Memorandum

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

From: Victor Schock - Public Utility Analyst

Date: August 15, 2016

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

Case No. PU-16-165

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 September 7, 2016 consent agenda.

Montana-Dakota Utilities, Co. provides electric service to about 92,606 customers in North Dakota. Staff has reviewed the company's annual report filing for 2015. The company's return on equity was 6.88% in 2015. The commission authorized a 10.75% rate of return in the most recent rate case (PU-10-124). With that in mind, the company under earned by about $17,095,000 in 2015 on total revenue of $181,011,837. Staff believes this under-earning is due to weather and increased investments by MDU. Total usage by Kwh in 2015 was only 0.11% higher than 2014 when customer count was up by 3.81%, in prior years usage increased by roughly the same percentage as customer count if not more. Average rate base for 2015 was 43.4% higher than it was in 2014, which was the most significant driver of the under-earning. This is due primarily to significant investments in generation assets that were put into service in 2015.

Due to recent settlement agreements requiring MDU to file a rate case no later than September 30, 2016, 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 electric earnings for the last ten years.

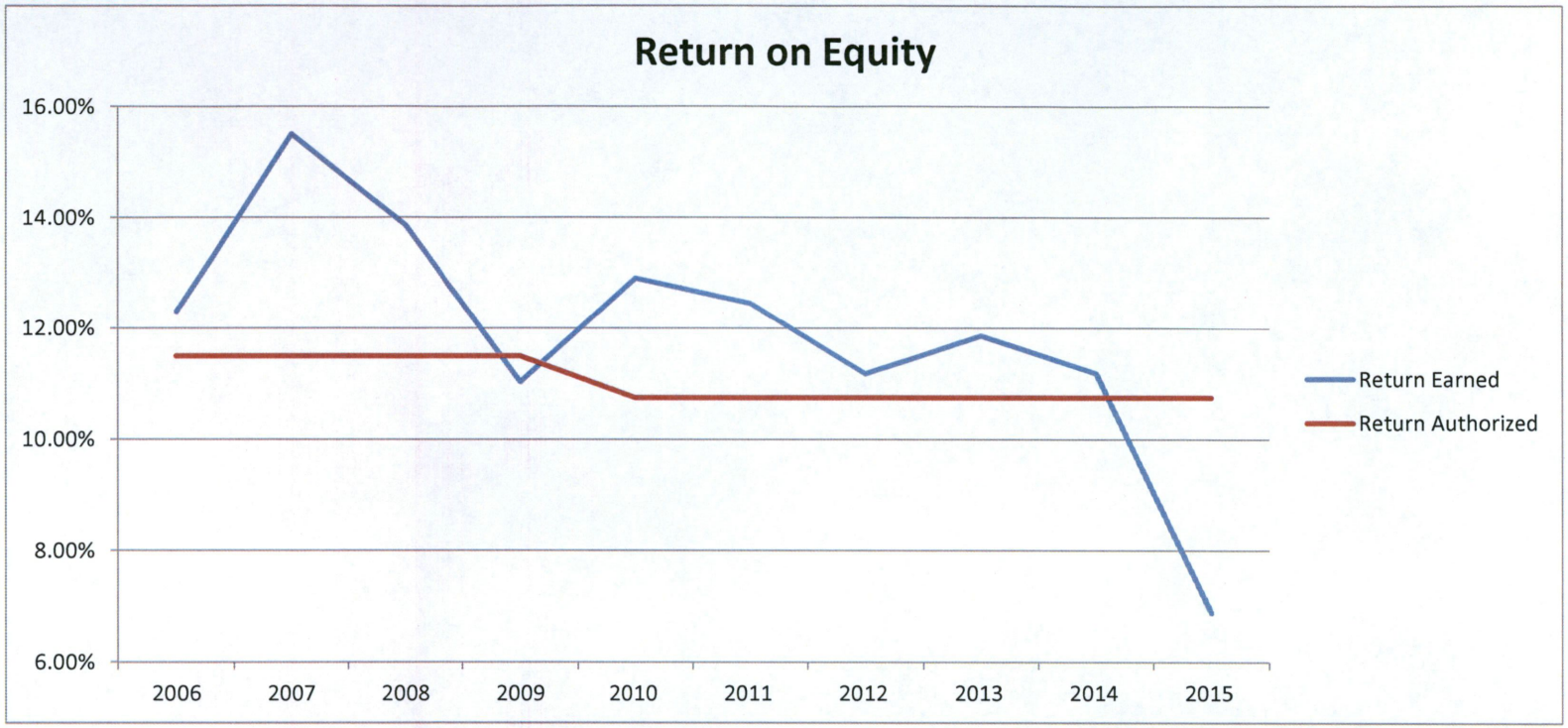
Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

