



A Subsidiary of MDU Resources Group, Inc.

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January 30, 2024

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. NG24-\_\_\_\_\_**

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, 2024.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.014 per dk or a decrease of \$0.001 per dk from the currently authorized CTA rate. The decrease is attributed lower than projected 2023 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, 2024:

- 19<sup>th</sup> 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 2023:

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.

**2023 Program Results – Exhibit 2**

Montana-Dakota experienced overall success with the number of participants at 86 percent, dk savings at 69 percent of the budgeted level, and expenses at 80 percent of the budgeted level. The Company’s portfolio of natural gas conservation programs in 2023 are summarized below and shown in Exhibit 2 in detail.

	<b>2023</b>			
	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	<u>% Budget</u>
Participants	605	703	(98)	86.1%
Expense	\$118,847	\$148,050	(\$29,203)	80.3%
Dk Savings	6,538	9,444	(2,906)	69.2%

The annual savings of 6,538 dk from the 2023 programs equates to 117,110 dk over the project life of the installed equipment. The results of the 2023 program are provided in the table below:

Programs	2023			Cost/Dk	Lifetime
	Participants	Cost	Dk Savings		Dk Savings
<b>Residential Program</b>					
Furnaces - 95+% AFUE - New	98	\$17,425	506	\$34.44	10,120
Furnaces - 95+% AFUE - Repl.	224	79,654	4,099	19.43	81,980
Programmable Thermostats - Tier 1	73	1,298	168	7.73	1,680
Programmable Thermostats - Tier 2	192	13,651	1,197	11.40	11,970
<b>Total Residential</b>	<b>587</b>	<b>\$112,028</b>	<b>5,970</b>	<b>\$18.77</b>	<b>105,750</b>
<b>Commercial Program</b>					
Furnaces - 95+% AFUE - New	5	889	36	\$24.69	720
Furnaces - 95+% AFUE - Repl.	12	4,267	298	14.32	5,960
Custom Efficiency	1	1,663	234	7.11	4,680
<b>Total Commercial</b>	<b>18</b>	<b>\$6,819</b>	<b>568</b>	<b>\$12.01</b>	<b>11,360</b>
<b>Total Programs</b>	<b>605</b>	<b>\$118,847</b>	<b>6,538</b>	<b>\$18.18</b>	<b>117,110</b>

The residential programs achieved 80 percent of budgeted dk savings with expenses of 81 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 saw increased participation in the 2023 program year. The Company was in contact with homebuilders which helped drive an increase in participation for the new construction furnace program compared to 2022. The thermostat program participation also grew in 2023, approximately 12 percent, over 2022 participation levels.

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 2023 due to a higher allocation of the Company's Conservation Analyst position 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.

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 2023 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.50	2.97	3.42	3.58	1.66
Furnace (95+% ) - New	Residential	1.07	1.71	3.48	3.34	1.58
Furnace (95+% ) - Replacement	Residential	1.48	3.02	3.48	3.78	1.67
Programmable Thermostats - Tier 1	Residential	1.82	4.69	4.56	4.46	2.54
Programmable Thermostats - Tier 2	Residential	1.53	3.16	2.50	2.72	1.41
Furnace (95+% ) - New	Commercial	1.74	2.46	4.96	3.85	2.27
Furnace (95+% ) - Replacement	Commercial	2.39	4.11	4.55	4.08	2.16
Custom Efficiency	Commercial	3.35	8.21	3.78	2.22	1.71

### Conservation Tracking Adjustment – Exhibit 3

The proposed CTA rate to be effective March 1, 2024 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 \$0.014 per dk to be effective for rate schedules 60, 70, and 72 on March 1, 2024.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2023 through December 31, 2023, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2023 in the CTA account was an over recovery of \$5,618 and the estimated balance as of February 29, 2024 is an over recovery of \$52,300 which includes the DSM incentive of \$9,999 authorized in Docket No. NG23-004.

## 2023 DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$10,054 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 \$118,847 in program costs from January 1, 2023 through December 31, 2023 which equates to a calculated incentive of \$10,054. 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.

## 2024 Portfolio and Budget – Exhibit 5

The 2024 conservation budget is based on anticipated participation and is comprised of incentive costs, marketing, and administration and promotional costs as authorized in Docket No. NG23-025.

Montana-Dakota analyzed the cost-effectiveness of its projected 2024 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2024. 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. NG23-025.

	2024		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	120	\$18,000	684
Furnaces - 95+% AFUE - Replacement	250	75,000	4,900
Programmable Thermostats - Tier 1	75	1,125	173
Programmable Thermostats - Tier 2	190	11,400	1,102
Total Residential	635	\$105,525	6,859
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	7	\$1,050	32
Furnaces - 95+% AFUE - Replacement	20	6,000	368
Custom Efficiency	3	9,000	1,500
Total Commercial	30	\$16,050	1,900
Administration and Promotion		\$20,000	
Total Programs	665	\$141,575	8,759

Montana-Dakota calculates its projected 2024 minimum incentive to be \$7,079 and its incentive cap at \$11,977 based on the projected 2024 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 \$0.014 per dk, or a decrease of \$0.001 per dk from the currently authorized CTA for South Dakota customers. The estimated annual decrease for a residential customer using 70 dk annually is \$0.07. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2024.

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