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Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

PUBLIC SERVICE COMMISSION

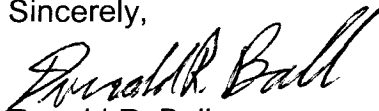
Re: Workshop on Cost/Benefit Analysis
Case No. PU-08-884

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits its comments in response to the North Dakota Public Service Commission's (Commission) Notice of Workshop on Cost/Benefit Analysis issued on November 20, 2008.

Montana-Dakota appreciates the opportunity to participate in this process as the Commission considers an Electric Demand Side Management Rulemaking. Montana-Dakota personnel will be attending the workshop scheduled for January 5, 2009 and look forward to further discussion of the issues identified by the Commission.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Donald R. Ball
Vice President – Regulatory Affairs

Attachment

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Public Service Commission
Electric Demand Side Management
Rulemaking**

Case No. PU-08-884

**Montana-Dakota Utilities Co.'s Comments Filed in Response to the Public
Service Commission's Notice of Workshop on Cost/Benefit Analysis**

1. What policy goals and objectives should the Commission consider when considering energy efficiency programs?

- **Should the Commission consider the use of energy efficiency as a resource in addition to building additional power plants in order to meet future energy needs?**

Yes. Cost effective energy efficiency programs commonly referred to as Demand-Side Management resources should be considered as part of an electric utility's portfolio of resource options.

Montana-Dakota files an Integrated Resource Plan (IRP) with the Commission on a biennial basis pursuant to the North Dakota Public Service Commission's (Commission) Order issued in Case No. 10,799. In that Order, the Commission required the Company to file a Least Cost Plan incorporating a future demand forecast, assessment of supply-side options, assessment of demand-side options, a comparison of the cost-effectiveness of all demand and supply-side options and finally the resource mix of those investments that will provide service at the least possible cost.

Montana-Dakota's most recent Plan was filed with the Commission on July 1, 2007 where a portfolio of resource options including supply-side and demand-side resources was presented.

- **If so, should energy efficiency programs need to produce cost effective, firm energy savings?**

Yes. Direct impact programs included as part of a provider's portfolio of resources should produce quantifiable energy or demand savings

estimates that cause the program to be cost effective. Energy and demand savings estimates are inherent to energy efficiency evaluation as it involves assessing energy that was used compared to energy that would have been used during the same period if the efficiency measure(s) had not been installed.

Indirect impact programs such as education and market transformation programs typically do not have quantifiable energy savings but should be included as part of a portfolio of programs that in total are cost effective.

As with supply side resource options, the degree to which a resource may be considered to produce quantifiable energy savings should be accounted for in the cost effectiveness evaluation.

- **Should energy efficiency programs be used to achieve both energy and demand reductions?**

Yes. Energy efficiency programs may be utilized to achieve both energy and demand reductions, keeping in mind certain programs will more readily affect energy usage while other programs will be targeted to demand reductions. For example, an interruptible demand response rate program providing the utility the opportunity to interrupt a customer's usage during system peaking conditions should be evaluated based on avoided capacity. Since an interruptible rate program produces limited energy savings, the program is similar to a peaking facility and not a base load facility designed to produce energy and provide capacity on a daily basis.

- **Should energy efficiency programs provide immediate and dependable energy savings supplied throughout the relevant lifetime of the program?**

Yes. The implementation period, reliability and expected life of the resource should be considered as factors in evaluating the program. In most cases the benefits of the efficiency measures exceed the expected life of the programs as participants are not going to revert back to less efficiency and codes and standards typically increase over time.

- **Should energy efficiency programs address efficiency improvements in a comprehensive manner in order to make the most cost-effective use of energy efficiency expenditures?**

The portfolio of programs to be offered by a utility must be evaluated as part of the integration process in an Integrated Resource Plan to determine the best fit for each utility and the demographics of the customers served by that utility.

- **Should program proposals provide an analysis of anticipated impact on low-income consumers?**

Cost tests used to evaluate programs should consider the impact to all customers (participants and non-participants), the utility and society.

- **Should program proposals target customers residing in structures most in need of efficiency improvements?**

In theory, programs designed to affect structures, should be targeted to those structures most in need of efficiency improvements. As a practical matter, the programs may not be cost effective as the cost of such programs may be greater than the anticipated savings.

