



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

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Bismarck, ND 58501
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January 29, 2020

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. NG20-_____

Dear Ms. Van Gerpen:

Montana-Dakota Utilities Co. (Montana-Dakota) 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, 2020.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.008 per dk or a decrease of \$0.014 per dk from the currently authorized CTA rate. The reduction is primarily attributed to the over collected balance at the end of 2019, which is due to volumes being 22 percent higher than projected, as well as adjusting the 2020 projected program costs to 75% of the Docket No. NG17-016 budgeted amount.

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, 2020:

- 15th 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 November 9, 2017, Montana-Dakota requested approval for a three-year natural gas portfolio for the years 2018 – 2020. The Commission approved the three-year portfolio in its Order dated December 20, 2017 in Docket No. NG17-016. The Company offered the following programs in 2019:

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 \$15 incentive for the purchase of a programmable thermostat that meets the guidelines formerly required by ENERGY STAR (Tier 1), and offers a \$60 incentive for the purchase of a Wi-Fi enabled programmable thermostat that meets the guidelines formerly required by ENERGY STAR (Tier 2).

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.

2019 Program Results – Exhibit 2

Montana-Dakota experienced overall success with participation at 77 percent and dk savings at 79 percent of the budgeted level, with expenses at 71 percent of the budgeted level. The Company's portfolio of natural gas conservation programs in 2019 are summarized below and shown in Exhibit 2 in detail.

	2019			
	Actual	Budget	Difference	% Budget
Participants	623	812	(189)	76.7%
Expense	\$147,991	\$208,600	(60,609)	70.9%
Dk Savings	6,351	8,013	(1,662)	79.3%

The annual savings of 6,351 dk from the 2019 programs equates to 117,470 dk over the project life of the installed equipment. The results of the 2019 program are provided in the table below:

Programs	2019			Cost/Dk	Lifetime Dk Savings
	Participants	Cost	Dk Savings		
Residential Program					
Furnaces - 95+% AFUE - New	138	\$46,826	814	\$57.53	16,280
Furnaces - 95+% AFUE - Repl.	227	77,024	4,280	18.00	85,600
Programmable Thermostats - Tier 1	87	1,476	217	6.80	2,170
Programmable Thermostats - Tier 2	139	9,432	738	12.78	7,380
Residential Energy Assessments	17	8,143	0		0
Total Residential	608	\$142,901	6,049	\$23.62	111,430
Commercial Program					
Furnaces - 95+% AFUE - New	2	679	20	\$33.95	400
Furnaces - 95+% AFUE - Repl.	13	4,411	282	15.64	5,640
Custom Efficiency	0	0	0	0.00	0
Total Commercial	15	\$5,090	302	\$16.85	6,040
Total Programs	623	\$147,991	6,351	\$23.30	117,470

The residential programs achieved 84.1 percent of budgeted dk savings with expenses of only 68.4 percent of budgeted expense. Tier 2 thermostat savings were higher than budgeted savings due to the higher average efficiency rating on new Wi-Fi enabled thermostats versus the budgeted average efficiency of the thermostats.

A total of 17 residential energy audits were completed in 2019. There were 16 audits completed by Western South Dakota Community Action (WSDCA), and 1 audit completed by North Eastern South Dakota Community Action. Of the 16 audits completed by WSDCA, 13 audits were cost shared with Black Hills Energy.

The commercial programs achieved 37 percent of budgeted dk savings with expenses of 48.4 percent of budgeted expense. Both new and replacement furnaces saw a lower average efficiency rating versus the budgeted average efficiency.

The Company promoted the programs through bill inserts and billboard advertising. Montana-Dakota personnel also provided area dealers/builders with information regarding the Company's program and rebates available to customers. Labor costs for South Dakota gas conservation were higher than budgeted in 2019. The allocation of labor for the Conservation Analyst position allocation is updated annually based on conservation program participation and the allocation for 2019 was greater than what was initially budgeted.

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 but also shows customers are utilizing the Company's website.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2020 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 with the exception of the Residential Furnace – Replacement program, which achieved a TRC ratio of 0.98.

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 2019 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.02	1.87	1.66	2.63	1.07
Furnace (95+%) - New	Residential	0.59	0.80	2.40	5.21	1.56
Furnace (95+%) - Replacement	Residential	1.18	2.58	1.54	2.22	0.98
Programmable Thermostats - Tier 1	Residential	1.48	4.18	2.96	4.10	2.22
Programmable Thermostats - Tier 2	Residential	1.12	2.21	1.81	2.99	1.36
Residential Energy Assessments	Residential	0.00	0.00	0.00	0.85	0.00
Furnace (95+%) - New	Commercial	1.04	1.37	3.22	5.61	2.07
Furnace (95+%) - Replacement	Commercial	1.75	2.95	1.72	2.16	1.09
Custom Efficiency	Commercial	0.00	0.00	0.00	0.00	0.00

Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective March 1, 2020 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 75 percent of the portfolio budget for the 2020 program year as approved on December 20, 2017 in Docket No. NG18-002. The Company has observed a continued cumulative over recovery in the prior years while also observing actual program costs less than the budgeted program costs. To address the current over recovery, the Company proposes to include 75 percent of the approved 2020 budgeted program costs in the proposed rate. This will establish a CTA rate of \$0.008 per dk and will be effective for rate schedules 60, 70, and 72 on March 1, 2020. While the Company proposes to include 75 percent of the budgeted 2020 program costs in the determination of the rate, actual expenses may come in higher up to the budgeted level authorized.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2019 through December 31, 2019, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2019 in the CTA account was an over recovery of \$76,216 and the balance as of December 31, 2019 is an over recovery of \$122,046, which includes the 2018 DSM incentive of \$12,878.

DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$12,520 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 \$147,991 in program costs from January 1, 2019 through December 31, 2019 which equates to an incentive of \$12,520. 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.

2020 Portfolio and Budget – Exhibit 5

The 2020 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 2020 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2020. 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 its anticipated participation levels for the 2020 program year from its three-year portfolio authorized in Docket No. NG17-016.

Programs	2020		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	220	\$66,000	990
Furnaces - 95+% AFUE - Repl.	310	93,000	5,704
Programmable Thermostats - Tier 1	90	1,350	225
Programmable Thermostats - Tier 2	150	9,000	555
Energy Audit Program	50	22,500	0
Total Residential	820	191,850	7,474
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	5	1,500	23
Furnaces - 95+% AFUE - Repl.	17	5,100	313
Custom Efficiency	1	3,000	500
Total Commercial	23	9,600	836
Administration and Promotion		15,000	
Total Programs	843	\$216,450	8,310

Montana-Dakota calculates its projected 2020 minimum incentive to be \$10,823 and its incentive cap at \$18,312 based on the projected 2020 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 \$0.008 per dk, or a decrease of \$0.014 per dk from the currently authorized CTA for South Dakota customers. The estimated annual decrease for a residential customer using 70 dk annually is \$0.98. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2020.

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