



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

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

January 29, 2021

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. NG21-_____

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, 2021.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.020 per dk or an increase of \$0.012 per dk from the currently authorized CTA rate. The increase is attributed to the increase in participants and subsequent expense, and the current rate was established using 75% of budget 2020 expenses, which was done to help reduce the over collected balance.

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, 2021:

- 16th 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 2020:

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.

2020 Program Results – Exhibit 2

Montana-Dakota experienced overall success with the number of participants at 94 percent, dk savings at 98 percent of the budgeted level, and expenses at 86 percent of the budgeted level. The Company's portfolio of natural gas conservation programs in 2020 are summarized below and shown in Exhibit 2 in detail.

| | 2020 | | | |
|--------------|-----------|-----------|------------|----------|
| | Actual | Budget | Difference | % Budget |
| Participants | 789 | 843 | (54) | 93.6% |
| Expense | \$186,528 | \$216,450 | (\$29,922) | 86.2% |
| Dk Savings | 8,144 | 8,310 | (166) | 98.0% |

The annual savings of 8,144 dk from the 2020 programs equates to 148,585 dk over the project life of the installed equipment. The results of the 2020 program are provided in the table below:

| Programs | 2020 | | | Cost/Dk | Lifetime Dk Savings |
|-----------------------------------|--------------|------------------|--------------|----------------|------------------------|
| | Participants | Cost | Dk Savings | | |
| Residential Program | | | | | |
| Furnaces - 95+% AFUE - New | 242 | \$77,687 | 1,087 | \$71.47 | 21,740 |
| Furnaces - 95+% AFUE - Repl. | 264 | 84,748 | 4,909 | 17.26 | 98,180 |
| Programmable Thermostats - Tier 1 | 82 | 1,317 | 173 | 7.61 | 1,730 |
| Programmable Thermostats - Tier 2 | 172 | 11,039 | 912 | 12.10 | 9,120 |
| Residential Energy Assessments | 3 | 518 | 0 | | 0 |
| Total Residential | 763 | \$175,309 | 7,081 | \$24.76 | 130,770 |
| Commercial Program | | | | | |
| Furnaces - 95+% AFUE - New | 7 | 2,246 | 34 | \$66.06 | 680 |
| Furnaces - 95+% AFUE - Repl. | 17 | 5,458 | 340 | 16.05 | 6,800 |
| Custom Efficiency | 2 | 3,515 | 689 | 5.10 | 10,335 |
| Total Commercial | 26 | \$11,219 | 1,063 | \$10.55 | 17,815 |
| Total Programs | 789 | \$186,528 | 8,144 | \$22.90 | 148,585 |

The residential programs achieved 94.7 percent of budgeted dk savings with expenses of only 85.4 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. Participation in the new construction furnace program was strong in 2020. In mid-December participation reached 10% over the budgeted level and the program was closed.

A total of 3 residential energy audits were completed in 2020 by Western South Dakota Community Action (WSDCA) and were cost shared with Black Hills Energy. Due to the current pandemic, energy audits were suspended during 2020. Prior to the suspension, there were 3 audits able to be performed. There are also 3 customers that applied to have an energy audit prior to the program being suspended, but they were not able to be performed due to pandemic restrictions. The Company still plans to perform these audits when conditions allow, but they were not able to be included in the 2020 results.

The commercial programs achieved 127.2 percent of budgeted dk savings with expenses of 109.2 percent of budgeted expense. Both new and replacement furnaces saw a higher

average efficiency rating versus the budgeted average efficiency. Participation in the commercial new furnace and furnace replacement programs were strong in 2020. These programs reached 10% over the budgeted level in October and were closed at that time. The commercial custom project program reached 10% over the budgeted level in May and was closed at that time.

