



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

October 4, 2011

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501-5070

Re: Natural Gas Conservation Portfolio 2012 - 2014
Docket No. NG11-____

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits for Commission approval a proposed portfolio of Natural Gas Conservation Programs to be effective for the calendar years of 2012 - 2014 pursuant to Montana-Dakota's Conservation Program Tracking Mechanism Rate 90 tariff. Montana-Dakota is requesting approval of a three year gas conservation portfolio with budget dollars provided for each year. The Company proposes that the current programs authorized in Docket No. NG09-001 continue through the remainder of 2011 with the new portfolio starting January 1, 2012. On October 4, 2011 the Company also filed the annual Conservation Tracking Adjustment (CTA) which reflects the 2012 program budget amounts from this filing, with the exception of the dollars budgeted for the Energy Audit program.

In November 2005, Montana-Dakota requested Commission approval to offer its customers a portfolio of natural gas conservation programs in order to recognize the natural gas market conditions facing customers. The Commission approved Experimental Conservation Program Tracking Mechanism Rate 90 on February 10, 2006 in Docket No. NG05-016 on an experimental basis for a period encompassing three heating seasons or a program expiration date of April 30, 2009. On March 2, 2009 Montana-Dakota requested Commission approval to remove the experimental qualifier associated with the Company's Gas Conservation Program and proposed a new 2010-2011 natural gas portfolio in Docket No. NG09-001.

Since the programs were introduced in February 2006, the Company has seen modest success with steady increases in the number of customers participating and associated gas load reductions each year. The Company is proposing to continue the application

of Rate 90 and update its natural gas portfolio to expand the residential furnace and water heating programs, include a furnace tune-up program and add an energy audit program to the portfolio. In addition, Montana-Dakota is proposing to offer three space heating programs for commercial customers and a custom program available to commercial customers for energy efficiency measures that do not fall within the parameters of the prescriptive space heating programs.

The proposed portfolio is summarized in the table below with additional details for each program provided in the Gas Conservation Portfolio Plan (Plan) provided as Exhibit A. Montana-Dakota is proposing to discontinue the Programmable Thermostat program due to the high saturation level of Energy Star® rated programmable thermostats already purchased and installed. The Company also proposes to discontinue the Attic Insulation program. The Attic Insulation program continues to provide cost effective energy savings, however, the program relies on the trade allies to properly install the insulation. The Company is working to develop the parameters to qualify contractors as an Attic Insulation trade ally and develop training for trade allies to provide a quality installation and ensure the program will deliver energy savings. The Company will file a plan modification with the Commission seeking to re-launch the Attic Insulation program once the trade ally network is developed. The Company also reviewed the New Construction Bundle program to include in the portfolio, however, due primarily to the low cost of gas and cost of installed equipment the program did not meet the Benefit/Cost requirements.

Residential Programs			
Program	Current Program	New Program	Change
Residential Space Heating – High-Efficiency Furnace (92-94%) - Replacement	\$150 cash incentive for the purchase of a replacement furnace with an AFUE rating of 92% -94%	\$150 cash incentive for the purchase of a replacement furnace with an AFUE rating of 92-94%	No change
Residential Space Heating – High-Efficiency Furnace (95+%) - Replacement	\$300 cash incentive for the purchase of a replacement furnace with an AFUE rating of 95% or greater	\$300 cash incentive for the purchase of a replacement furnace with an AFUE rating of 95% or greater	No change
Residential Space Heating – High-Efficiency Furnace (95+%) - New		\$300 cash incentive for the purchase of a furnace with an AFUE rating of 95% or greater on new installations	New program Current program does not grant cash incentives for new furnace installations
Furnace Tune-up		\$40 cash incentive for standard 10 point furnace tune-up performed by a contractor	New program

High-Efficiency Water Heater Incentive (.62 EF)	\$50 cash incentive for the purchase of a .62 EF water heater	\$50 cash incentive for the purchase of a .62 EF water heater	No change
High-Efficiency Water Heater Incentive (.67 EF)		\$100 cash incentive for the purchase of a .67 EF water heater	New program
Programmable Thermostats	\$20 cash incentive for purchase of an Energy Star rated programmable thermostat		Discontinued program
Attic Insulation	Cash incentive for R-Value of installed insulation		Discontinued program
New Construction Bundle	Cash incentive for installation of furnace, water heater and attic insulation		Discontinued program

Commercial Programs			
Program	Current Program	New Program	Change
Commercial Space Heating – High-Efficiency Furnace (92-94%)		\$150 cash incentive for the purchase of a furnace with an AFUE rating of 92-94%(Replacement only)	New program
Commercial Space Heating – High-Efficiency Furnace – New (95+%)		\$300 cash incentive for the purchase of a furnace with an AFUE rating of 95+%	New program
Commercial Space Heating – High-Efficiency Furnace – Replacement (95+%)		\$300 cash incentive for the purchase of a furnace with an AFUE rating of 95+%	New program
Commercial Custom		Cash incentive levels are project specific and do not fall within the prescribed measures	New program

Gas Conservation Portfolio

The total cost of the Company’s conservation portfolio for the program years 2012 through 2014 is estimated to be \$330,752, providing savings of 203,930 dk over the life of the installed equipment. The budget is comprised of incentive costs, promotion and educational costs, and administration costs.

