MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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December 7, 2012

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. NG12-____

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, 2013.

The proposed Black Hills CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.009 per dk or a decrease of \$0.009 per dk from the currently authorized CTA rate effective April 1, 2012 in Docket No. NG11-006. The proposed East River CTA rate, applicable to service under Rates 66 and 76, equates to \$0.024 per dk or a decrease of \$0.025 per dk from the currently authorized CTA rate for East River. The primary reason for the decrease in each rate is that the recovery period for the current CTA was over an eight month period rather than a 12 month period.

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, 2013:

- 8th 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 4, 2011, Montana-Dakota requested approval for a three year natural gas portfolio for the years 2012 – 2014. The Commission approved the three year portfolio in its Order dated March 20, 2012 in Docket No. NG11-006 and the Company implemented the portfolio April 1, 2012 which includes the following programs:

Residential Programs:

- High-Efficiency Furnace (92-94%). Available to customers with existing dwellings that convert to a natural gas heating or replace an existing furnace. The new furnace requires an AFUE of 92 percent minimum and 94 percent maximum in order to qualify for the $150 cash rebate.

- 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.

- High-Efficiency Water Heating (.62 EF). Qualifying customers receive an incentive of $50 for replacing their current natural gas water heater with a minimum energy factor (EF) of .62.

- High-Efficiency Water Heating (.67 EF). Qualifying customers receive an incentive of $100 for replacing their current natural gas water heater with a minimum energy Factor (EF) of .67.

- 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 Audit program. Qualifying customers receive an in-house energy audit performed by a third party and a list of energy efficiency projects pertaining to their home.

Commercial Programs:

- High-Efficiency Furnace (92-94%). Available to customers with existing dwellings that convert to a natural gas heating or replace an existing furnace. The new furnace requires an AFUE of 92 percent minimum and 94 percent maximum in order to qualify for the $150 cash rebate.

- 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.

Montana-Dakota discontinued its prior portfolio of programs effective March 31, 2012.

**Status of 2012 Program**

Montana-Dakota experienced modest participation and success overall with the Company's portfolio of natural gas DSM programs offered starting April 1, 2012 as shown in Exhibit 4. The actual participation and associated dk savings represent participants from April 1, 2012 through October 31, 2012. Montana-Dakota anticipates an increase in participants for the High Efficiency Furnace programs, in particular furnaces with AFUE of 95 percent or greater and the Programmable Thermostat program during the winter months of November and December 2012. Montana-Dakota hired two third-party energy auditors during the third quarter of 2012, one for its Black Hills area and one for its East River area and the Company is in the process of completing its first energy audit expected before the end of 2012. There were four Commercial high efficiency furnaces installed in 2012, all of which were 95 percent AFUE efficiency or greater. Montana-Dakota provides its 2012 comparison of budget to actual on Exhibit 4.

The Company promoted the programs through bill inserts, newspaper inserts and billboards and actively participated in home shows throughout the area and the 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.

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.

The Company calculates annual savings of 1,189.8 dk from programs during the period April 1, 2012 through October 31, 2012 which equates to 20,848 dk over the project life of the installed equipment as shown in the table below:

| Total South Dakota Conservation Program Dk Savings: | April - October 2012 Participants | Dk Savings | Project Life | Project Life Dk Savings |
|---|---|---|---|---|
| Residential | | | | |
| High Efficiency Furnace - 92-94% | 4 | 47.2 | 18 | 850 |
| High Efficiency Furnace - 95%+ (new) | 1 | 7.1 | 18 | 128 |
| High Efficiency Furnace - 95%+ (replacement) | 68 | 890.8 | 18 | 16,034 |
| High Efficiency Water Heater (.62 EF) | 3 | 4.2 | 10 | 42 |
| High Efficiency Water Heater (.67+ EF) | 5 | 18.0 | 10 | 180 |
| Programmable Thermostats | 45 | 130.5 | 15 | 1,958 |
| Energy Audits | 0 | 1/ | | 1/ |
| Total Residential | 126 | 1,097.8 | | 19,192 |
| Commmercial & Industrial | | | | |
| High Efficiency Furnace - 92-94% | 0 | 0.0 | 18 | 0 |
| High Efficiency Furnace - 95%+ (new) | 0 | 0.0 | 18 | 0 |
| High Efficiency Furnace - 95%+ (replacement) | 4 | 92.0 | 18 | 1,656 |
| Custom | 0 | 0.0 | 15 | 0 |
| Total Commercial and Industrial | 4 | 92.0 | | 1,656 |
| Total South Dakota | 130 | 1,189.8 | | 20,848 |

1/ The Energy Audit program is an indirect program and does not provide dk savings.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2012 weighted average cost of natural gas and determined the overall portfolio passed the Benefit/Cost Tests, particularly the Total Resource Cost Test (TRC), however, individual programs failed the TRC test with a ratio less than 1.00 due primarily to the low cost of gas.

