



UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street

Bismarck, ND 58501

(701) 222-7900

January 28, 2016

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

Re: Conservation Program Tracking Mechanism Rate 90  
Docket No. NG16-\_\_\_\_\_

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith electronically submits for Commission approval its Conservation Tracking Adjustment (CTA), pursuant to the terms of the Company's Conservation Program Tracking Mechanism Rate 90 tariff to be effective March 1, 2016.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.024 per dk or a decrease of \$0.004 per dk from the currently authorized CTA rate.

Montana-Dakota is requesting approval of the following tariff changes, attached hereto as Exhibit 1, to Montana-Dakota's natural gas tariff to be effective March 1, 2016:

- 11<sup>th</sup> Revised Sheet No. 31

The Rate Summary sheet (Sheet No. 1) will be submitted as part of the compliance filing in this docket to reflect the Purchased Gas Cost Adjustment (PGA) effective at the time of approval.

### **Background**

On October 3, 2014, Montana-Dakota requested approval for a three year natural gas portfolio for the years 2015 – 2017. The Commission approved the three year portfolio in its Order dated December 31, 2014 in Docket No. NG14-007. The Company offered the following programs in 2015:

### Residential Programs:

- High-Efficiency Furnace (95+%). Available to customers, for new construction and existing dwellings, that convert to natural gas heating or replace an existing furnace.

The new furnace requires an AFUE of 95 percent minimum in order to qualify for the \$300 cash rebate. Participation levels by builders for the new construction was limited to a maximum of 25 rebates per builder.

- Programmable Thermostats. Montana-Dakota offers a \$20 incentive for the purchase of a programmable thermostat that meets the guidelines formerly required by ENERGY STAR. The thermostat must be installed by a contractor in conjunction with the installation of a high efficiency furnace.

Commercial Programs:

- High-Efficiency Furnace (95+%). Available to customers, for new construction and existing dwellings, that convert to natural gas heating or replace an existing furnace. The new furnace requires an AFUE of 95 percent minimum in order to qualify for the \$300 cash rebate.
- Custom program. Qualifying customers receive an incentive for energy efficiency measures. Each project is individually reviewed by the Company and a cash incentive is issued based upon the energy savings provided by the measure.

In addition, while the High-Efficiency Water Heating (.67 EF) program was discontinued in 2015, Montana-Dakota accepted applications for rebates for water heaters installed in 2014 through March 2015. Under the Water Heating Program, qualifying customers received an incentive of \$100 for replacing their current natural gas water heater or with a minimum energy Factor (EF) of .67.

**2015 Program Results – Exhibit 2**

Montana-Dakota experienced overall success with participation and dk savings close to the budgeted level while expenses were less than the budgeted level. The Company’s portfolio of natural gas conservation programs in 2015 are summarized below and shown in Exhibit 2 in detail.

	2015			
	Actual	Budget	Difference	% Budget
Participants	500	567	(67)	88.2%
Expense	\$114,563	\$138,000	(23,437)	83.0%
Dk Savings	4,254	4,525	(271)	94.0%

The annual savings of 4,254 dk from the 2015 programs equates to 80,490 dk over the project life of the installed equipment. The results of the 2015 program are provided in the table below:



Programs	Participants	Actual 2015		Cost/Dk	Lifetime
		Cost	Dk Savings		Dk Savings
<u>Residential Program</u>					
Furnaces - 95+% AFUE - New	136	\$43,831	1,086	\$40.36	21,720
Furnaces - 95+% AFUE - Repl.	202	65,103	2,559	25.44	51,180
Water Heating (.67 EF)	4	429	18	23.83	180
Programmable Thermostats	152	3,266	441	7.41	4,410
<b>Total Residential</b>	<b>494</b>	<b>\$112,629</b>	<b>4,104</b>	<b>\$27.44</b>	<b>77,490</b>
<u>Commercial Program</u>					
Furnaces - 95+% AFUE - New	0	\$0	0		
Furnaces - 95+% AFUE - Repl.	6	1,934	150	12.89	3,000
Custom Efficiency	0	0	0		
<b>Total Commercial</b>	<b>6</b>	<b>\$1,934</b>	<b>150</b>	<b>\$12.89</b>	<b>3,000</b>
<b>Total Programs</b>	<b>500</b>	<b>\$114,563</b>	<b>4,254</b>	<b>\$26.93</b>	<b>80,490</b>

The residential programs had slightly less participation than budgeted while the dk savings achieved 95.9 percent of budgeted dk savings with expenses only 90.3 percent of budget.

Participation in the commercial programs was lower than anticipated, and the custom program did not have any participants. While there was interest from customers in the custom program in 2015, the projects did not move forward with implementation. Montana-Dakota's customer energy consultants will continue to promote the program with commercial customers. The custom projects generally take time due to the size and cost of the projects for the customer, the specificity of each project, and the measurement and verification process.

The Company promoted the programs through bill inserts, homebuilder publication advertising and billboards and actively participated in home shows throughout the area. Montana-Dakota personnel also provided area dealers/builders with information regarding the Company's program and rebates available to customers.

