneficial in its 2007 IRP and plans are underway to implement this program in 2010.

On the gas side, Montana-Dakota has offered a portfolio of gas conservation programs including furnace and programmable thermostat rebates and customer education programs under its Conservation Tracking Adjustment approved by the South Commission in 2006.

**2. Some states have created an independent organization, funded through a charge to customers based on a percentage of sales, which develops and monitors energy efficiency programs.**

**a. What are your thoughts on an independent organization administering energy efficiency programs?**

Montana-Dakota believes that the utility company is in a better position to deliver energy efficiency programs because of the need to incorporate such programs in the overall resource planning process.

**b. What percent of sales should customers contribute if that benchmark is employed? How would large differences among utilities' sales affect programs?**

As noted above, Montana-Dakota does believe that such a model should be adopted and does not have an opinion to offer regarding percentage of sales that should be considered for adopting this model.

**c. Should there be a baseline standard for programs and then an "adder" based on percentage of revenue?**

See responses provided above.

**3. What alternative mechanisms besides decoupling would promote energy efficiency investments? How do they compare to decoupling?**

Mechanisms that provide for recovery of lost revenues or a rate design form that results in recovering only the variable costs through the energy or commodity component of a rate (straight-fixed variable rate design) are two alternatives to decoupling. Decoupling can take several forms and in some instances would provide for recovery of total fixed costs which the lost revenue recovery mechanism will not, as the lost revenue mechanism will only collect amounts attributable to programs identified and delivered by the utility and does not account for conservation undertaken outside of the programs offered by the utility.

Cost recovery of program costs and lost revenues either through a specific cost recovery mechanism or decoupling, while making the utility whole do not necessarily provide incentives to aggressively promote energy efficiency programs. Examples of incentives include the opportunity for a utility to earn a return on investment equal to or greater than an investment in generation and shared savings incentives.



**4. Energy efficiency can occur in a number of ways including utility programs and improvements made solely by customers. How should credit be given appropriately for efficiency improvements? How can such credit be determined? Without such a determination can the Commission treat all parties fairly?**

Montana-Dakota tracks savings associated with programs delivered by the Company. The savings are determined based on assumed savings associated with the measure employed. Montana-Dakota does not attempt to nor is the Company aware of any determinations made to determine savings associated with conservation measures customers employ without participating in a company-sponsored program.

**5. What forum should be used to adjust rates for new consumption patterns?**

Rate cases are the appropriate forum to adjust rates for new consumption patterns absent the employment of a decoupling mechanism.

**6. What methods can be used to determine if a sales decline was due to energy efficiency or other possible factors (weather, economy, loss of large customer, etc.)?**

Through its annual load forecast analysis, Montana-Dakota utilizes customer demographic, various economic inputs, and expected results for DSM programs to forecast customer load and demand. Montana-Dakota compares actual energy sales and demand to historical demand and growth. Temperature effects on demand are periodically determined for Montana-Dakota's customers which provide a means to normalize demand for temperature from year to year.

**7. Can a decoupled rate promote electricity usage efficiency, or perhaps reduce electricity usage through a transfer of energy usage from the customer to another entity, or from fuel switching? In effect could rate design induce greater overall energy usage even through electricity usage is reduced?**

Montana-Dakota does not envision that in and of itself a decoupling mechanism will reduce energy usage nor will a particular rate design induce greater energy use. However, decoupling and/or cost based rate design will send a price signal to customers that will enable customers to make cost based decisions on energy use.

**8. Describe in detail how the Commission should proceed in reviewing (i) through (vi) below, including any options for doing so. What questions should be asked in each category to obtain information which should be part of the Commission's consideration? Be specific for each category.**

(B) POLICY OPTIONS- In complying with subparagraph (A), each State regulatory authority and each nonregulated utility shall consider-

(i) removing the throughput incentive and other regulatory and management disincentives to energy efficiency;

- (ii) providing utility incentives for the successful management of energy efficiency programs;
- (iii) including the impact on adoption of energy efficiency as 1 of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
- (iv) adopting rate designs that encourage energy efficiency for each customer class;
- (v) allowing timely recovery of energy efficiency-related costs; and
- (vi) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

Montana-Dakota suggests that the policy options set forth in Section 532 be considered by the Commission on a case by case basis with each investor owned electric utility.

Montana-Dakota supports consideration of the rate design policy options and efficiency programs on a case by case basis as the Commission is currently addressing many of those options in individual cases where it is appropriate to do so, based on the operating characteristics and demographics of the individual utility and the customers served.

### ***Smart Grid Investment & Smart Grid Information***

Montana-Dakota suggests that it is premature to adopt any standards regarding Smart Grid investments and smart grid information. The technologies associated with the Smart Grid are not mature enough to establish a standard and Smart Grid Technical Standards, currently under development, should be implemented before the Commission considers implementing a Smart Grid standard.

Montana-Dakota supports the standard in general terms but urges the Commission to consider the deployment of smart grid technologies on a case by case basis. For example, the Automated Meter Reading (AMR) system Montana-Dakota recently deployed is more than just a meter reading system because of the communication network and use of a meter data management system (MDM system). This is a critical first step in the process of moving toward programs that provide customers with real time information and allow pricing proposals that will provide customers with the information necessary to make choices in energy use, if this is deemed appropriate given customer impacts. The MDM system provides the opportunity to employ time of use rates or critical peak pricing rates on a broader scale without significant incremental investment in meters. The MDM system will also provide the means of feeding data to the billing system and, ultimately, a customer access system that will provide more timely usage information to customers. While work is underway in the development of



such enhancements, the new customer information system scheduled for implementation in 2010 is necessary before many of the options are fully functional.

**Conclusion**

Montana-Dakota appreciates this opportunity to provide its comments regarding the Energy Independence and Security Act of 2007. As discussed above, Montana-Dakota believes that it is neither necessary nor beneficial for the Commission to adopt any of the Standards set forth in the EISA at this time.

Dated: June 19, 2009

Montana-Dakota Utilities Co. a Division of  
MDU Resources Group, Inc.

By:   
Tamie A. Aberle  
Pricing & Tariff Manager