



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: Conservation Program Tracking Mechanism Rate 90
Docket No. NG11-_____

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 January 1, 2012. Montana-Dakota also requests Commission approval to continue offering the currently authorized portfolio of programs through December 31, 2011 or until such time the Commission authorizes the new portfolio submitted under a separate docket on this same date.

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 January 1, 2012:

- 7th 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 March 2, 2009 (Docket No. NG09-001) Montana-Dakota requested Commission approval to remove the experimental qualifier associated with the Company's Gas Conservation Program initially authorized in Docket No. NG05-016. The Company also proposed a new 2010-2011 natural gas conservation portfolio consisting of six conservation programs and an education and outreach plan. On October 20, 2009 at the Commission meeting, the Commission approved the proposed portfolio of programs as well as a demand-side management (DSM) financial incentive in lieu of collecting lost distribution revenues and other proposed changes including (1) changing the cost

recovery time period to start on November 1 to coincide with Commission approval of the new programs; (2) removal of the 90% and 91% High Efficiency Furnaces as qualifying purchases for an incentive under the Furnace Rebate Program; and (3) inclusion of a carrying charge provision applicable to the over or under recovery of the collected amount each month.

Status of 2010-2011 Program

Montana-Dakota's current portfolio of gas conservation programs approved in Docket No. NG09-001 consists of the following six programs. The participation rates, in total for the Black Hills and East River Areas, for the period September 1, 2010 through August 31, 2011 are also provided.

1. High-Efficiency Furnace (92-94%) Incentive. Qualifying customers receive an incentive of \$150 for replacing their current natural gas furnace with a 92%-94% AFUE ENERGY STAR rated furnace. 12 customers participated in this program.
2. High-Efficiency Furnace (95+%) Incentive. Qualifying customers receive an incentive of \$300 for the replacement of their current natural gas furnace with a 94+% AFUE ENERGY STAR rated furnace. 164 customers participated in this program.
3. High-Efficiency Water Heater Incentive. Qualifying customers receive an incentive of \$50 for replacing their current natural gas water heater with a high efficiency water heater (defined as a unit with an energy factor (EF) of at least .62). 18 customers participated in this program.
4. Programmable Thermostats. Montana-Dakota offers a \$20 incentive for the purchase of a programmable thermostat that meets the ENERGY STAR guidelines. 96 customers participated in this program.
5. Attic Insulation. Qualifying customers receive an incentive for the purchase and installation of a home's attic insulation with higher R-values due to remodeling or replacement of a home's current insulation. R-Value is a measure of thermal resistance. The higher the R-Value the better the building insulation effectiveness. Customer rebates are dependent on the beginning and ending R-value of the insulation installed, the square footage of insulation installed and whether the insulation was installed by a contractor or self installed. 18 customers participated in this program.

6. New Construction Bundle. Qualifying customers receive an incentive for the purchase and installation of ENERGY STAR rated appliances in new homes. Two levels of incentives are available: (1) a \$300 rebate for the installation of a ENERGY STAR rated furnace of at least 94% or greater AFUE and a natural gas water heater with a minimum energy factor of .62 and (2) a \$400 rebate for the installation of a 94% or greater AFUE furnace, a natural gas water heater with a energy factor of .62 and a qualifying insulation package. Eight customers participated in this program.

Montana-Dakota experienced increased participation and success overall this past year with the Company's natural gas DSM programs as shown in Exhibit 4. The High Efficiency Furnace programs, in particular furnaces with AFUE of 95% or greater, were by far the Company's most successful program in South Dakota, surpassing Montana-Dakota's anticipated participation rates for both the Black Hills and East River areas. The Programmable Thermostat program experienced less than anticipated participation this past program year, which the Company attributes to the maturity of the program and the saturation rates due to relatively high participation rates in past years. The Water Heating program experienced more participation than the prior twelve months; however the participation was less than budgeted. The Attic Insulation and New Construction Bundle programs experienced low participation and have not been included in the proposed portfolio for the 2012 – 2014 program years submitted in a separate docket on October 4, 2011. The overall portfolio expense was less than budgeted due primarily to the Company's decision not to implement the HomeEnergy Suite internet tool that was included in the 2011 budget to provide customers the opportunity to evaluate their energy consumption and perform energy conservation scenarios. Upon further evaluation, the program was not cost effective and therefore not implemented.

