

Memorandum

To: Commissioners Brian P. Kalk, Randy Christmann and Julie Fedorchak

From: Victor Schock - Public Utility Analyst

Date: August 10, 2016

Re: Montana-Dakota Utilities, Co. 2015 Gas Operations Annual Report

Case No. PU-16-164

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2015. I will include a motion to close the case on the August 17, 2016 consent agenda.

Montana-Dakota Utilities, Co. provides natural gas service to about 108,029 customers in North Dakota. Staff has reviewed the company's annual report filing for 2015. The company's return on equity was 8.09% in 2015. The commission authorized a rate of return of 9.5% in the most recent rate case (PU-15-90). With that in mind, the company under earned by about \$1,266,000 in 2015. Staff believes this under-earning is primarily due to weather. Total usage by Dekatherm in 2015 was lower than total usage in 2011 when MDU had 10% fewer natural gas customers. Additionally, net plant in service/rate base ended up being higher than the company forecasted during the rate case.

Due to the relatively low value of under-earning, staff sees no reason to further investigate and recommends that the commission close the above captioned case. Attached are staff generated summaries of Montana-Dakota Utilities, Co. ND natural gas earnings for the last ten years.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

C: Tamie Aberle, MDU

Montana-Dakota Utilities Co.
North Dakota Gas Utility
Net Operating Income
(Dollars in Thousands)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Operating Revenues	\$122,206	\$105,311	\$139,464	\$113,566	\$99,628	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664
Cost of Gas	99,532	82,212	113,198	88,881	74,119	78,480	58,003	81,268	103,658	72,479
Production				287			271	261	0	0
Other Gas Supply Expense	119	122	125	108	134	112	117	108	227	291
Net Margin	\$22,555	\$22,977	\$26,141	\$24,577	\$25,375	\$25,731	\$26,458	\$29,160	\$36,121	\$37,894
Distribution Expense	\$ 6,546	\$ 6,629	\$ 7,768	\$ 6,477	\$ 6,545	\$ 7,370	\$ 7,668	\$ 8,595	\$ 9,137	\$ 8,941
Customer Accounts Exp	3,108	2,973	2,745	2,588	2,263	2,364	2,159	2,616	2,854	2,494
Customer Service & Info	177	190	247	211	177	191	237	201	245	256
Sales Expense	366	360	313	206	132	168	148	176	160	224
A & G Expense	6,570	6,680	6,906	5,871	5,066	6,261	6,020	6,615	6,751	7,137
Other O&M	\$ 16,767	\$ 16,832	\$ 17,979	\$ 15,353	\$ 14,183	\$ 16,354	\$ 16,232	\$ 18,203	\$ 19,147	\$ 19,053
Depreciation	2,838	2,934	3,027	3,235	3,190	3,520	3,723	4,877	5,868	6,928
Taxes Other Than Income	1,339	1,283	1,479	1,296	1,351	1,500	1,599	1,617	1,638	1,814
Expenses (Lines 6-12)	\$ 20,944	\$ 21,049	\$ 22,485	\$ 19,884	\$ 18,724	\$ 21,374	\$ 21,554	\$ 24,697	\$ 26,653	\$ 27,795
Income Tax Expense	\$ (149)	\$ (88)	\$ 449	\$ 1,029	\$ 1,702	\$ 254	\$ 1,100	\$ 1,028	\$ 2,630	\$ 2,570
Net Operating Income	\$ 1,760	\$ 2,016	\$ 3,207	\$ 3,664	\$ 4,949	\$ 4,103	\$ 3,804	\$ 3,435	\$ 6,838	\$ 7,529

Tax Calculation:

NOI before Income Taxes	\$ 1,611	\$ 1,928	\$ 3,656	\$ 4,693	\$ 6,651	\$ 4,357	\$ 4,904	\$ 4,463	\$ 9,468	\$ 10,099
Rate Base	\$22,885	\$25,254	\$32,159	\$35,392	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261
Weighted Cost of Debt	3.494%	3.073%	3.018%	3.156%	3.087%	3.004%	2.833%	2.510%	2.547%	2.495%
Interest Deduction	\$800	\$776	\$971	\$1,117	\$1,156	\$1,212	\$1,479	\$1,528	\$2,296	\$2,875
Other Tax Adjustments	(\$1,188)	(\$1,376)	(\$1,541)	(\$948)	(\$1,149)	(\$2,483)	(\$557)	(\$225)	(\$240)	(\$425)
Taxable Income	\$ (377)	\$ (224)	\$ 1,145	\$ 2,628	\$ 4,346	\$ 662	\$ 2,869	\$ 2,709	\$ 6,932	\$ 6,799
Combined Tax Rate	39.55%	39.23%	39.23%	39.16%	39.16%	38.35%	38.35%	37.94%	37.94%	37.80%
Income Tax Expense	\$ (149)	\$ (88)	\$ 449	\$ 1,029	\$ 1,702	\$ 254	\$ 1,100	\$ 1,028	\$ 2,630	\$ 2,570

Effective Income Tax Rate -9%

Overall Depreciation Rate 3.4%

25%

3.0%

28%

3.1%

23%

2.8%

6%

3.0%

26%

2.9%

12%

3.1%

-5%

3.3%

22%

3.1%