
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: ERIC PAULSON, AMANDA REISS, AND LOGAN SCHAEFBAUER
RE: NG23-025 - IN THE MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO., A DIVISION OF MDU RESOURCES GROUP, INC. FOR APPROVAL OF NATURAL GAS CONSERVATION PORTFOLIO PLAN FOR 2024 - 2026
DATE: DECEMBER 1, 2023

OVERVIEW

On October 25, 2023, Montana-Dakota Utilities Company (Montana-Dakota or Company) filed its proposed Natural Gas Conservation Portfolio Plan for the years 2024 through 2026. The Company's proposal updates its most recent plan approved in Docket NG20-011 for the years 2021 through 2023.

Montana-Dakota proposes to continue its current program offerings without any material changes. Montana-Dakota estimates the total cost of its portfolio for 2024-2026 to be \$432,225, with a savings of 469,261 dk over the life of the installed equipment. The Company proposes the program be effective January 1, 2024.

Staff provides the following analysis and recommendation to the Commission regarding the proposed 2024-2026 plan.

ANALYSIS

2024-2026 PROGRAM PORTFOLIO

A. CONTINUED EXISTING PROGRAMS

Residential

Montana-Dakota proposes to continue its Residential Space Heating – High Efficiency Furnace and Residential Programmable Thermostats programs. The Company proposes minor modifications for the upcoming plan years regarding the programmable thermostats program. Information regarding each program is provided below.

Residential Space Heating – High Efficiency Furnace

The High Efficiency Furnace program is available to residential customers installing a qualifying furnace in a new construction home and to customers with an existing home who convert to natural gas heating or replace an existing furnace. To qualify, the new furnace installed must be rated at a minimum Annual Fuel Utilization Efficiency (AFUE) of 95%.

Currently, customers replacing an existing furnace will receive a \$300 rebate and customers with a new construction furnace will only be eligible for a \$150 rebate. These rebate amounts are not proposed to be changed with this filing.

Residential Programmable Thermostats

The Residential Programmable Thermostat program is available in two tiers with Tier 1 available to existing dwellings and Tier 2 available to new construction and existing dwellings. Tier 1 is available to those customers installing a standard programmable thermostat (5-2 day or > with four time periods/day) whereas Tier 2 is available to customers installing a Wi-Fi enabled thermostat. The rebates are proposed to remain the same where the Tier 1 rebate is \$15 per unit and the Tier 2 rebate is \$60 per unit. The rebate is limited to two units per account if the home has multiple heating systems or zoned heating.

There is just one change to the thermostat program. The words “Energy Star” have been removed from Tier 1 thermostat requirements given Energy Star’s change in standards that only includes “smart thermostats”. As noted in response to DR1-2, even though these Tier 1 thermostats are no longer “Energy Star”, they are still viable options for saving energy.

Commercial

In the Commercial sector, Montana-Dakota proposes to continue its Space Heating – High Efficiency Furnace and Custom programs. Both programs are described below.

Commercial Space Heating – High Efficiency Furnace

Commercial customers taking service under Rates 70 and 72 are eligible for the high efficiency furnace rebate. Like the residential program, customers are eligible for a rebate if they install a qualifying furnace rated at a minimum of 95% AFUE to replace an existing furnace or if they install a qualifying furnace in a new construction home. Currently, qualifying commercial customers replacing an existing furnace will receive a \$300 rebate and customers with a new construction furnace will only be eligible for a \$150 rebate. These rebate amounts are not proposed to be changed with this filing.

Commercial Custom

Montana-Dakota also offers rebates to commercial customers on a customized basis. The Company reviews each project individually and offers a rebate based on the amount of energy savings projected for the measure. Each custom project must pass the benefit/cost test with a Total Resource Cost (TRC) greater than 1.00 to qualify. In addition, equipment must be more efficient than the industry standard, simple payback must be greater than 18 months, and the rebate cannot exceed 50% of the incremental cost of the equipment. The Company requires preapproval prior to start of any project.

B. DISCONTINUED PROGRAM

Montana-Dakota is not proposing to discontinue any programs at this time.

C. PROMOTION AND EDUCATION

Montana-Dakota’s promotional plan focuses on awareness and increasing participation of the energy saving programs. The Company plans to use billboard and online advertising, and bill inserts.

2024-2026 BUDGET

Montana-Dakota proposes a budget of \$432,225 for 2024 through 2026. The 2023 budget is \$141,575 which is a decrease of 4.4% from the current 2023 budget. The decrease is due to the proposed budgets for Residential existing furnaces, Residential Tier 1 thermostats, and Commercial Custom programs all having lower budgets in 2024 compared to 2023. The 2025 and 2026 budgets are a year over year increase of 1.8% and 1.7%, respectively. A breakdown of the budget per year is provided in Table 1 on the following page.

Table 1. Proposed Portfolio Budget			
Program	EEP Budgets		
	2024	2025	2026
<i>Residential</i>			
New Construction High Efficiency Furnace	\$20,961	\$22,734	\$24,513
Replacement High Efficiency Furnace	\$87,338	\$87,439	\$87,544
Programmable Thermostats - Tier 1	\$1,310	\$1,224	\$1,226
Programmable Thermostats - Tier 2	\$13,275	\$13,641	\$14,007
Total Residential	\$122,884	\$125,038	\$127,290
<i>Commercial</i>			
New Construction High Efficiency Furnace	\$1,223	\$1,574	\$1,751
Replacement High Efficiency Furnace	\$6,987	\$6,995	\$7,004
Custom	\$10,481	\$10,493	\$10,505
Total Commercial	\$18,691	\$19,062	\$19,260
Total All Programs	\$141,575	\$144,100	\$146,550

Montana-Dakota’s budget is comprised of program incentive costs, educational and promotional costs, and administration costs. Promotional and Administrative costs are allocated to each program based on anticipated participation. Incentives account for \$121,575, \$123,600, and \$125,550 of the proposed budgets for 2024, 2025, and 2026, respectively. Promotion/Education accounts for \$6,500 of the

proposed budgets each year, whereas Administration accounts for \$13,500, \$14,000, and \$14,500 for 2024, 2025, and 2026, respectively.

Staff has no concerns regarding Montana-Dakota’s proposed budget for 2024-2026.

2024-2026 BENEFIT/COST TESTS

Staff reviewed the Company’s TRC test results associated with the proposed 2024-2026 plan. Table 2 on the following page provides Montana-Dakota’s forecasted TRC scores for the 2024-2026 portfolio. As shown, Montana-Dakota expects all programs to be cost effective, with TRC scores greater than 1.0.

Table 2. Total Resource Cost Test	
Program	2024-2026 TRC
<i>Residential</i>	
New Construction High Efficiency Furnace	1.91
Replacement High Efficiency Furnace	2.02
Programmable Thermostats - Tier 1	2.77
Programmable Thermostats - Tier 2	1.44
<i>Commercial</i>	
New Construction High Efficiency Furnace	1.52
Replacement High Efficiency Furnace	1.49
Custom	1.70
Total Portfolio	1.88

2024-2026 PERFORMANCE FINANCIAL INCENTIVE

Montana-Dakota’s current performance financial incentive cap was set in Docket NG14-007. The financial incentive cap is calculated by multiplying Montana-Dakota’s tax-adjusted rate of return by 100% of the approved budget. Montana-Dakota has not proposed any changes to the financial incentive in this docket. Financial incentive amounts are not included in the budget amounts discussed in this memo.

RECOMMENDATION

Staff recommends the Commission approve Montana-Dakota’s proposed 2024-2026 Natural Gas Conservation Portfolio Plan, effective January 1, 2024.