The Company promoted the programs through bill inserts, newspaper inserts and billboards and actively participated in home shows throughout the area and an Energy Awareness Event in Rapid City. Montana-Dakota personnel also provided area dealers/builders with information regarding the Company's program and the various rebates available to customers.

The table below shows the budgeted participation and expense versus actual results:

**Montana-Dakota Utilities Co.
Gas Utility - South Dakota
Comparison of Budget to Actual
2011 Program Year**

Black Hills	Participants			Costs		
	Actual	Budget	Difference	Actual	Budget	Difference
High Efficiency Furnace - 92-94%	7	50	(43)	\$1,050	\$9,456	(\$8,406)
High Efficiency Furnace - 95%+	128	25	103	38,400	8,595	29,805
Water Heaters	16	75	(59)	800	9,633	(8,833)
Programmable Thermostat	73	125	(52)	1,460	5,920	(4,460)
Attic Insulation	18	75	(57)	6,331	24,180	(17,849)
New Construction Bundle	8	63	(55)	2,100	25,803	(23,703)
Administration & Education				10,903	10,914	(11)
Total Black Hills	250	413	(163)	\$61,044	\$94,501	(\$33,457)

East River	Participants			Costs		
	Actual	Budget	Difference	Actual	Budget	Difference
High Efficiency Furnace - 92-94%	5	10	(5)	\$750	\$1,373	(\$623)
High Efficiency Furnace - 95%+	36	5	31	10,800	1,249	9,551
Water Heaters	2	10	(8)	100	1,400	(1,300)
Programmable Thermostat	23	10	13	460	860	(400)
Attic Insulation	0	10	(10)	0	3,513	(3,513)
New Construction Bundle	0	15	(15)	0	3,748	(3,748)
Administration & Education				2,893	1,586	1,307
Total East River	66	60	6	\$15,003	\$13,729	\$1,274

1/ Reflects \$5,991 of administration cost and \$4,912 in advertising cost.

2/ Reflects \$564 in administration cost and \$2,329 in advertising cost.

Montana-Dakota has surveyed participants since the start of the current programs on January 1, 2010 and provides the questionnaire and results in Exhibit 6. The results are provided for participants since January 1, 2010 as Montana-Dakota did not survey participants prior to the filing submitted in NG10-009. 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. Montana-Dakota received 280 responses since January 1, 2010 as shown on page 2 of Exhibit 6. The available rebates continue to influence customer decisions to purchase energy efficient equipment as shown in question three and the cost of natural gas is a primary influence on investing in energy efficient equipment. 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.

The Company calculates annual savings of 3,058 dk from programs during the period September 1, 2010 through August 31, 2011 which equates to 55,522 dk over the project life of the installed equipment as shown in the table below. Montana-Dakota utilized a deemed database approach to calculate the savings and seeks to adopt this approach to calculate dk savings going forward. The deemed database uses generally accepted engineering algorithms, along with developed operating data and defined program parameters to determine the savings of each efficiency measure. The program parameters include baseline efficiency standards, high-efficiency standards, and incremental costs. The methodology is fully described in the three-year portfolio of gas conservation programs submitted in a separate docket on October 4, 2011.

