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January 27, 2023

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. NG23-_____

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, 2023.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.019 per dk or a decrease of \$0.006 per dk from the currently authorized CTA rate. The decrease is attributed to the extinguishment of the previous period balance as well as a lower than projected 2022 expense.

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, 2023:

- 18th Revised Sheet No. 31

The Rate Summary sheet (Sheet No. 3) 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 October 29, 2020, Montana-Dakota requested approval for a three-year natural gas portfolio for the years 2021 – 2023. The Commission approved the three-year portfolio in its Order dated December 29, 2020 in Docket No. NG20-011. The Company offered the following programs in 2022:

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 cash rebate. New construction customers are offered a \$150 rebate, while customers replacing an existing furnace are offered a \$300 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 an Energy-Star rated programmable thermostat installed in an existing dwelling (Tier 1), and offers a \$60 incentive for the purchase of a Wi-Fi enabled programmable thermostat installed in a new or existing dwelling (Tier 2).

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 cash rebate. New construction customers are offered a \$150 rebate, while customers replacing an existing furnace are offered a \$300 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.

2022 Program Results – Exhibit 2

Montana-Dakota experienced overall success with the number of participants at 79 percent, dk savings at 61 percent of the budgeted level, and expenses at 75 percent of the budgeted level. The Company’s portfolio of natural gas conservation programs in 2022 are summarized below and shown in Exhibit 2 in detail.

	2022			
	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	<u>% Budget</u>
Participants	574	730	(156)	78.6%
Expense	\$118,188	\$156,925	(\$38,737)	75.3%
Dk Savings	6,476	10,697	(4,221)	60.5%

The annual savings of 6,476 dk from the 2022 programs equates to 117,020 dk over the project life of the installed equipment. The results of the 2022 program are provided in the table below:

Programs	2022			Cost/Dk	Lifetime
	Participants	Cost	Dk Savings		Dk Savings
Residential Program					
Furnaces - 95+% AFUE - New	79	\$13,952	444	\$31.42	8,880
Furnaces - 95+% AFUE - Repl.	236	83,357	4,258	19.58	85,160
Programmable Thermostats - Tier 1	64	1,131	147	7.69	1,470
Programmable Thermostats - Tier 2	173	12,154	1,103	11.02	11,030
Total Residential	552	\$110,594	5,952	\$18.58	106,540
Commercial Program					
Furnaces - 95+% AFUE - New	1	176	8	\$22.00	160
Furnaces - 95+% AFUE - Repl.	21	7,418	516	14.38	10,320
Custom Efficiency	0	0	0	0.00	0
Total Commercial	22	\$7,594	524	\$14.49	10,480
Total Programs	574	\$118,188	6,476	\$18.25	117,020

The residential programs achieved 82 percent of budgeted dk savings with expenses of 79 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.

Montana-Dakota did see reduced participation in the 2022 program year. Lower participation in 2022 was mainly driven by lower participation in the New Construction Furnace rebate programs for residential and commercial. The Company has been in contact with homebuilders and is finding the drop in these programs corresponds with the following factors:

1. Reduction in the rebate for these programs beginning in 2021; and
2. Ease of filling out the required rebate paperwork.

With regards to the 2nd point above, many homebuilders contacted indicated the HVAC dealer used to have the paperwork prepared and they would only have to sign and send in the rebate information, but over the course of 2021 and into 2022 the HVAC dealer has not been taking that initiative. The Company plans to communicate further with builders during 2023 and get more feedback related to these programs and what steps would encourage more participation.

The Company promoted the programs through bill inserts and billboard advertising and also conducted a targeted online advertising campaign. Labor costs for South Dakota gas conservation were higher than budgeted in 2022 due to a higher allocation of the Company's Conservation Analyst position in 2022 than what was budgeted. The allocation of this position is updated annually based on the results of the prior year conservation participant results.

Montana-Dakota has surveyed 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 have influence for the customers 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.

Montana-Dakota analyzed the cost-effectiveness of its natural gas portfolio using a 2023 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 Custom Efficiency program (due to no participation in that program in 2022).

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 2022 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		2.02	4.01	4.28	3.96	2.22
Furnace (95+%) - New	Residential	1.52	2.51	4.74	3.97	2.32
Furnace (95+%) - Replacement	Residential	1.98	4.04	4.28	4.04	2.19
Programmable Thermostats - Tier 1	Residential	2.44	6.30	5.64	5.08	3.41
Programmable Thermostats - Tier 2	Residential	2.08	4.37	3.15	3.10	1.92
Furnace (95+%) - New	Commercial	2.59	3.80	7.06	4.78	3.50
Furnace (95+%) - Replacement	Commercial	3.21	5.51	5.62	4.45	2.84
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, 2023 shown on Exhibit 3, page 1 consists of the following components: the estimated 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 the 2023 projected activity. This will establish a CTA rate of \$0.019 per dk to be effective for rate schedules 60, 70, and 72 on March 1, 2023.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2022 through December 31, 2022, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2022 in the CTA account was an under recovery of \$36,834 and the estimated balance as of February 28, 2023 is an over recovery of \$48,369 which includes the DSM incentive of \$11,946 authorized in Docket No. NG22-001.

2022 DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$9,999 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 \$118,188 in program costs from January 1, 2022 through December 31, 2022 which equates to a calculated incentive of \$9,999. 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.

2022 Portfolio and Budget – Exhibit 5

The 2023 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 2023 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2023. 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 2023 program year from its three-year portfolio authorized in Docket No. NG20-011.

	2023		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	180	\$27,000	864
Furnaces - 95+% AFUE - Replacement	290	87,000	5,655
Programmable Thermostats - Tier 1	80	1,200	184
Programmable Thermostats - Tier 2	185	11,100	1,080
Total Residential	735	\$126,300	7,783
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	10	\$1,500	62
Furnaces - 95+% AFUE - Replacement	20	6,000	418
Custom Efficiency	8	24,000	4,000
Total Commercial	38	\$31,500	4,480
Administration and Promotion		\$15,000	
Total Programs	773	\$172,800	12,263

Montana-Dakota calculates its projected 2023 minimum incentive to be \$8,640 and its incentive cap at \$14,619 based on the projected 2023 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 \$0.019 per dk, or a decrease of \$0.006 per dk from the currently authorized CTA for South Dakota customers. The estimated annual decrease for a residential customer using 70 dk annually is \$0.42. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2023.

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