ADDENDUM TO STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: KRISTEN EDWARDS AND PATRICK STEFFENSEN

RE: NG14-004 – In the Matter of the Filing by Montana-Dakota Utilities Co. for Approval of its Revised Conservation Tracking Adjustment

DATE: June 20, 2014

On April 17, 2014, Commission Staff (Staff) filed a memorandum to the Commission which provided an overview of the filing, explained a number of unique issues present with this docket, and gave recommendations regarding the new Conservation Tracking Adjustment (CTA) rate and 2014 budget. This Addendum to the previously filed Staff Memorandum provides further analysis of Montana-Dakota Utilities Co.'s (MDU's) 2014 budget request and Staff's recommendation.

OVERVIEW

MDU's Exhibit 5 proposes a 70% budget increase for the 2014 Program Year for a total of $164,900, with $144,000 allotted to the residential program, $3,900 to commercial, and $17,000 for administration and promotion. This is where the late filing provides another layer of difficulty, as according to Exhibit 3, Page 3, $58,527 was already spent by April 30, 2014 with an additional $37,475 expected to be spent in May and June. This means the majority of the requested budget is already spent.

Staff does not object to this budget increase for a number of reasons:

1) MDU's budget is relatively small relative to other DSM plans. For instance, MidAmerican Energy Company's recently approved $1,482,534 natural gas budget is roughly nine times greater than that of MDU, while MidAmerican Energy Company's annual residential and commercial (non-residential) natural gas usage is only 75%[1] greater than MDU's.
2) Further overages due to rapid growth in residential participation are unlikely. The largest contributor to the 2013 participation growth and resulting overage was the 211 rebates paid for the 95+% high-efficiency furnaces for new construction compared to the 19 units which was in the initial budget. According to MDU's response to Staff data request 1-15, home builders were allowed to participate starting in 2013, and according to MDU's response to Staff data request 1-9, 194 of the 211 rebates went to home

builders. This new participant group is the main driver and will be restricted by the 25 unit cap per home builder in the future. Even though MDU indicated in their response to Staff data request 1-9 that they didn't think the cap would have a large impact on the program, the response showed 88 rebates going to a single home builder, Sun-Rise Construction. This means the cap would have decreased total rebates paid by 63 units, or $18,900.

3) MDU has run a very efficient DSM program. Advertising and administration accounted for $17,656 of $168,026 spent in 2013, or roughly 10 percent. Similarly, the 2014 budget allocates $17,000 of the $164,900 toward these overhead areas, again roughly 10 percent. This lean DSM budget means the majority of costs will go back the ratepayers in benefits.
4) The TRC test scores have reached levels over 1.0 for all programs. Increased participation in 2013 led to the fixed advertising and administrative costs being spread over more participants such that the program benefits now outweigh the costs.

STAFF RECOMMENDATION

For the reasons stated, staff recommends approval of MDU's proposed 2014 budget.

[1] 105,304,858 therms on Exhibit C(G), Page 1 from Docket GE14-001 vs. 6,027,027 dk on Exhibit PJS-3, Schedule 1, Page 1 from Docket NG12-008.