Montana-Dakota has surveyed participants since the start of the current programs on January 1, 2010 and provides both the prior portfolio and current portfolio questionnaires and results in Exhibit 6. Pursuant to Staff's request, the survey is sent to each participating customer after the project is complete and the customer has received the rebate. The rebates continue to influence customer decisions to purchase energy efficient equipment as shown in question three. Question number seven of the survey shows the need to continue to build upon relationships with the dealers and builders in the area as they greatly influence the customer's decision to purchase energy efficient equipment.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2016 estimated cost of natural gas and determined the overall portfolio passed the Benefit/Cost Tests, particularly the Total Resource Cost Test (TRC), including all individual programs with a ratio of 1.00 or greater.

Montana-Dakota performed the following Benefit/Cost tests: the Ratepayer Impact Test (RIM), Utility Cost Test, Societal Test, Participant Test, and the Total Resource Cost Test (TRC).

- The RIM includes quantifiable benefits and costs of the programs and considers the impact on ratepayers.
- The Utility Test considers the impact of the programs on the utility.
- The Societal Test includes environmental externalities and considers the impact on the society for both participating and non-participating customers.
- The Participant Test considers the economic impact of programs on the participating customers.
- The TRC reflects the total benefits and costs to all customers (participants and non-participants) in the utility service area. The key difference between the TRC and the utility test is that the TRC does not include program incentives in its calculation, which are considered zero net transfers in a regional perspective.

The benefit/cost test results for 2015 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.19	1.89	2.29	4.57	1.56
Furnace (95+%) - New	Residential	0.93	1.32	3.04	7.19	2.07
Furnace (95+%) - Replacement	Residential	1.26	2.09	2.03	3.87	1.37
Water Heating (.67 EF)	Residential	1.00	1.42	1.81	3.15	1.42
Programmable Thermostats	Residential	1.88	4.41	1.97	2.64	1.54
Furnace (95+%) - New	Commercial					
Furnace (95+%) - Replacement	Commercial	2.10	4.13	3.50	4.96	2.34
Custom Efficiency	Commercial					

### Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective March 1, 2016 shown on Exhibit 3, page 1 consists of the three components: the true-up balance in the CTA account, the DSM incentive established in Docket No. NG09-001, and the proposed portfolio budget for the 2016 program year as discussed above. As stated above, the CTA rate equates to \$0.024 per dk and will be effective for rate schedules 60, 70, and 72.



Exhibit 3, page 2, summarizes the activity for the period January 1, 2015 through December 31, 2015, with the monthly detail on page 4 and a summary by program on page 5. The beginning balance as of January 1, 2015 in the CTA account was an under recovery of \$38,912 and the balance as of December 31, 2015 is an over recovery of \$34,361.

**DSM Incentive – Exhibit 4**

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$11,730 as part of the total costs to be recovered through the CTA as established in Docket No. NG09-001. The incentive is calculated by multiplying the total costs incurred by the authorized return, adjusted for taxes of 10.239 percent. Montana-Dakota incurred \$114,563 in program costs from January 1, 2015 through December 31, 2015 which equates to an incentive of \$11,730.

**2016 Portfolio and Budget – Exhibit 5**

The 2016 conservation budget is based on anticipated participation and is comprised of incentive costs, marketing and promotional costs and administration costs as authorized in Docket No. NG14-007 and Docket No. NG15-007.

Montana-Dakota analyzed the cost-effectiveness of its projected 2016 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2016. As stated above, Montana-Dakota utilizes the Benefit/Cost analysis where the cost of gas is one of the primary inputs that determine whether a portfolio is. The Company provides in the tables below its anticipated participation levels for the 2016 program year from its three year portfolio authorized in Docket No. NG14-007.

Programs	2016		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	170	\$51,000	799
Furnaces - 95+% AFUE - Repl.	250	75,000	3,550
Programmable Thermostats	200	4,000	420
Total Residential	620	130,000	4,769
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	2	600	9
Furnaces - 95+% AFUE - Repl.	12	3,600	170
Custom Efficiency	1	600	100
Total Commercial	15	\$4,800	279
Energy Audit Program		\$25,000	
Administration and Promotion		21,000	
Total Programs	635	\$180,800	5,048

Montana-Dakota calculates its projected 2016 minimum incentive to be \$9,040 and its incentive cap at \$18,512 based on the projected 2016 budget above and Montana-Dakota's authorized rate of return in Docket No. NG12-008, adjusted for taxes.

**Summary**

The proposed CTA rate applicable to service under Rates 60, 70 and 72 is \$0.024 per dk, or a decrease of \$0.004 per dk from the currently authorized CTA for South Dakota customers. The estimated annual decrease for a residential customer using 70 dk annually is \$0.28. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2016.

Included herein is a second set of the affected tariff on which Montana-Dakota has indicated the revisions requested by lining through the existing language which the Company proposes to delete and clearly highlighting the new language proposed.

Attached as Exhibit 7 is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Exhibit 8 in a conspicuous place in each business office in its affected gas service territory in South Dakota.

Please refer all inquiries regarding this filing to:

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

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

Mr. Karl A. Liepitz  
Senior Attorney  
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.

Sincerely,



Tamie A. Aberle  
Director of Regulatory Affairs

Attachments

cc: K. Liepitz