The Company promoted the programs through bill inserts and billboard advertising. Labor costs for South Dakota gas conservation were lower than budgeted in 2020. In addition to bill inserts and billboards, the Company also conducted a targeted online advertising campaign. The allocation of labor for the Conservation Analyst position allocation is updated annually based on conservation program participation and the allocation for 2020 was lower 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 attentive to the bill inserts.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2021 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 2020 are provided in the table below:

| Program | Customer Class | RIM | Utility | Societal | Participant | Total Resource Cost |
|-----------------------------------|----------------|------|---------|----------|-------------|---------------------|
| Total Portfolio | | 1.23 | 2.22 | 1.91 | 2.73 | 1.22 |
| Furnace (95+%) - New | Residential | 0.59 | 0.77 | 2.44 | 4.99 | 1.56 |
| Furnace (95+%) - Replacement | Residential | 1.42 | 3.16 | 1.78 | 2.28 | 1.11 |
| Programmable Thermostats - Tier 1 | Residential | 1.64 | 4.32 | 2.97 | 3.77 | 2.24 |
| Programmable Thermostats - Tier 2 | Residential | 1.35 | 2.73 | 2.15 | 3.14 | 1.63 |
| Residential Energy Assessments | Residential | 0.00 | 0.00 | 0.00 | 0.32 | 0.00 |
| Furnace (95+%) - New | Commercial | 0.68 | 0.80 | 2.49 | 4.82 | 1.59 |
| Furnace (95+%) - Replacement | Commercial | 2.04 | 3.40 | 1.89 | 2.16 | 1.18 |
| Custom Efficiency | Commercial | 3.26 | 8.83 | 1.51 | 1.30 | 1.03 |

Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective March 1, 2021 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. This will establish a CTA rate of \$0.020 per dk and will be effective for rate schedules 60, 70, and 72 on March 1, 2021.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2020 through December 31, 2020, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2020 in the CTA account was an over recovery of \$122,096 and the balance as of December 31, 2020 is an over recovery of \$22,332 which includes the 2019 DSM incentive of \$12,520.

DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$15,780 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 \$186,528 in program costs from January 1, 2020 through December 31, 2020 which equates to an incentive of \$15,780. 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.

2021 Portfolio and Budget – Exhibit 5

The 2021 conservation budget is based on anticipated participation and is comprised of incentive costs, marketing, and administration and promotional costs as authorized in

Docket No. NG20-011.

Montana-Dakota analyzed the cost-effectiveness of its projected 2021 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2021. 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 2021 program year from its three-year portfolio authorized in Docket No. NG20-011.

| | 2021 | | |
|------------------------------------|--------------|-----------|------------|
| | Participants | Cost | Dk Savings |
| <u>Residential Program</u> | | | |
| Furnaces - 95+% AFUE - New | 160 | \$24,000 | 768 |
| Furnaces - 95+% AFUE - Replacement | 250 | 75,000 | 4,875 |
| Programmable Thermostats - Tier 1 | 90 | 1,350 | 207 |
| Programmable Thermostats - Tier 2 | 160 | 9,600 | 934 |
| Total Residential | 660 | \$109,950 | 6,784 |
| <u>Commercial Program</u> | | | |
| Furnaces - 95+% AFUE - New | 5 | \$750 | 31 |
| Furnaces - 95+% AFUE - Replacement | 15 | 4,500 | 314 |
| Custom Efficiency | 4 | 12,000 | 2,000 |
| Total Commercial | 24 | \$17,250 | 2,345 |
| Administration and Promotion 1/ | | \$14,000 | |
| Total Programs | 684 | \$141,200 | 9,129 |

Montana-Dakota calculates its projected 2021 minimum incentive to be \$7,060 and its incentive cap at \$11,946 based on the projected 2021 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 \$0.020 per dk, or an increase of \$0.012 per dk from the currently authorized CTA for South Dakota customers. The estimated annual increase for a residential customer using 70 dk annually is \$0.84. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2021.

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:

Travis R. Jacobson
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,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachments
cc: B. Koenecke