

JUN 09 2006

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION Public Service Commission
Wyoming

IN THE MATTER OF THE TARIFF)	
FILING OF MONTANA-DAKOTA)	
UTILITIES CO. FOR APPROVAL OF)	Docket No. 30013-166-GT-05
CONSERVATION PROGRAMS AND)	Record No. 10242
CONSERVATION TRACKING)	
ADJUSTMENT MECHANISMS)	

COMMENTS, CONCERNS, AND SUGGESTIONS OF THE
WYOMING OFFICE OF CONSUMER ADVOCATE
(Filed June 9, 2006)

Introduction and Background

On November 14, 2005, Montana-Dakota Utilities (MDU) filed an application for consideration and approval of a portfolio of Natural Gas Conservation programs and for approval of a Conservation Tracking Adjustment. The proposed conservation programs focused on opportunities that could be implemented on a near-term basis while providing savings over a longer-term basis. Accompanying its proposed conservation program portfolio are the results of several benefit-cost ratios, presumed to show that MDU's proposal is cost effective for both participants and non-participant customers of the conservation measures.

On December 2, 2005, the Office of Consumer Advocate (OCA) filed its Notice of Intervention. Since intervening, the OCA has issued a series of data requests to MDU, received information in response to its inquiries, and held discussions with Company representatives. It is not the OCA's intent to request a hearing in this proceeding, but we would participate if a hearing were determined to be necessary. In the absence of a hearing, we herein offer our thoughts on this matter for the Commission's consideration as it discusses and deliberates this application.

The conservation programs contained within the proposed portfolio are:

- a. Customer Conservation Starter Kits,
- b. Residential/Small General Service On-Line Energy Audits,
- c. High-Efficiency Furnace Incentives,
- d. High-Efficiency Boilers Incentives,
- e. High-Efficiency Water Heater Incentives, and
- f. Programmable Thermostats Incentives.

MDU proposes that the cost of the above-listed incentives and conservation information be totaled and then surcharged to all customers, on a per decatherm basis, over a twelve-month period beginning May 1st of each year. Also reflected in the surcharge calculation would be the savings associated with these incentive and informational programs. The third element of the surcharge calculation would be the lost distribution revenues related to the implementation of the conservation measures. This calculation and proposed implementation is further described in MDU's proposed Conservation Program Tracking Mechanism Rate 90.

The OCA has four primary areas upon which it wishes to comment:

1. Are the conservation measures and incentives that MDU has proposed for inclusion in its portfolio the most appropriate measures given the nature of the service territory and the customer mix?
2. Do the benefit-cost ratios properly show that all MDU customers, whether participants in the program or not, will benefit from the implementation of the Conservation Program Tracking Mechanism?
3. Is there a way to appropriately measure the program costs, savings, and lost revenues directly associated with it?
4. What is the appropriate level of oversight that the Commission should incorporate into this proposed conservation program and what reporting requirements might be helpful for that continuing oversight?

Is the proposed portfolio appropriate?

In Attachment B to the application, MDU has estimated the number of customers who would be eligible for each of the proposed conservation measures, as well as the number of customers likely to participate. The information shows that 73% of the residential customers have forced air heating, 12% of residential customers have gas boilers, 85% of residential customers have gas water heaters, and 75% of residential customers would be eligible for a programmable thermostat. It appears, with the possible exception of the gas boilers, that the majority of customers could benefit from the program if they chose to become participants.

We do note that these programs are generally targeted at residential customers and that those customers would be the most likely to benefit from the targeted programs. However, as we understand the program, all customers

would be subject to the Conservation Program Tracking surcharge. If the Commission chooses to approve the program generally as proposed, we suggest that MDU look in future periods at the potential of offering incentives that would be more targeted toward commercial customers. This would provide a more appropriate matching of the costs and benefits between types of customers.

Do the benefit-cost ratios support the implementation of the proposal?

On Attachment B, page 2 of the application, MDU summarizes the results of the four benefit cost ratios that it ran regarding the incentives it proposes to offer for the purchase of more efficient appliances. Based on MDU's own analysis, the incentives for the purchase of high efficiency boilers is the least cost effective, but still passes the Ratepayer Impact and the Utility Impact tests, while failing the Societal and the Participant test. It is common practice for regulators to focus more on the Ratepayer Impact and Utility Impact tests than the two other tests shown. However, one must wonder why the proposed rebate for the purchase of efficient boilers would provide an incentive to customers if the participating customer would not even directly benefit from the purchase. It certainly makes us question whether this incentive should be included as a proper piece of the proposed conservation portfolio.

The OCA is also concerned about a few of the assumptions that were used in computing the benefit-cost ratios. For example, Attachment A, page 4 of the application states that the typical cost of a programmable thermostat ranges from \$50 to \$100, and that MDU proposes to offer a \$20 incentive for the purchase and installation of such a thermostat. Our experience is that such a thermostat can be purchased for far less than \$50 to \$100. While the lower cost might increase the amount of participation in the program, it also raises the question of whether a \$20 incentive is warranted or necessary.

Cost of gas assumption is also one that is worthy of further consideration. The work-papers provided as part of the data responses to the OCA show that the benefit-cost calculation assumptions included a cost of gas (including commodity pipeline costs) of \$8.34 per decatherm, with a further assumed escalation rate of 1.40%.