C: Tamie Aberle, MDU

Montana-Dakota Utilities Co.
North Dakota Electric Operations
Return Calculation
(000's)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average Rate Base	$146,140	$160,084	$186,415	$204,796	$231,001	$251,453	$268,801	$309,734	$389,530	$558,552
Rate of Return (10.75% ROE)	9.21%	9.41%	8.76%	9.20%	8.82%	8.92%	8.67%	8.03%	8.19%	7.84%
Return Required	$13,462	$15,069	$16,337	$18,841	$20,385	$22,431	$23,315	$24,885	$31,894	$43,783
Return Earned	$14,017	$18,502	$18,475	$18,351	$24,036	$25,942	$23,933	$26,624	$32,769	$33,150
Return (Excess)	($555)	($3,433)	($2,138)	$490	($3,651)	($3,511)	($618)	($1,739)	($875)	$10,633
Tax Factor	1.654	1.645	1.645	1.644	1.622	1.622	1.622	1.622	1.622	1.608
Revenue Deficiency (Excess)	($919)	($5,649)	($3,518)	$806	($5,922)	($5,695)	($1,003)	($2,820)	($1,419)	$17,095
Rate of Return on Rate Base	9.59%	11.56%	9.91%	8.96%	10.41%	10.32%	8.90%	8.60%	8.41%	5.94%
Rate of Return on Equity	12.29%	15.50%	13.85%	11.03%	12.90%	12.45%	11.18%	11.86%	11.18%	6.88%
Authorized Return on Equity	11.50%	11.50%	11.50%	11.50%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%
Change in PIS Balance	$13,505	$21,352	$34,175	$35,247	$47,245	$46,877	$41,140	$59,883	$88,542	$211,334
Accum Depr / PIS	58.73%	57.99%	56.04%	54.22%	51.89%	50.01%	48.71%	46.69%	43.20%	35.70%
Accum Deferred IT / PIS	8.92%	8.44%	8.69%	9.20%	10.17%	11.91%	13.35%	13.99%	14.52%	12.96%
Combined	67.64%	66.43%	64.72%	63.42%	62.06%	61.93%	62.06%	60.68%	57.72%	48.66%


Return on Equity
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Return Earned
Return Authorized

Montana-Dakota Utilities Co.
North Dakota Electric Operations
Operating Income
(000's)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales for Resale	$9,492	$3,719	$5,241	$1,457	$961	$1,024	$194	$378	$442	$0
All Other Revenues	103,040	116,922	121,617	113,366	127,721	135,439	143,957	159,835	177,154	181,011
Total Revenues	$112,532	$120,641	$126,858	$114,823	$128,682	$136,463	$144,151	$160,213	$177,596	$181,012
Cost of Fuel										
Production Expense	50,588	50,981	56,843	46,626	50,047	52,232	58,998	66,445	70,653	71,231
Gross Margins	$61,944	$69,660	$70,015	$68,197	$78,635	$84,231	$85,153	$93,768	$106,943	$109,781
Gross Margin % of Revenue	55%	58%	55%	59%	61%	62%	59%	59%	60%	61%
Margin Change	$2,602	$7,716	$355	($1,818)	$10,438	$5,596	$922	$8,615	$13,175	$2,838
Other O&M										
Transmission Expense	5,317	5,111	5,287	5,605	6,205	6,486	6,155	7,993	10,449	9,503
Distribution Expense	6,095	6,449	6,309	6,055	6,054	6,916	8,212	9,740	10,199	10,257
Customer Accounts	2,218	2,304	2,199	2,163	2,015	2,170	1,998	2,321	2,524	2,625
Customer Service & Info.	130	127	177	264	338	276	153	170	175	172
Sales Expense	236	189	199	195	82	156	123	96	105	114
Administration & General	11,411	11,241	12,168	10,526	10,459	11,812	11,876	13,039	12,993	14,445
Total O&M	75,995	76,402	83,182	71,434	75,200	80,048	87,515	99,804	107,099	108,347
O&M No Production Expense				24,808	25,153	27,816	28,517	33,359	36,446	37,116
Depreciation	12,972	13,742	15,077	15,705	17,536	21,129	21,480	21,147	22,910	25,070
Taxes Other Than Income	4,253	4,204	4,574	4,338	4,635	4,826	5,265	5,282	5,580	5,808
Income Tax Exp (from L. 24)	5,295	7,791	5,550	4,995	7,275	4,518	5,958	7,356	9,239	8,636
Net Regulated Income	14,017	18,502	18,475	18,351	24,036	25,942	23,933	26,624	32,769	33,150
Growth in Net Income	15.6%	32.0%	-0.1%	-0.7%	31.0%	7.9%	-7.7%	11.2%	23.1%	1.2%
Return on Equity	12.29%	15.50%	13.85%	11.03%	12.90%	12.45%	11.18%	11.86%	11.18%	6.88%
Other Taxes as % of Plant	0.99%	0.93%	0.94%	0.83%	0.82%	0.78%	0.80%	0.74%	0.69%	0.57%
Income Tax as % of Net Income	27%	30%	23%	21%	23%	15%	20%	22%	22%	21%
Depreciation as % of Plant	3.01%	3.04%	3.10%	3.01%	3.08%	3.43%	3.27%	2.95%	2.85%	2.47%