

Docket Number: NG22-011
Subject Matter: First Data Request
Request to: Montana-Dakota Utilities Co. (Montana-Dakota or Company)
Request from: South Dakota Public Utilities Commission Staff
Date of Request: December 15, 2022
Responses Due: January 5, 2023

- 1-2. Refer to the net present value calculation on Attachment C, pages 2-4.
- a) Is the number of new customers per year based on a timeline estimate shared by the developer? If not, what is the estimate based on?
 - b) Provide revised net present value and surcharge calculations based on an estimated 25%, 50%, and 75% adoption rates, assuming the adoption rate for number of customers provided in Attachment C is 100%.
 - c) Is there a point where the number of customers taking natural gas service is too low that it makes it infeasible for the customers who do take natural gas service to pay for the entire expansion?
 - d) Will customers taking service in the early years and paying the surcharge most of the 10-year period receive any contribution from customers taking service later in the 10-year period (or after 10 years)? Please explain.

Response:

- a) Yes, the projections are based on the developer's estimated timeline.
- b) Please see the attached Excel files for the requested information:
 - Response No. 1-2b Attachment A – 25% Adoption Rate
 - Response No. 1-2b Attachment B – 50% Adoption Rate
 - Response No. 1-2b Attachment C – 75% Adoption Rate

For each of the three scenarios, Montana-Dakota adjusted the participation rates and surcharge rates, while maintaining the proposed down payments and a surcharge period of ten years.

- c) Yes, the Company believes the proposed surcharge and projected customers as included in the Company's filing reflect that inflection point. Montana-Dakota developed the proposed surcharge rate so participating customers will still benefit from natural gas service through lower heating costs. As shown in the attached analysis (Response No. 1-2c Attachment A – Customer Cost Analysis), if the surcharge rates were increased due to lower participation rates, there may be customers who would no longer benefit from taking natural service until the surcharge expires.

However, if lower than projected participation rates were to occur, Montana-Dakota believes it may be better to extend the surcharge period than to increase the surcharge. While the surcharge was structured in a way where the majority of customers in The Ridge would need to take service for the net present value of the contribution requirement to be collected in ten years, the Company would want to evaluate the cost/benefit of extending the surcharge period compared to increasing the surcharge rates if projected participation doesn't materialize. Montana-Dakota does believe the participation rates are achievable as the Company typically sees a saturation rate greater than 98% in new developments where natural gas is available.

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- d) No, Montana-Dakota does not anticipate that customers taking service in the early years will receive any contribution from customers taking service later in the 10-year period or after the surcharge expires. However, all customers paying the surcharge will benefit if the number of actual customers taking service in the surcharge area exceeds Montana-Dakota's customer projections as the additional revenue will help pay down the contribution requirement earlier than anticipated. Even with the surcharge, customers will typically save money on their heating bills when compared against competing fuel types.