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 the period April 1, 2012 through October 31, 2012 are provided in the table below:

| Program | Customer Class | RIM | Utility | Societal | Participant | TRC |
|---|---|---|---|---|---|---|
| Total Portfolio | | 1.16 | 1.75 | 2.02 | 3.44 | 1.22 |
| | | | | | | |
| Furnace (92-94%) | Residential | 1.57 | 2.87 | 1.80 | 1.95 | 1.05 |
| Furnace (95+%) - New | Residential | 0.75 | 0.93 | 1.23 | 2.56 | 0.77 |
| Furnace (95+%) - Replacement | Residential | 1.07 | 1.57 | 1.86 | 3.25 | 1.13 |
| Water Heating (.62 EF) | Residential | 0.40 | 0.48 | 0.77 | 2.29 | 0.48 |
| Water Heating (.67 EF) | Residential | 0.72 | 0.90 | 1.34 | 2.73 | 0.90 |
| Programmable Thermostats | Residential | 1.97 | 4.68 | 4.12 | 7.24 | 2.66 |
| | | | | | | |
| Furnace (92-94%) | Commercial | N/A | N/A | N/A | N/A | N/A |
| Furnace (95+%) - New | Commercial | N/A | N/A | N/A | N/A | N/A |
| Furnace (95+%) - Replacement | Commercial | 1.68 | 2.74 | 2.99 | 4.21 | 1.78 |
| Custom Efficiency | Commercial | N/A | N/A | N/A | N/A | N/A |

**2013 Portfolio and Budget**

Montana-Dakota also analyzed the cost-effectiveness of its projected 2013 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2013. As stated above, Montana-Dakota utilizes the Benefit/Cost analysis and the cost of gas is one of the primary inputs that determine whether a portfolio is cost-effective. Montana-Dakota adjusted its 2013 participation and budget downward to reflect the anticipation of lower participation due to low natural gas costs and the impending U.S. Department of Energy's (DOE) federal minimum efficiency standards under the Energy Independence and Security Act (EISA) for all new residential non-weatherized gas furnaces where the baseline efficiency changes to 90 percent AFUE effective May 1, 2013 in northern states, which includes South Dakota.

The federal minimum efficiency standard for residential furnaces, where the baseline efficiency is 90 percent and the installed furnace efficiency is 95 percent, significantly reduces the average dk savings for replacement furnaces. Montana-Dakota understands that many customers may still be replacing an 80 percent AFUE efficient furnace or less and more savings will be realized than with the 90 percent minimum efficiency baseline standard assumptions, however, upon implementation of the EISA minimum efficiency standard, a portion of these savings will be driven by code changes rather than through Montana-Dakota's conservation programs.

The EISA minimum efficiency standard is scheduled to be effective May 1, 2013, however interested parties filed a petition to delay the implementation for 18 months to provide time for the dealership network to deplete current inventory and prepare for the minimum efficiency standard of 90 percent. The DOE has not yet acted on this petition.

In addition, several interested parties filed comments to the DOE's plan to request the plan include a process for obtaining a waiver of the new regional furnace efficiency standards where the installation of a condensing natural gas furnace in an existing building is infeasible or prohibitively expensive. The request is still pending.

The Company provides in the tables below its revised anticipated participation levels for the 2013 program year from its three year portfolio authorized in Docket No. NG11-006:

- The Company reduced its expected participation in the Residential and Commercial and Industrial 92-94 percent AFUE Furnace programs to zero. The Company proposes to provide a cash rebate for qualifying projects submitted under the 92-94 percent AFUE efficiency programs and New Construction furnace program, however, anticipates the participation will be limited.
- Montana-Dakota also reduced to zero the expected participation from the New Construction Furnace programs to reflect the impending minimum efficiency standards; and
- The Company reduced the expected participation in its 95 percent or greater AFUE efficiency furnace programs and its Commercial Custom program.