**Montana-Dakota Utilities Co.
Gas Utility - South Dakota
Project Life Dk Savings for 2011 Program**

	<u>2011 1/</u>	<u>Project Life</u>	<u>Project Life Dk Savings</u>
Black Hills System			
Conservation Program Dk Savings:			
High Efficiency Furnace Replacements	1,526	18	27,468
Programmable Thermostats Installations	209	15	3,135
Water Heaters	58	15	870
Attic Insulation	618	20	12,360
New Construction Bundle	137	20	2,740
	<u>2,548</u>		<u>46,573</u>
East River System			
Conservation Program Dk Savings:			
High Efficiency Furnace Replacements	433	18	7,794
Programmable Thermostats Installations	67	15	1,005
Water Heaters	10	15	150
Attic Insulation	0	20	0
New Construction Bundle	0	20	0
	<u>510</u>		<u>8,949</u>
Total South Dakota	<u><u>3,058</u></u>		<u><u>55,522</u></u>

1/ Dk savings through August 31, 2011.

The proposed CTA rate to be effective January 1, 2012 shown on Exhibit 2, 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 2012 program year as filed on October 4, 2011 in a separate docket.

Program True-up

As shown on Exhibit 2, page 2, the beginning balance as of August 31, 2010 in the CTA account was an over recovery of expenditures for both the Black Hills and East River areas. The actual program expenses from September 1, 2010 through August 31, 2011 and anticipated expenses through December 31, 2011 reduce the total balance to an over recovery of only \$3,630 as of December 31, 2011.

DSM Incentive

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amounts of \$7,166 and \$1,766 for the Black Hills and East River rate areas, respectively, 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 or 11.739 percent for the Black Hills area and 11.770 percent for the East River area. Montana-Dakota incurred \$61,044 in program costs this past year for the Black Hills rate area, which equates to a calculated incentive of \$7,166 as shown on Exhibit 3. The DSM incentive for the East River rate area reflects the incentive calculated based on actual program costs incurred this past year, or \$15,003 and equates to a calculated incentive of \$1,766 to be recovered through the CTA.

Proposed Portfolio

Montana-Dakota also submitted on October 4, 2011 a three-year portfolio of gas conservation programs for the years 2012 – 2014 to coincide with the 2012 estimated expenses to be recovered under the Company's Conservation Program Tracking Mechanism Rate 90 tariff charges proposed in this docket. Montana-Dakota included the costs for the 2012 Conservation Budget, excluding the budgeted amount for the Energy Audit program, to be recovered through the CTAs over the period January 1, 2012 through December 31, 2012. The 2012 conservation budget is based on anticipated participation and is comprised of incentive costs, marketing and promotional costs and administration costs. The natural gas portfolio includes residential furnace and water heating programs similar to the current portfolio with the addition of a furnace tune-up program. Montana-Dakota is also 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 space heating programs as part of the portfolio.

In the Gas Conservation Portfolio, Montana-Dakota proposes to offer an Energy Audit program and 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. Montana-Dakota excluded the budget for this program

from the 2012 CTA rate. At the time the program is launched, the Company will file a modification to the CTA to include the Energy Audit budget.

Summary

The aforementioned costs for program true-up, DSM Incentive and the proposed portfolio budget total \$62,948 for the Black Hills rate area and \$25,837 for the East River rate area which equates to a CTA rate applicable to service under Rates 60, 70 and 72 of \$0.011 per dk, or an increase of \$0.004 per dk from the currently authorized CTA for Black Hills customers, and a CTA applicable to service under Rates 66 and 76 of \$0.028 per dk, or an increase of \$0.020 from the currently authorized CTA for East River customers. The estimated increase is \$0.40 for a Black Hills residential customer and \$2.00 for an East River residential customer using 100 dk annually or \$0.03 and \$0.17 per month respectively. Exhibit 2, page 2 shows the increase in the CTA rate is primarily due to increased participation and the expansion of programs in 2012. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after January 1, 2012.

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 for at least thirty days before the change becomes effective.

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.

Sincerely,



Tamie A. Aberle
Regulatory Affairs Manager

Attachments

cc: D. Kuntz