2. What benefit / cost tests should the Commission use for reviewing energy efficiency and load management programs?

There is no single best test for evaluating the cost-effectiveness of energy efficiency. Each of the commonly used benefit/cost tests for energy efficiency provides different information about the impacts of the measure from distinct vantage points. Together they provide a comprehensive approach.

Montana-Dakota performs four benefit/cost tests as part of its evaluation process in its Integrated Resource Plan: 1) the Participant Test considers the economic impact of a program on the participating customers, 2) the Utility Test considers the economic impact on the utility, 3) the Societal Cost Test (similar to the Total Resource Cost Test) considers the economic impact on both the participants and the non-participants and includes the cost of quantifiable environmental and non-energy benefits and 4) the Ratepayer Test considers the economic impact of a program on all customers and is the most restrictive of all the benefit / cost tests.

Montana-Dakota considers only those programs providing a benefit/cost ratio greater than one under the Ratepayer Test as feasible

programs that will be considered for further evaluation. The feasible programs are then further evaluated considering the results of the other tests and factors such as barriers to implementation.

3. What policy goals should the Commission use to evaluate the results of the benefit cost tests?

- **Reducing or postponing future construction of generation**
- **Reducing or postponing future reservation of capacity on natural gas transmission pipelines**
- **Mitigation of customer bill increases**

The overall objective for energy efficiency benefit/cost tests is to evaluate the net benefits of the measures as they relate to providing the best cost resource options for customers that will, in the long run, lead to the mitigation of customer bill increases. In addition to those noted above, the policy objectives below are also appropriate to consider when evaluating the benefits of the demand-side management resource.

- Reducing market purchases or fuel and operation and maintenance costs,
- Capacity reserves obligations and system losses and
- Ancillary service market opportunities.

4. How should educational programs be treated?

Educational programs and indirect impact programs should be considered on an individual basis taking into account their ability to remove market barriers, transform the market, and the impact on the cost effectiveness of the portfolio of energy efficiency measures.

5. How should the Commission evaluate energy efficiency programs after implementation and what percentage of costs should be allowed for evaluation?

Montana-Dakota advocates that internal assessment is appropriate with reporting requirements to provide information necessary to evaluate programs on an ongoing basis. If this approach is adopted by the Commission, evaluation would be a part of the administrative costs associated with each program.

As a general rule and as discussed in the International Performance Measurement and Verification Protocol (IPMVP) the measurement and verification costs should not exceed 10% of the energy savings.

6. Dynamic pricing, which is a means of achieving demand response through rate designs that reflect the time-varying nature of utility power production costs, can be used to influence customer behavior using price signals. Dynamic pricing may be coupled with advanced metering infrastructure or with less costly interval metering systems.

- **What dynamic pricing programs are already available to North Dakota customers, such as time-of-use rates, critical peak rates, seasonal price differentials, and payments to customers to curtail their usage?**

Montana-Dakota's generally available rate schedules currently reflect cost differentials signaling the seasonal nature of Montana-Dakota's load curve. Montana-Dakota also offers several schedules on an optional basis including time of day rates (with two rate periods designated as on peak and off peak) and interruptible demand response rates where customers are available, upon request by the Company, to disconnect from the electric system with payment to the customer in the form of a reduced demand charge.

- **What benefit cost tests should the Commission use to evaluate Demand response programs for approval?**

The cost/benefit tests described previously should be used to evaluate demand response programs on a case by case basis for each utility.

- **How should companies address the effects on the elderly, low-income or handicapped customers who may be unable to easily shift or curtail energy use?**

Program costs, including bill impacts, should be considered when evaluating potential programs. The potential for a program to be cost effective as a voluntary program is a consideration in addressing impacts to specific customer groups.

7. Other issues that participants may raise concerning policies and methodologies for evaluating electric utility energy efficiency and load management programs.

Energy efficiency and load management programs should be considered as part of an electric utility company's portfolio of resource options. While consistent cost/benefit tests are appropriate, the resource portfolio should be utility specific. Timely cost recovery of program costs deemed to be cost effective and appropriate as part of a portfolio of resources is critical to the success and support of programs.

Cost recovery mechanisms for demand-side management programs should also be utility/program specific and should include a provision to remove the financial disincentive for pursuing energy efficiency as a resource option. Mechanisms that can be used are lost margin recovery, decoupling provisions, performance incentives and capitalization of program costs. For example, it may be more appropriate to capitalize certain larger scale, longer term projects to provide utilities the opportunity to earn a return on the demand-side management programs similar to a supply-side resource.