



A Subsidiary of MDU Resources Group, Inc.

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January 29, 2025

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. NG25-_____**

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, 2025.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.016 per dk or an increase of \$0.002 per dk from the currently authorized CTA rate. The increase is attributed to a reduction of the over collected balance in the prior period.

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, 2025:

- 1st 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 October 25, 2023, Montana-Dakota requested approval for a three-year natural gas portfolio for the years 2024 – 2026. The Commission approved the three-year portfolio in its Order dated December 8, 2023 in Docket No. NG23-025. The Company offered the following programs in 2024:

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 a 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.

2024 Program Results – Exhibit 2

Montana-Dakota experienced overall success with the number of participants at 74 percent, dk savings at 64 percent of the budgeted level, and expenses at 72 percent of the budgeted level. The Company’s portfolio of natural gas conservation programs in 2024 are summarized below and shown in Exhibit 2 in detail.

	2024			
	Actual	Budget	Difference	% Budget
Participants	493	665	(172)	74.1%
Expense	\$102,323	\$141,575	(\$39,252)	72.3%
Dk Savings	5,622	8,759	(3,137)	64.2%

The annual savings of 5,622 dk from the 2024 programs equates to 101,030 dk over the project life of the installed equipment. The results of the 2024 program are provided in the table below:

Programs	2024			Cost/Dk	Lifetime Dk Savings
	Participants	Cost	Dk Savings		
Residential Program					
Furnaces - 95+% AFUE - New	62	\$11,636	382	\$30.46	7,640
Furnaces - 95+% AFUE - Repl.	200	75,072	3,936	19.07	78,720
Programmable Thermostats - Tier 1	63	1,183	145	8.16	1,450
Programmable Thermostats - Tier 2	160	11,993	996	12.04	9,960
Total Residential	485	\$99,884	5,459	\$18.30	97,770
Commercial Program					
Furnaces - 95+% AFUE - New	3	563	18	\$31.28	360
Furnaces - 95+% AFUE - Repl.	5	1,876	145	12.94	2,900
Custom Efficiency	0	0	0	0.00	0
Total Commercial	8	\$2,439	163	\$14.96	3,260
Total Programs	493	\$102,323	5,622	\$18.20	101,030

The residential programs achieved 80 percent of budgeted dk savings with expenses of 76 percent of budgeted expense. The commercial programs achieved 9 percent of budgeted dk savings with expenses of 12 percent of budgeted expense.

Montana-Dakota did see reduced participation in the 2024 program year. Participation in the commercial program has fluctuated each year, however the most significant decrease in participation has been the residential new construction program which has been dropping since 2021. The Company has identified the following factors that are contributing to lower participation in the programs:

- In 2021, the new construction rebate was reduced from \$300 to \$150.
- Inflation in furnace prices is causing residents and businesses to defer replacement of their furnace until it fails.
- Fewer homebuilders participating in the program.

The Company promoted the programs through bill inserts, billboard advertising and also conducted a targeted online advertising campaign. The Company has also kept open communication with the HVAC dealers as they are a major key in promoting the programs.

Labor costs for South Dakota gas conservation were slightly higher than budgeted in 2024 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 rebate offers 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 2024 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. Custom Efficiency had zero participation in 2024.

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 2024 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.38	3.32	3.63	4.19	1.85
Furnace (95+%) - New	Residential	1.11	2.15	4.13	4.39	1.99
Furnace (95+%) - Replacement	Residential	1.38	3.44	3.72	4.37	1.87
Programmable Thermostats - Tier 1	Residential	1.61	4.96	4.71	5.19	2.76
Programmable Thermostats - Tier 2	Residential	1.38	3.33	2.57	3.10	1.51
Furnace (95+%) - New	Commercial	1.54	2.17	4.13	3.72	2.01
Furnace (95+%) - Replacement	Commercial	2.56	5.13	4.90	3.44	2.37
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, 2025 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 2025 projected activity. This will establish a CTA rate of \$0.016 per dk to be effective for rate schedules 60, 70, and 72 on March 1, 2025.

Exhibit 3, page 1, summarizes the activity for the period January 1, 2024 through December 31, 2024, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2024 in the CTA account was an over recovery of \$32,857 and the estimated balance as of February 28, 2025 is an over recovery of \$36,141 which includes the DSM incentive of \$10,054 authorized in Docket No. NG24-002.

2024 DSM Incentive – Exhibit 4

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$8,498 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 8.305 percent. Montana-Dakota incurred \$102,323 in program costs from January 1, 2024 through December 31, 2024 which equates to a calculated incentive of \$8,498, as shown in Exhibit 4. A trade secret version of Exhibit 4 providing the capital structure is also submitted.

2025 Portfolio and Budget – Exhibit 5

The 2025 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 2025 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2025. 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 2025 program year from its three-year portfolio authorized in Docket No. NG23-025.

	2025		
	Participants	Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	130	\$19,500	741
Furnaces - 95+% AFUE - Replacement	250	75,000	4,900
Programmable Thermostats - Tier 1	70	1,050	161
Programmable Thermostats - Tier 2	195	11,700	1,131
Total Residential	645	\$107,250	6,933
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	9	\$1,350	41
Furnaces - 95+% AFUE - Replacement	20	6,000	368
Custom Efficiency	3	9,000	1,500
Total Commercial	32	\$16,350	1,909
Administration and Promotion 1/		\$20,500	
Total Programs	677	\$144,100	8,842

Montana-Dakota calculates its projected 2025 minimum incentive to be \$7,205 and its incentive cap at \$11,968 based on the projected 2025 budget above and Montana-Dakota's authorized rate of return in Docket No. NG23-014.

Summary

The proposed CTA rate applicable to service under Rates 60, 70 and 72 is \$0.016 per dk, or an increase of \$0.002 per dk from the currently authorized CTA for South Dakota customers. The estimated annual increase for a residential customer using 70 dk annually is \$0.14. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2025.

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
Vice President 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
Vice President of Regulatory Affairs

Attachments
cc: B. Koenecke