
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: DARREN KEARNEY
RE: NG26-001 - In the Matter of the Filing by Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc., for Approval of Its Revised Conservation Tracking Adjustment
DATE: February 20, 2026

BACKGROUND

On January 29, 2026, MDU filed an updated Conservation Tracking Adjustment (“CTA”) rate and the associated Conservation Program Tracking Mechanism Rate 90 tariff sheet for Commission review and approval. MDU proposed a CTA rate of \$0.012 per dekatherm (“dk”) to be effective March 1, 2026. The proposed CTA rate is a reduction of \$0.004 per dk from the current CTA rate of \$0.016 per dk.

MDU’s filing also includes a review of the results for 2025 and the performance incentive to be recovered in 2026. The CTA rate proposed in this filing is also linked with docket NG23-025, where the Commission approved MDU’s Natural Gas Conservation Portfolio Plan (“Plan”) and budgets for the years 2024 through 2026. The budget for the final year of the Plan (i.e. program year 2026) is included in the CTA rate to be effective March 1, 2026.

The purpose of this memo is to highlight Staff’s recommendation, which deviates from MDU’s initial request that sought approval of a CTA rate set at \$0.012 per dk. Staff recommends the Commission set the CTA rate at \$0.007, with an effective date of March 1, 2026.

STAFF’S ANALYSIS

MDU’s cover letter does a nice job of summarizing the Plan’s results for 2025. As such, Staff will not provide a detailed summary of the participation, spending, and energy savings achieved during 2025 herein. The Plan did achieve a Total Resource Cost (“TRC”) result of 2.02 in 2025, indicating that the benefits derived from energy savings achieved during the year were greater than the costs of the Plan. However, Staff will note that in 2025 the Plan achieved approximately 50% of the original goals that were approved in docket NG23-025. The 2025 results, coupled with the lower participation rates experienced in 2024, indicated to Staff that the Plan’s budget may need to be revised for 2026.

In response to Staff Data Request 1-2, MDU acknowledged that participation and spending levels are lower than originally planned. The company also indicated they are willing to reduce the budget for 2026 to better align with the participation levels experienced over the past two years. Given this, the company proposed a \$36,900 budget reduction, which would result in a CTA rate of \$0.007 per dk. Table 1, below, provides the proposed budget change for 2026 and shows how the proposed budget better aligns with participation levels experienced in 2024 and 2025.

Table 1. Proposed Budget and Participation Level for 2026

	Cost			Participants			Historical Participation	
	2026 Approved	2026 Proposed	Change	2026 Approved	2026 Proposed	Change	2025	2024
Residential Programs								
Furnaces - New	\$ 21,000	\$ 10,500	\$ (10,500)	140	70	(70)	44	62
Furnaces - Replacement	\$ 75,000	\$ 60,000	\$ (15,000)	250	200	(50)	143	200
Thermostats - Tier 1	\$ 1,050	\$ 900	\$ (150)	70	60	(10)	35	63
Thermostats - Tier 2	\$ 12,000	\$ 9,000	\$ (3,000)	200	150	(50)	123	160
Total Residential	\$ 109,050	\$ 80,400	\$ (28,650)	660	480	(180)	345	485
Commercial Programs								
Furnaces - New	\$ 1,500	\$ 750	\$ (750)	10	5	(5)	2	3
Furnaces - Replacement	\$ 6,000	\$ 4,500	\$ (1,500)	20	15	(5)	9	5
Custom Efficiency	\$ 9,000	\$ 3,000	\$ (6,000)	3	1	(2)	0	0
Total Commercial	\$ 16,500	\$ 8,250	\$ (8,250)	33	21	(12)	11	8
Admin & Advertising	\$ 21,000	\$ 21,000	\$ -					
Total Programs	\$ 146,550	\$ 109,650	\$ (36,900)	693	501	(192)	356	493

Minimum Incentive (5% of Budget)	
2026 Approved \$	7,328
2026 Proposed \$	5,483

Also provided in Table 1 is the minimum incentive level MDU would be eligible to receive for the Plan in 2026 if the incentive calculated using actual spend (i.e. actual spend x Weighted Average Cost of Capital) comes in less than the minimum amount. The reduced budget results in a lower minimum incentive amount if performance in 2026 is lower than expected.

MDU indicated that the Plan will remain cost effective with a lower budget for 2026.¹ Table 2 provides the forecasted benefit/cost test results with participation levels at 50% of the currently approved levels. The TRC for the Total Portfolio is forecasted to be 1.57.

Table 2. Benefit/Cost Test Results for 2026 at 50% of Currently Approved Goals

Program	Customer Class	RIM	Utility	Societal	Participant	Total Resource Cost
Total Portfolio		1.35	2.89	3.03	3.43	1.57
Furnace (95+%) - New	Residential	1.10	2.00	3.80	4.26	1.86
Furnace (95+%) - Replacement	Residential	1.43	3.43	3.90	4.52	2.00
Programmable Thermostats - Tier 1	Residential	1.66	4.92	4.75	5.40	2.81
Programmable Thermostats - Tier 2	Residential	1.39	3.09	2.46	3.04	1.47
Furnace (95+%) - New	Commercial	1.19	1.55	2.98	3.16	1.44
Furnace (95+%) - Replacement	Commercial	2.01	3.20	3.14	2.43	1.53
Custom Efficiency	Commercial	0.00	0.00	0.00	0.15	0.00

Staff notes that 2026 is the final year of the currently approved three-year Plan and MDU will be filing an updated Plan for Commission review and approval later this year. As such, Staff did not consider

¹ See Staff Data Request 1-5(c).

revisions to the measures offered in the Plan for 2026. Staff did, however, review the benefit/cost models for 2026 and concludes that the measures offered in the Plan for 2026 should continue to be cost effective if participation levels occur as expected.

RECOMMENDATION

Based on the above, Staff recommends the Commission:

- 1) set the 2026 budget at \$109,650 as set forth in Table 1 above;
- 2) approve the DSM Performance Financial Incentive of \$7,205;
- 3) approve a CTA rate of \$0.007 per dk with an effective date of March 1, 2026; and
- 4) order MDU to file a revised Rate 90 tariff sheet to reflect the CTA rate as approved by the Commission.