



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

May 9, 2014

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. NG14-_____

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 July 1, 2014.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.043 per dk or an increase of \$0.032 per dk from the currently authorized CTA rate in the Black Hills area and an increase of \$0.020 per dk from the currently authorized CTA rate in the East River area. Montana-Dakota proposes to implement a consolidated CTA rate for its entire natural gas service territory in South Dakota consistent with the rate consolidation authorized by the Commission in Montana-Dakota's last general rate case in Docket No. NG12-008 for the period July 1, 2014 through February 28, 2015.

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 July 1, 2014:

- 9th 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. The Company offered the

following programs in 2013:

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. The program closed effective March 1, 2013.
- 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 (.67 EF). Qualifying customers receive an incentive of \$100 for replacing their current natural gas water heater or 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. Participating customers are responsible for a \$50 co-payment.

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. This program closed effective March 1, 2013.
- 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.

2013 Program Results – Exhibit 2

Montana-Dakota experienced overall success with higher than budgeted participation

and dk savings in the Company's portfolio of natural gas conservation programs in calendar year 2013, as summarized below and shown in Exhibit 2 in detail.

	2013			
	Actual	Budget	Difference	% Budget
Participants	639	368	271	173.6%
Expense	\$168,026	\$97,150	\$70,876	173.0%
Dk Savings	4,613	3,268	1,345	141.2%

The annual savings of 4,613 dk from the 2013 programs, which equates to 80,535 dk over the project life of the installed equipment, are a substantial increase over the 20,848 lifetime dk achieved in 2012. The results of the 2013 program are provided in the table below:

	2013				Lifetime
	Participants	Cost	Dk Savings	Cost/Dk	Dk Savings
<u>Residential Program</u>					
Furnaces - 95+% AFUE - New	211	\$70,732	1,446	\$48.92	26,028
Furnaces - 95+% AFUE - Repl.	190	63,358	2,385	26.57	42,930
Water Heating (.67 EF)	34	3,799	159	23.89	1,590
Programmable Thermostats	141	3,152	409	7.71	6,135
Total Residential	576	\$141,041	4,399	\$32.06	76,683
<u>Commercial Program</u>					
Furnaces - 95+% AFUE - New					
Furnaces - 95+% AFUE - Repl.	7	\$2,347	214	\$10.97	3,852
Custom Efficiency					
Total Commercial	7	\$2,347	214	\$10.97	3,852
Energy Audit Program Costs	56	\$24,638			
Total Programs	639	\$168,026	4,613	\$36.42	80,535

All residential programs exceeded the anticipated participation, with the residential high efficiency furnace and water heating programs leading the way. The energy audit program slightly exceeded the goal in 2013 as two third-party energy auditors were hired in the third quarter of 2012 to perform audits, however, one of these parties will no longer be performing the audits beginning in mid-2014 and Montana-Dakota is in the process of filling this position.

Participation in the commercial programs was lower than anticipated, however the

custom program, new in 2012, did not have any participants. 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, newspaper inserts 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 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.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2014 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 2013 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.88	2.71	2.59	3.35	1.68
Furnace (95+%) - New	Residential	1.36	1.76	1.82	2.75	1.18
Furnace (95+%) - Replacement	Residential	2.11	3.24	3.00	3.57	1.93
Water Heating (.67 EF)	Residential	1.73	2.42	3.32	3.86	2.42
Programmable Thermostats	Residential	3.77	9.97	6.49	8.07	4.41
Furnace (95+%) - New	Commercial	N/A	N/A	N/A	N/A	N/A
Furnace (95+%) - Replacement	Commercial	3.88	7.82	6.73	5.94	4.28
Custom Efficiency	Commercial	N/A	N/A	N/A	N/A	N/A

Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective July 1, 2014 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 2014 program year as discussed above. As stated above, the CTA rate equates to \$0.043 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, 2013 through estimated June 30, 2014, with the monthly detail on pages 3 through 6 and a summary by program on page 7. The beginning balance as of January 1, 2013 in the CTA account was an under recovery of \$12,456 and the estimated balance as of June 30, 2014 is an under recovery of \$120,125. The increase in the balance is due to the higher than anticipated participation in the conservation programs in 2013.

DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$14,264 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 \$129,631 in program costs from January 1, 2013 through December 31, 2013 for the Black Hills rate area, which equates to the incentive cap of \$11,204 authorized in Docket No. NG12-007 as shown on Exhibit 4. The DSM incentive for the East River rate area reflects the incentive calculated based on actual program costs incurred, or \$38,395 and equates to the incentive cap of \$3,060 to be recovered through the CTA.

