

January 31, 2018

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. NG18-_____

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, 2018.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.029 per dk or an increase of \$0.002 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, 2018:

- 13th 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 Cost of Gas 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 as modified in Docket No. NG15-007. The Company offered the following programs in 2017:

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.

Energy Audits

Montana-Dakota offers energy audits to customers for a \$50.00 assessment fee. Montana-Dakota has contracts with Western South Dakota Community Action and North Eastern South Dakota Community Action to perform energy audits throughout Montana-Dakota's South Dakota natural gas service territory. In addition, Montana-Dakota and Black Hills Energy share equally the costs of energy audits for customers that use natural gas as their primary source of space heating and are customers of both Black Hills Energy and Montana-Dakota within the communities of Belle Fourche, Deadwood, Lead, Rapid City, Summerset, Spearfish and Sturgis.

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.

2017 Program Results – Exhibit 2

Montana-Dakota experienced overall success with participation close to the budgeted level, expenses less than the budgeted level, and dk savings above the budgeted level. The Company's portfolio of natural gas conservation programs in 2017 are summarized below and shown in Exhibit 2 in detail.

	2017			
	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	<u>% Budget</u>
Participants	691	752	(61)	91.9%
Expense	\$156,614	\$189,300	(32,686)	82.7%
Dk Savings	6,604	5,568	1,036	118.6%

The annual savings of 6,604 dk from the 2017 programs equates to 120,260 dk over the project life of the installed equipment. The results of the 2017 program are provided in the table below:

Programs	2017			Lifetime	
	Participants	Cost	Dk Savings	Cost/Dk	Dk Savings
<u>Residential Program</u>					
Furnaces - 95+% AFUE - New	192	\$60,966	1,418	\$42.99	28,360
Furnaces - 95+% AFUE - Repl.	241	76,524	3,170	24.14	63,400
Programmable Thermostats	217	4,593	629	7.30	6,290
Energy Audits	27	9,768			
Total Residential	677	\$151,851	5,217	\$29.11	98,050
<u>Commercial Program</u>					
Furnaces - 95+% AFUE - New	2	\$635	24	26.46	480
Furnaces - 95+% AFUE - Repl.	11	3,493	257	13.59	5,140
Custom Efficiency	1	635	1,106	0.57	16,590
Total Commercial	14	\$4,763	1,387	\$3.43	22,210
Total Programs	691	\$156,614	6,604	\$23.72	120,260

The residential programs achieved 99.2 percent of budgeted dk savings with expenses of only 84.9 percent of budgeted expense. Residential furnace savings showed greater savings versus budgeted savings due to higher average efficiency rating on new furnaces versus the budgeted average efficiency.

A total of 27 residential energy audits were completed in 2017. There were 23 audits completed by Western South Dakota Community Action (WSDCA), and 4 audits completed by North Eastern South Dakota Community Action. Of the 23 audits completed by WSDCA, 10 audits were cost shared with Black Hills Energy.

Participation in the commercial programs showed an increase from 2016 participation, which included one custom efficiency project. The commercial programs achieved 450.3 percent of budgeted dk savings, largely due to a custom efficiency project, with 83.3 percent of budgeted expense. The custom efficiency project was budgeted dk savings of 100 dk, but the actual savings for the project upon completion was 1,106 dk.

The Company promoted the programs through bill inserts and billboards. 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, excluding energy audit participants, since the start of the current programs on January 1, 2010 and provides both the 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 focus 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 2018 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 2017 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.37	2.41	2.73	5.11	1.92
Furnace (95+%) - New	Residential	0.91	1.34	3.10	7.34	2.17
Furnace (95+%) - Replacement	Residential	1.30	2.38	2.21	4.14	1.54
Programmable Thermostats	Residential	1.83	4.75	2.08	2.94	1.65
Furnace (95+%) - New	Commercial	1.48	2.06	4.18	7.84	2.90
Furnace (95+%) - Replacement	Commercial	2.41	4.24	3.51	4.87	2.42
Custom Efficiency	Commercial	5.28	82.34	23.51	22.15	17.23

Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective March 1, 2018 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 as modified in Docket No. NG14-007, and the proposed portfolio budget for the 2018 program year as approved on December 20, 2017 in Docket No. NG17-016. As stated above, the CTA rate equates to \$0.029 per dk and will be effective for rate schedules 60, 70, and 72.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2017 through December 31, 2017, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2017 in the CTA account was an over recovery of \$24,532 and the balance as of December 31, 2017 is an over recovery of \$11,824, which includes the 2017 DSM incentive of \$13,250.

DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$13,250 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 8.460 percent. Montana-Dakota incurred \$156,614 in program costs from January 1, 2017 through December 31, 2017 which equates to an incentive of \$13,250. The authorized return of 8.460 percent incorporates the 2017 Tax Cuts and Jobs Act, as shown in Exhibit 4. A trade secret version of Exhibit 4 providing the capital structure is also submitted.

2018 Portfolio and Budget – Exhibit 5

The 2018 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. NG17-016.

Montana-Dakota analyzed the cost-effectiveness of its projected 2018 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2018. 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 cost effective. In the tables below, the Company provides in the tables below its anticipated participation levels for the 2018 program year from its three year portfolio authorized in Docket No. NG17-016.

Programs	2018		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	200	\$60,000	900
Furnaces - 95+% AFUE - Repl.	290	87,000	5,336
Programmable Thermostats - Tier 1	110	1,650	275
Programmable Thermostats - Tier 2	110	6,600	407
Energy Audit Program	50	22,500	0
Total Residential	760	177,750	6,918
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	5	1,500	23
Furnaces - 95+% AFUE - Repl.	15	4,500	276
Custom Efficiency	1	3,000	500
Total Commercial	21	9,000	799
Administration and Promotion		14,000	
Total Programs	781	\$200,750	7,717

Montana-Dakota calculates its projected 2018 minimum incentive to be \$10,038 and its incentive cap at \$16,984 based on the projected 2018 budget above and Montana-Dakota's authorized rate of return in Docket No. NG15-005, adjusted for taxes including the 2017 Tax Cuts and Jobs Act.

Summary

The proposed CTA rate applicable to service under Rates 60, 70 and 72 is \$0.029 per dk, or an increase of \$0.002 per dk from the currently authorized CTA for South Dakota customers. The estimated annual increase for a residential customer using 70 dk annually is \$0.14. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2018.

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:

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:

Brett Koenecke
May, Adam, Gerdes & Thompson
503 S. Pierre Street
P.O. Box 160
Pierre, SD 57501-0160

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: B. Koenecke