On February 17, 2005, MDU provided the OCA the results of a sensitivity analysis based on a range of natural gas costs. This document is provided as an attachment to these comments. Focusing on the Water Heaters benefit-cost column, the sensitivity shows that MDU's proposed incentive is not a benefit to the general body of ratepayers, or the utility, at a \$4 gas price, and is basically a break-even proposition at each of the scenarios other than when the gas price is at nearly \$8 per decatherm. This causes us to wonder whether the water heating aspects of the proposal should be implemented for such small computed benefits, especially given the great number of additional assumptions that are

included in the benefit-cost computation. These assumptions include: participation rates, commodity costs, sales growth, administrative costs, and more.

How will costs, savings and lost revenues be measured?

The application does not provide any significant discussion of how the decatherm savings associated with the request to recover the lost revenue will be measured. In follow-up inquiries, MDU provided the following response:

The actual dk savings related to the conservation program will not be identifiable. The Company's proposal is to calculate the dk savings by applying the gain in efficiency for each measure over the base efficiency shown below, to the average heating use or water heating use, as applicable, multiplied by the actual number of units installed.

Furnace use	78% base efficiency	77 dk base average
Boiler use	80% base efficiency	77 dk base average
Water Heater use	57% base efficiency	26 dk base average
Prog. Thermst. use	5% savings	77 dk base average

While this response is not entirely satisfactory, given the averaging and numerous other assumptions that it contains, the OCA is not challenging this provision of the proposal at this time. Indeed, basing it on this targeted set of reduced usage/lost revenue may be better than basing any lost revenue recovery on actual reduced usage, particularly in light of the industry trend of decreasing average customer usage. If the decline in average usage continues, using actual decreases in usage would allow for recovery of more lost usage than only that associated with this program.

The broader policy question is whether it is desirable to implement, in this setting, a provision that allows for recovery of lost revenues through a surcharge to all customers. In pondering this question, we ask the Commission to carefully consider the nature of the costs and the current rate design. The whole reason that a utility, including MDU, seeks this form of decoupling, is that it is recovering fixed costs from a variable/usage-based rate element. If only variable costs were lost due to reduced usage, the utility would be indifferent about whether customers used less or not. It is only because fixed costs are being recovered through usage-based rates that a customer's level of usage matters. MDU has informed the OCA that about 99% of its non-gas costs are fixed in nature. Yet, MDU's current rate design is not reflective of that fixed-variable cost relationship.

If the Commission were to approve the program, including the provision for recovery of lost revenues, the OCA suggests that the Commission also consider encouraging future rate design changes that are more reflective of costs. Otherwise, larger use customers may be paying more than their share of costs, and the proposed surcharge simply aggravates that situation, since they would be paying more for each unit of use. Meanwhile, smaller customers who participate in the program, who already may be paying less than the cost to serve them, could shift even more costs to the larger users.

What oversight and reporting requirements would be appropriate?

If the Commission chooses to approve this proposed conservation application, the OCA asks that the Commission consider whether this matter might best be monitored with periodic reporting. For instance, the Commission should have some oversight into the types of future incentives or expenditures that may be added and for which recovery will be sought. We hope that the few incentives that are proposed in this filing will not be the only ones offered and that MDU, in conjunction with the Commission and/or other interested parties, will look at other potentially cost effective measures. But, MDU should not have advanced carte blanche approval regarding the inclusion of additional program elements.

In conjunction with this recommendation, some reporting would be useful in order to see how well the current assumptions measured up to actual experiences, before more untested assumptions are made and approved. Thus, we suggest that some reporting of the success of the program, such as a comparison between the assumptions and the actual results, be incorporated into each annual filing requesting the new annual surcharge.

Conclusion and Suggestions

The OCA is not opposed to the implementation of voluntary conservation programs sponsored by utilities. We are also not opposed to the recovery of reasonable, prudent costs associated with such a program. But, when determining whether to approve, deny, or modify MDU's requested conservation program, we ask that you consider the following suggestions:

- If the program is approved, encourage the inclusion of cost-effective programs for commercial customers as well as residential customers.
- Consider whether it continues to be cost-effective and appropriate to include programmable thermostats based on a more realistic purchase cost.

- Determine whether the inclusion of the Water Heater incentive as an element of the program makes sense given the reduction in natural gas prices that has occurred since the time the proposal was filed.
- Consider the impact that the current rate design has on the need for a provision to recoup lost revenues.
- Consider adding an interest component to MDU's conservation tracker at a rate that is no less than the rate applied to customer deposits.
- Consider changing the tariff language for Rate 90, replacing "prior 12 month period" with "the most recent March through February 12-month time period."
- Consider changing the tariff language for Rate 90, replacing the provision for billings on and after each May 1st with *usage* on and after each May 1st.
- Consider implementing the proposal on an experimental or trial basis while one or two years of data can be gathered to determine its longer run cost effectiveness.
- Consider requiring some regulatory input/approval before new conservation measures are incorporated into the program and before the associated costs are eligible for cost recovery.
- Consider requiring an annual report that includes a comparison of assumptions versus actual experiences, for items such as the participation rate and other key assumptions.

The OCA appreciates your consideration of our input into this matter. We would be pleased to provide additional input, or answer any of the Commission's questions at a time and forum established by the Commission.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

I hereby certify that on June 9, 2006, I served the foregoing COMMENTS, CONCERNS, AND SUGGESTIONS OF THE WYOMING OFFICE OF CONSUMER ADVOCATE by delivering copies thereof to the individuals/entities below, by the method(s) indicated.

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