| **Black Hills** | No. of Participants | Incentive Cost | Promotion & Administration Cost 2/ | Total Cost |
|---|---|---|---|---|
| Residential | | | | |
| Furnaces Tier 1 - 92-94% AFUE | | | | |
| Furnaces Tier 2 - 95+% AFUE - New | | | | |
| Furnaces Tier 2 - 95+% AFUE - Replacement | 140 | $42,000 | $13,635 | $55,635 |
| Water Heating (.62 EF) | 10 | 500 | 162 | 662 |
| Water Heating (.67 EF) | 10 | 1,000 | 325 | 1,325 |
| Programmable Thermostats | 73 | 1,460 | 474 | 1,934 |
| Commercial | | | | 0 |
| Furnaces Tier 1 - 92-94% AFUE | | | | 0 |
| Furnaces Tier 2 - 95+% AFUE - New | | | | 0 |
| Furnaces Tier 2 - 95+% AFUE - Replacement | 5 | 1,500 | 487 | 1,987 |
| Custom Efficiency | 2 | 1,200 | 389 | 1,589 |
| Subtotal | 240 | $47,660 | $15,472 | $63,132 |
| Energy Audits 1/ | 40 | $9,600 | | $9,600 |
| Total Black Hills | 280 | $57,260 | $15,472 | $72,732 |

1/ The Energy Audit program does not provide dk savings. Reflects $9,600 in direct program expense.
2/ Administration cost is allocated based on incentive cost.

| East River | No. of Participants | Incentive Cost | Promotion & Administration Cost 2/ | Total Cost |
|---|---|---|---|---|
| Residential | | | | |
| Furnaces Tier 1 - 92-94% AFUE | | | | |
| Furnaces Tier 2 - 95+% AFUE - New | | | | |
| Furnaces Tier 2 - 95+% AFUE - Replacement | 30 | $9,000 | $2,922 | $11,922 |
| Water Heating (.62 EF) | 2 | 100 | 33 | 133 |
| Water Heating (.67 EF) | 2 | 200 | 65 | 265 |
| Programmable Thermostats | 27 | 540 | 175 | 715 |
| Commercial | | | | |
| Furnaces Tier 1 - 92-94% AFUE | | | | |
| Furnaces Tier 2 - 95+% AFUE - New | | | | |
| Furnaces Tier 2 - 95+% AFUE - Replacement | 4 | 1,200 | 389 | 1,589 |
| Custom Efficiency | 1 | 600 | 194 | 794 |
| Subtotal | 66 | $11,640 | $3,778 | $15,418 |
| Energy Audits 1/ | 10 | $2,400 | | $2,400 |
| Total East River | 76 | $14,040 | $3,778 | $17,818 |

1/ The Energy Audit program does not provide dk savings. Reflects $2,400 in direct program expense.
2/ Administration cost is allocated based on incentive cost.

The Company plans to re-evaluate its portfolio in late 2013 and propose cost-effective programs based upon gas costs and the outcome of the EISA federal minimum efficiency baseline standard

**CTA**

The proposed CTA rate to be effective January 1, 2013 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 2013 program year as discussed above. The CTA reflects estimated expenses for the period January 1, 2012 through December 31, 2012 which includes program expenses for both the prior natural gas portfolio and the current portfolio implemented April 1, 2012.

**Program True-up**

As shown on Exhibit 2, page 2, the beginning balance as of January 1, 2012 in the CTA account was an over recovery of expenditures for the Black Hills area and an under recovery for the East River area.

**DSM Incentive**
Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amounts of $4,475 and $1,581 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 $38,120 in program costs from January 1, 2012 through October 31, 2012 for the Black Hills rate area, which equates to a calculated incentive of $4,475 as shown on Exhibit 3. The DSM incentive for the East River rate area reflects the incentive calculated based on actual program costs incurred, or $13,434 and equates to a calculated incentive of $1,581 to be recovered through the CTA.

**Proposed Portfolio**
Montana-Dakota included projected costs for the 2013 Conservation Budget, including the budgeted amount for the Energy Audit program, to be recovered through the CTAs over the period January 1, 2013 through December 31, 2013. The 2013 conservation budget is based on anticipated participation discussed above and is comprised of incentive costs, marketing and promotional costs and administration costs.

**Summary**
The aforementioned costs for program true-up, DSM Incentive and the proposed portfolio budget total $50,941 for the Black Hills rate area and $21,425 for the East River rate area which equates to a CTA rate applicable to service under Rates 60, 70 and 72 of $0.009 per dk, or a decrease of $0.009 per dk from the currently authorized CTA for Black Hills customers, and a CTA applicable to service under Rates 66 and 76 of $0.024 per dk, or a decrease of $0.025 from the currently authorized CTA for East River customers. The estimated annual decrease is $0.90 for a Black Hills residential customer and $2.50 for an East River residential customer using 100 dk annually. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after January 1, 2013.

Montana-Dakota herewith requests waiver of the 30 days notice to the Commission required by ARSD 20:10:13:15 and 30 days notice to the public required by ARSD 20:10:13:17.

Montana-Dakota request this waiver in order for the Commission to take action on this request prior to December 31, 2012 and where the Company may effectuate the proposed CTA rates as stated above January 1, 2013.

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. 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

Tamie A. Aberle
Director of Regulatory Affairs

Attachments
cc: D. Kuntz