A breakdown of projected cost, participants and lifetime of dk saved is as follows:

	2012	2013	2014
Incentive	\$64,650	\$79,400	\$94,800
Promotion/Education	16,750	22,750	24,750
Administration	9,083	9,216	9,353
Total Project Costs	\$90,483	\$111,366	\$128,903
Participants	277	347	421
Program Life dk Saved	53,380	67,650	82,900

The program promotion plan is outlined in the Plan provided in Exhibit A and includes advertising, customer meetings and energy awareness events.

Montana-Dakota proposes to offer an Energy Audit program and will issue a Request for Proposal (RFP) to obtain one or more qualified energy auditors to cover its Black Hills and East River service areas to perform the energy audits. The Company plans to issue the RFP later this year and launch the program in the second quarter of 2012. The program is an indirect program which does not provide specific energy savings, however an effective energy audit program can be a useful tool for customer education and awareness and serve as an informational program that leads to additional participation in other direct impact programs offered by the Company. Montana-Dakota included a budget of \$33,000 over three years for the Energy Audit program in the portfolio as part of the promotion and education costs.

Five tests were performed on each of the programs to measure the cost effectiveness of the programs based on the benefit/cost ratios produced under the Ratepayer Impact Measure (RIM), Utility, Societal, Participant, and Total Resource Cost (TRC) tests. The results of the five tests are summarized, by program, in Attachment B to the Plan. The inputs required for the tests include a projection of participants, cost of the program, cost to the customer implementing the measure and estimated cost savings associated with the measure. A list of the assumptions utilized in the benefit/cost tests is shown on pages 70 – 73 of Attachment B of the Plan. While Montana-Dakota typically views programs as favorable when the benefit/cost ratio resulting from the TRC test is greater or equal to 1.00, the Company also takes into consideration other factors before selecting a program to include in its portfolio. Other factors may include applicability to customer base, market transformation, composition of the portfolio, and potential for behavior change. All programs included in the Company's portfolio, with the exception of the Residential Furnace Tune-Up program, result in benefit/cost ratios of 1.00 or greater for the TRC tests as shown in Attachment B of the Plan. While the Residential Furnace Tune-Up program's ratio did not exceed 1.00, the Company believes the program allows for the development of a relationship with the customer that can be built

upon for possible future program participation. As noted above, the programs and promotional plan is described in detail in the Plan.

The table below summarizes the list of proposed programs along with the TRC test results.

Program	Class	TRC Result
Total Portfolio		1.60
Furnace (92-94%)	Residential	1.53
Furnace (95+%) - New	Residential	1.00
Furnace (95+%) - Replacement	Residential	1.59
Furnace Tune-Up	Residential	0.37
Water Heating (.62 EF)	Residential	1.04
Water Heating (.67 EF)	Residential	1.36
Furnace (92-94%)	Commercial	2.73
Furnace (95+%) - New	Commercial	1.54
Furnace (95+%) - Replacement	Commercial	2.61
Custom	Commercial	2.01

The Company has focused on offering programs that provide the opportunity to be implemented in the near term time frame and provide cash incentives to lower the upfront costs of purchasing energy efficiency equipment and make energy efficiency measures more cost effective to customers.

Montana-Dakota proposes to use a deemed database approach to calculate energy savings and provides examples of the deemed database calculations in Attachment A to the Plan.

Montana-Dakota respectfully requests approval of the new portfolio and the Conservation Program Tracking Mechanism Rate 90 by January 1, 2012. The Company proposed recovery under Rate 90, in a separate filing submitted October 4, 2011, for estimated costs of \$62,948 for the Black Hills area and \$25,837 for the East River area which equates to CTA rate of \$0.011 and \$0.028 per dk, respectively. The costs to be recovered include the 2010-2011 program year true-up costs, the DSM incentive, and the 2012 program year budget excluding the Energy Audit program costs proposed in this docket.

In summary, Montana-Dakota provides as Exhibit A the Gas Conservation Portfolio Plan with the following attachments in support of this request:

- Attachment A: Deemed Database Examples
- Attachment B: Benefit/Cost Models

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Regulatory Affairs Manager
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501

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

Mr. Daniel S. Kuntz
Associate General Counsel
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58503-5650

This filing has been electronically submitted to the Commission in accordance with ARSD 20:10:01:02:05. 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,



Tamie A. Aberle
Regulatory Affairs Manager

Attachments

cc: D. Kuntz