


# Memorandum

To: Darrell Nitschke, Executive Secretary  
From: Victor Schock   
CC: Tamie Aberle  
Date: July 6, 2016  
Subject: Great Plains Natural Gas Co. – Annual Reports

Case Nos. PU-13-172 PU-14-170 PU-14-753 PU-15-106

I recommend the commission close the above captioned cases which are Great Plains Natural Gas Company's North Dakota annual report filings for 2012 through 2015. I will include a motion to close the cases on the July 20, 2016 consent agenda.

Great Plains Natural Gas Company provides natural gas service to about 2191 customers in Wahpeton, North Dakota. Staff has reviewed the company's annual report filings for the years noted above. The company's return on equity has ranged from a low of -1.28% in 2015 to a high of 31.27% in 2013. The company's last rate case where the commission authorized their rate of return was in 1981, due to the large time gap, staff believes the return authorized in that case is no longer relevant to current operations. Therefore, staff has used the more comparable rates authorized to MDU natural gas to make comparisons. With that in mind, the company over earned by about \$123,000 between 2012 and 2015. This is a relatively small amount given the company's revenues collected during that timeframe were about \$17,973,000.

The company's rate of return was lower in 2014 and 2015 due to a mild winter in late 2015 as well as the company putting additional investment into their system in 2014 and 2015.

Due to the low value of overearning and most recent under-earning, staff sees no reason to further investigate and recommends that the commission close the above captioned cases. However, as noted by staff in the past, it will make sense at some point for Montana-Dakota Utilities to merge the Great Plains gas operations with MDU gas operations. Staff recommends this should happen at a time where the rate structures of the two companies are such that there would be minimal effect to the customer bills of either company. Attached are staff generated summaries of Great Plains ND natural gas earnings for the last ten years.

Attachment 1 – Return Calculation	3	<b>PU-15-106</b> Memorandum	Filed: 7/6/2016	Pages: 3
Attachment 2 – Net Operating Income	3	<b>PU-14-753</b> Memorandum	Filed: 7/6/2016	Pages: 3
	2	<b>PU-14-170</b> Memorandum	Filed: 7/6/2016	Pages: 3
	4	<b>PU-13-172</b> Memorandum	Filed: 7/6/2016	Pages: 3

Great Plains Natural Gas Co.  
North Dakota Gas Utility  
Net Operating Income  
(Dollars in Thousands)

<u>Return Earned:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Revenue	\$ 4,303	\$ 4,259	\$ 4,789	\$ 3,191	\$ 3,562	\$ 3,911	\$ 3,363	\$ 4,825	\$ 5,980	\$ 3,804
Cost of Gas	3,570	3,560	4,088	2,457	2,840	3,140	2,508	3,752	5,011	2,876
Net Margin	\$ 733	\$ 699	\$ 701	\$ 734	\$ 722	\$ 771	\$ 855	\$ 1,073	\$ 970	\$ 928
Production Expense	4	4	4	3	4	4	4	4	11	12
Transmission Expense	5	13	11	8	4	13	14	4	6	14
Distribution Expense	237	169	185	182	186	182	229	260	287	277
Customer Acc't Expense	164	83	115	81	81	87	72	69	85	88
Cust Service & Info	3	6	8	5	4	4	6	5	7	8
Sales Expense	14	9	7	5	3	3	4	4	4	4
Admin & General	227	229	217	174	149	163	172	192	201	224
Depreciation	306	114	114	117	118	115	139	132	152	185
Other Taxes	37	39	43	32	42	42	52	54	58	60
Income Taxes	(118)	(5)	(16)	35	35	37	53	152	37	22
Return Earned	\$ (146)	\$ 38	\$ 13	\$ 92	\$ 96	\$ 121	\$ 110	\$ 198	\$ 121	\$ 34
Depreciation Rate	7%	3%	4%	4%	4%	4%	4%	3%	3%	4%
Return Earned on Equity 2/	-64.2%	9.8%	-1.4%	29.8%	34.4%	29.6%	16.9%	31.3%	12.8%	-1.3%
<u>Income Tax Calculation:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Income b/4 Inc Tax	\$ (264)	\$ 33	\$ (3)	\$ 127	\$ 131	\$ 158	\$ 163	\$ 350	\$ 158	\$ 56
Rate Base	\$534	\$448	\$525	\$495	\$453	\$634	\$919	\$1,073	\$1,310	\$1,744
Cost of Debt	3.66%	3.25%	3.16%	3.28%	3.20%	3.11%	2.93%	2.60%	2.62%	2.55%
Interest Deduction	\$20	\$15	\$17	\$16	\$14	\$20	\$27	\$28	\$34	\$45
Net Income after Interest	\$ (284)	\$ 18	\$ (20)	\$ 111	\$ 117	\$ 138	\$ 136	\$ 322	\$ 124	\$ 11
Other Adjustments	\$ (15)	\$ (31)	\$ (21)	\$ (21)	\$ (27)	\$ (42)	\$ 3	\$ 79	\$ (26)	\$ 11
Taxable Income	\$ (298)	\$ (13)	\$ (41)	\$ 89	\$ 89	\$ 96	\$ 139	\$ 401	\$ 99	\$ 22
Combined Tax Rate	39.55%	39.23%	39.23%	39.16%	39.16%	38.35%	38.35%	37.94%	37.94%	100.00%
Income Tax Expense	(\$118)	(\$5)	(\$16)	\$35	\$35	\$37	\$53	\$152	\$37	\$22
Effective IT Rate	45%	-15%	533%	28%	27%	23%	33%	44%	24%	40%

