**Montana-Dakota Utilities Co.**
**Responses to EITC Staff Questions Regarding Decoupling**
**December 22, 2017**

1) In MDU's perspective what opportunities are provided by implementing decoupling? What are the roadblocks to implementation in your view?

Opportunities

- Decoupling provides the opportunity to stabilize non-gas revenues needed to recover the cost of distributing natural gas to customers. This is beneficial to both the utility and its customers.
- To the extent fixed costs are recovered through a volumetric charge, utilities will not fully recover those fixed costs if the volumes sold or delivered per customer are less than the volumes underlying the volumetric charge. In the event volumes per customer are higher than the volumes used to establish the volumetric charge (typically due to weather), the utility recovers more than required to recover fixed costs.
- Customer conservation in the natural gas business in Montana has been tremendous in recent years. In 2004 residential customers used 94 Dk each year on average assuming normal weather. In our recently filed rate case authorized use per customer has dropped to 80 Dk – a 15% decrease in little more than a decade. This conservation coupled with warmer than normal weather results in an under-recovery of fixed costs that significantly impact the opportunity to earn the return on investment allowed by the Public Service Commission.
- For electric utilities, revenue decoupling can mitigate some of the financial challenges of fully embracing distributed generation as well as addressing customer conservation efforts that result in lower use per customer.

Roadblocks

- Some think of decoupling as an earnings guarantee for the utility which is not the case. Vocal groups with that view could make implementation a challenge.
- In a practical sense implementation of decoupling for MDU would not be expected to pose any significant challenges as we already have decoupling in place in other jurisdictions.

2) What benefits might be realized with decoupling in Montana? What are anticipated drawbacks?

Benefits

- Utilities would be free to pursue as robust of conservation efforts as they'd like or are mandated without fear of not fully recovering costs to serve customers.
- Under a full decoupling scenario, the impact of weather variations would be smoothed.
- Customers would be partially shielded from the effects of unusually cold winters in terms of bill impacts.
- Decoupling could help utilities file for rate cases less frequently as a result of conservation or the effects of distributed generation.
- Excess margins recovered due to higher customer use would be refunded, helping ensure customers are not paying an unnecessary premium for services provided to them.

Drawbacks

- Customer confusion without adequate customer education efforts. Decoupling results in another line on the bill for customers which they may not be familiar with or understand.
- While utilities would no longer face the penalty of lost margin associated with conservation, customers might take the attitude of "what's the point of conserving if the utility is just going to surcharge me the next year?".
    - This challenge is about educating customers to understand approximately 60% of their bill is related to the cost of gas so every conserved Dk still saves them money even with decoupling in place. Equally important is for customers to recognize and understand decoupling can also benefit them, most obviously in cases of extremely cold heating seasons or extremely hot cooling seasons.
- Decoupling requires additional administrative work in terms of calculating and implementing the adjustments as compared to a straight-fixed-variable rate design for instance, which arguably achieves the same goals as decoupling without the need for adjustments or true ups.

3) How would a decoupling policy impact ratemaking?

    - Decoupling might lead to the rate design portion of rate cases being less contentious. The battle for higher basic service charges, for instance, becomes much less important to a utility if non-gas revenues are stabilized through decoupling.

4) What policy changes would be needed as a result of implementing decoupling?

    - The Company is not aware of other policy changes that would be required.

5) Characterize the impact decoupling would have on the utility?

    - Decoupling would positively impact the utility by reducing the volatility in revenue and eliminating traditional rate design's inherent penalty associated with increased energy conservation. Decoupling also has the potential to reduce the frequency of and controversy within rate cases. For these benefits, the utility essentially forfeits the ability to earn excess margin in the event consumption per customer exceeds authorized levels.

6) In our last meeting, the committee examined several mechanisms for decoupling. Is there a specific example that the utility finds favorable to other existing decoupling mechanisms?

    - Montana-Dakota would favor a method similar in design to a full decoupling version of Avista's in Washington.

7) How would decoupling interact with existing energy efficiency policy and programs?

    - Generally, decoupling should only enhance any existing energy efficiency efforts since it removes any disincentive to fully engage in those efforts.

8) In short, list the pros and cons of decoupling in Montana.

- The pros of decoupling include a reduced volatility in a utility's revenues and customer's bills, elimination of utility incentive to increase volumetric sales, and the potential for more infrequent and less contentious rate cases. Cons include customer confusion and added administrative work for utilities and regulators.

9) What, if any, additional considerations need to be part of the decoupling discussion in Montana?

- Montana-Dakota has no additional considerations to offer regarding the decoupling discussion in Montana.