



*A Subsidiary of MDU Resources Group, Inc.*

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January 29, 2026

Ms. Leah Mohr  
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. NG26-\_\_\_\_\_**

Dear Ms. Mohr:

Montana-Dakota Utilities Co. (Montana-Dakota or Company) 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, 2026.

The proposed CTA rate, applicable to service under Rates 60, 70, and 72, equates to \$0.012 per dk, or a reduction of \$0.004 per dk from the currently authorized CTA rate. The decrease is attributed to an over recovery in the CTA account balance along with lower expenses in 2025.

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, 2026:

- 2<sup>nd</sup> 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 2025:

#### 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.

### **2025 Program Results – Exhibit 2**

Montana-Dakota experienced some success with the number of participants at 53 percent, dk savings at 49 percent of the budgeted level, and expenses at 56 percent of the budgeted level. The Company's portfolio of natural gas conservation programs in 2025 are summarized below and shown in Exhibit 2 in detail.

	2025			
	Actual	Budget	Difference	% Budget
Participants	356	677	(321)	52.6%
Expense	\$80,770	\$144,100	(\$63,330)	56.1%
Dk Savings	4,322	8,842	(4,520)	48.9%

The annual savings of 4,322 dk from the 2025 programs equates to 77,840 dk over the project life of the installed equipment. The results of the 2025 program are provided in the table below:

Programs	2025			Cost/Dk	Lifetime
	Participants	Cost	Dk Savings		Dk Savings
Residential Program					
Furnaces - 95+% AFUE - New	44	\$8,829	283	\$31.20	5,660
Furnaces - 95+% AFUE - Repl.	143	57,390	2,946	19.48	58,920
Programmable Thermostats - Tier 1	35	702	80	8.78	800
Programmable Thermostats - Tier 2	123	9,835	780	12.61	7,800
Total Residential	345	\$76,756	4,089	\$18.77	73,180
Commercial Program					
Furnaces - 95+% AFUE - New	2	402	10	\$40.20	200
Furnaces - 95+% AFUE - Repl.	9	3,612	223	16.20	4,460
Custom Efficiency	0	0	0	0.00	0
Total Commercial	11	\$4,014	233	\$17.23	4,660
Total Programs	356	\$80,770	4,322	\$18.69	77,840

The residential programs achieved 59 percent of budgeted dk savings with expenses of 54 percent of budgeted expense. The commercial programs achieved 12 percent of budgeted dk savings with expenses of 18 percent of budgeted expense.

Montana-Dakota experienced reduced participation in the 2025 program year, specifically in the Residential Program, which declined across all categories. Although overall participation declined, the Commercial Program had a slight increase from 2024 driven by growth in the furnace replacement category. As referenced in the Company's 2024 filing, the following factors continue to be the main drivers for declining participation since 2023:

- 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.

Later this year, Montana-Dakota will file an updated triennial portfolio for 2027–2029. This filing will provide an opportunity to realign participation budgets with historical program performance and explore enhancements to residential and commercial heating programs. Specifically, the Company is considering a two-tiered furnace rebate structure and will evaluate the cost-effectiveness of offering a higher rebate for furnaces with an AFUE rating of 97% or greater.

The Company promoted the programs through bill inserts, billboard advertising and also conducted a targeted online advertising campaign. The Company has also engaged with HVAC dealers as they are a major key in promoting the programs. Montana-Dakota sent a direct mailing to HVAC dealers in the South Dakota service territory regarding the programs.

Labor costs for South Dakota gas conservation were slightly lower than budgeted in 2025. 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 2025 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 2025.

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 2025 are provided in the table below:

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.47	3.46	3.90	4.39	2.02
Furnace (95+%) - New	Residential	1.17	2.24	4.27	4.69	2.08
Furnace (95+%) - Replacement	Residential	1.46	3.60	4.07	4.65	2.09
Programmable Thermostats - Tier 1	Residential	1.66	4.86	4.69	5.34	2.78
Programmable Thermostats - Tier 2	Residential	1.44	3.38	2.68	3.26	1.60
Furnace (95+%) - New	Commercial	1.32	1.74	3.32	3.36	1.62
Furnace (95+%) - Replacement	Commercial	2.40	4.31	4.23	3.13	2.07
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, 2026 shown on Exhibit 3, page 1 consists of the following components: the estimated true-up balance in the CTA account balance, the DSM incentive established in Docket No. NG09-001 and as modified in Docket No. NG14-007, and the 2026 projected activity. This will establish a CTA rate of \$0.012 per dk to be effective for rate schedules 60, 70, and 72 on March 1, 2026. Exhibit 3, page 1, summarizes the activity

for the period January 1, 2025 through December 31, 2025, with the monthly detail on page 2 and a summary by program on page 3. The beginning balance as of January 1, 2025 in the CTA account was an over recovery of \$20,742 and the estimated balance as of February 28, 2026 is an over recovery of \$66,966 which includes the DSM incentive of \$8,498 authorized in Docket No. NG25-001.

#### **2025 DSM Incentive – Exhibit 4**

Pursuant to Rate 90, Montana-Dakota has included DSM financial performance incentives in the amount of \$7,205 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 \$80,770 in program costs from January 1, 2025 through December 31, 2025 which equates to a calculated incentive of \$6,708, as shown in Exhibit 4. Since the calculated incentive is less than the authorized minimum incentive approved in NG14-007, the authorized minimum was applied as the total program incentive amount. A trade secret version of Exhibit 4 providing the capital structure is also submitted.

#### **2026 Portfolio and Budget – Exhibit 5**

The 2026 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 2026 portfolio of programs and determined the portfolio to be cost-effective using projected gas costs for the year 2026. 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 2026 program year from its three-year portfolio authorized in Docket No. NG23-025.

	Participants	2026 Cost	Dk Savings
<u>Residential Program</u>			
Furnaces - 95+% AFUE - New	140	\$21,000	798
Furnaces - 95+% AFUE - Replacement	250	75,000	4,900
Programmable Thermostats - Tier 1	70	1,050	161
Programmable Thermostats - Tier 2	200	12,000	1,160
Total Residential	660	\$109,050	7,019
<u>Commercial Program</u>			
Furnaces - 95+% AFUE - New	10	\$1,500	45
Furnaces - 95+% AFUE - Replacement	20	6,000	368
Custom Efficiency	3	9,000	1,500
Total Commercial	33	\$16,500	1,913
Administration and Advertising 1/		\$21,000	
Total Programs	693	\$146,550	8,932

Montana-Dakota calculates its projected 2026 minimum incentive to be \$7,328 and its incentive cap at \$12,171 based on the projected 2026 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 \$0.012 per dk, or a reduction of \$0.004 per dk from the currently authorized CTA for South Dakota customers. The estimated annual decrease for a residential customer using 70 dk annually is \$0.28. Montana-Dakota requests Commission approval of the CTA to be effective with service rendered on and after March 1, 2026.

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 and underlining 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:

Tyler J Culbertson  
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/ Tyler J Culbertson*

Tyler J Culbertson  
Director of Regulatory Affairs

Attachments  
cc: B. Koenecke