2014 Portfolio and Budget – Exhibit 5

The 2014 conservation budget is based on anticipated participation and is comprised of

incentive costs, marketing and promotional costs and administration costs.

Montana-Dakota analyzed the cost-effectiveness of its projected 2014 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2014. 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. Montana-Dakota adjusted its 2014 participation and budget dollars to reflect the anticipation of increased participation levels as seen in 2013. Montana-Dakota proposes to request Commission authorization to continue to provide rebates for programs that exceed the budgeted 2014 participation level.

Montana-Dakota saw exceptional participation in its residential new construction high efficiency program in 2013. Montana-Dakota contacted participating builders that received the majority of the cash incentives from the new construction furnace program and determined the program impacted the business practices of these builders. Prior to Montana-Dakota offering cash incentives for 95 percent AFUE or greater furnaces for new construction homes, the builders were primarily installing 90 percent AFUE furnaces. The majority of the installed furnaces eligible for a cash rebate in 2013 were 96 percent AFUE or greater. Over the lifetime of the installed equipment, 18 years on average, the lifetime dk savings achieved through the 2013 new construction furnace program equates to 26,028 dk and these savings would not be achieved without the cash incentives offered through this program. Montana-Dakota continues to support the new construction furnace program to encourage the installation of higher efficiency equipment, as the equipment will be operating over the next 18 years and will ensure funding remains available to all interested new homes. Therefore, Montana-Dakota proposes to cap the participation level by builder for its residential new construction high efficiency furnace program in 2014 and allow each builder a maximum of 25 rebates (\$7,500 cash incentive) for qualifying installed equipment in new construction homes.

Montana-Dakota also proposes to implement a change in its programmable thermostat program, where qualifying customers receive an incentive of \$20 for replacing an existing thermostat with a programmable thermostat that meets the following criteria, which reflects the former criteria required to meet the Energy Star rating: The programmable thermostat must have at least four programmable time periods per day and must allow a separate program schedule for the work week versus the weekend. In addition, the programmable thermostat must be installed by a contractor in conjunction with the installation of a high efficiency furnace. New construction is not eligible for a programmable thermostat cash rebate.

The Company provides in the tables below its revised anticipated participation levels for the 2014 program year from its three year portfolio authorized in Docket No. NG11-006.

Programs	Projected 2014				Lifetime
	Participants	Cost	Dk Savings	Cost/Dk	Dk Savings
<u>Residential Program</u>					
Furnaces - 95+% AFUE - New	150	\$50,171	1,065	\$47.11	19,170
Furnaces - 95+% AFUE - Repl.	225	75,259	2,948	25.53	53,064
Water Heating (.67 EF)	35	3,903	126	30.98	1,260
Programmable Thermostats	150	3,345	435	7.69	6,525
Energy Audits 1/	50	27,873	0		
Total Residential	610	\$160,551	4,574	\$35.10	80,019
<u>Commercial Program</u>					
Furnaces - 95+% AFUE - New	1	\$334	12	\$27.83	216
Furnaces - 95+% AFUE - Repl.	10	3,345	230	14.54	4,140
Custom Efficiency	1	670	100	6.70	1,500
Total Commercial	12	\$4,349	342	\$12.72	5,856
Total Programs	622	\$164,900	4,916	\$33.54	85,875

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

Montana-Dakota calculates its projected 2014 minimum incentive to be \$8,245 and its incentive cap at \$24,137 based on the projected 2014 budget above and Montana-Dakota's authorized Rate of return in Docket No. NG12-008, adjusted for taxes.

Montana-Dakota has been in recent discussions with Black Hills Power Company (Black Hills) regarding the possibility of partnering with Black Hills for energy audits performed for customers that take service from Montana-Dakota and Black Hills. Montana-Dakota will submit revisions to its portfolio as necessary in order to address future changes in the Energy Audit program.

Summary

The proposed CTA rate applicable to service under Rates 60, 70 and 72 is \$0.043 per dk, or an increase of \$0.033 and \$0.020 per dk respectively from the currently authorized CTA for Black Hills and East River customers. The estimated annual increase for a residential customer using 70 dk annually is \$2.24 for a Black Hills residential customer and \$1.40 for an East River residential customer. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after July 1, 2014.

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
Director of Regulatory Affairs

Attachments

cc: D. Kuntz