

# Memorandum

To: Commissioners Randy Christmann, Julie Fedorchak, and Brian Kroshus

From: Victor Schock - Public Utility Analyst

VS

Date: July 20, 2017

Re: Montana-Dakota Utilities, Co. 2016 Electric Operations Annual Report

Case No. PU-17-145

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2016. I will include a motion to close the case on the August 16, 2017 agenda.

Montana-Dakota Utilities, Co. provides electric service to about 92,980 customers in North Dakota. Staff has reviewed the company's annual report filing for 2016. The company's return on equity was 9.27% in 2016. The commission authorized a 10.75% rate of return in case PU-10-124 that would be applicable through 2016. For 2017 going forward a 9.65% rate of return was ordered in Case PU-16-666. With the more recent 9.65% return in mind, the company under earned by about \$2M in 2016. If you were to consider the 10.75% return rate, the under earning would have been approximately \$8M. Staff believes this under-earning is relatively minor, and appropriately accounted for by the \$7.5M increase granted in case PU-16-666.

Due to recent completion and finalization of the rate case, 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

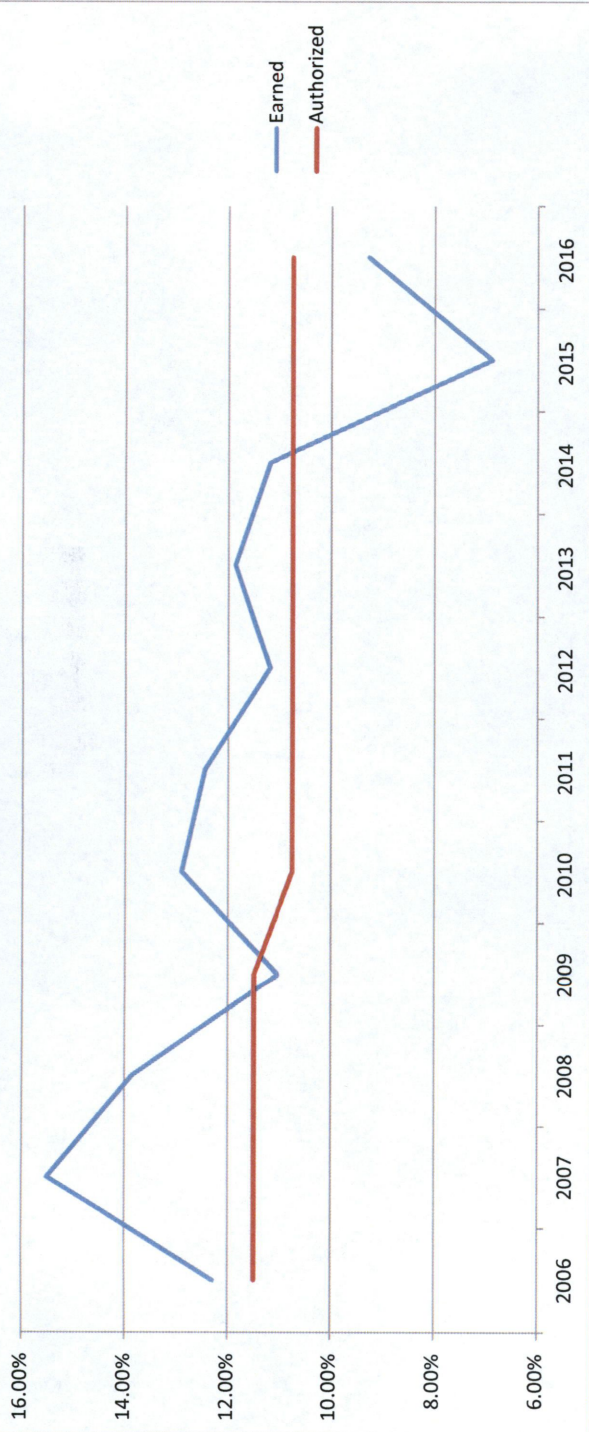
Montana-Dakota Utilities Co.  
North Dakota Electric Operations  
Return Calculation  
(000's)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Average Rate Base	\$146,140	\$160,084	\$186,415	\$204,796	\$231,001	\$251,453	\$268,801	\$309,734	\$389,530	\$558,552	\$680,103
Rate of Return	9.21%	9.41%	8.76%	9.20%	8.82%	8.92%	8.67%	8.03%	8.19%	7.84%	7.84%
Return Required	\$13,462	\$15,069	\$16,337	\$18,841	\$20,385	\$22,431	\$23,315	\$24,885	\$31,894	\$43,783	\$53,344
Return Earned	\$14,017	\$18,502	\$18,475	\$18,351	\$24,036	\$25,942	\$23,933	\$26,624	\$32,769	\$33,150	\$48,296
Return (Excess)	(\$555)	(\$3,433)	(\$2,138)	\$490	(\$3,651)	(\$3,511)	(\$618)	(\$1,739)	(\$875)	\$10,633	\$5,049
Tax Factor	1.654	1.645	1.645	1.644	1.622	1.622	1.622	1.622	1.622	1.608	1.608
Revenue Deficiency (Excess)	(\$919)	(\$5,649)	(\$3,518)	\$806	(\$5,922)	(\$5,695)	(\$1,003)	(\$2,820)	(\$1,419)	\$17,095	\$8,117

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%	7.10%
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%	9.27%
Authorized Return on Equity	11.50%	11.50%	11.50%	11.50%	10.75%	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	\$178,602
Accum Depr / PIS	58.73%	57.99%	56.04%	54.22%	51.89%	50.01%	48.71%	46.69%	43.20%	35.70%	32.33%
Accum Deferred IT / PIS	8.92%	8.44%	8.69%	9.20%	10.17%	11.91%	13.35%	13.99%	14.52%	12.96%	11.80%
Combined	67.64%	66.43%	64.72%	63.42%	62.06%	61.93%	62.06%	60.68%	57.72%	48.66%	44.13%

Contract Revenue Delta \$666,578 \$689,340 \$751,619 \$620,240 \$505,930 \$543,909 \$600,617 \$621,790 \$1,060,778 \$1,318,512 \$2,287,256

# Return on Equity



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

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales for Resale	\$9,492	\$3,719	\$5,241	\$1,457	\$961	\$1,024	\$194	\$378	\$442	\$0	\$0
All Other Revenues	103,040	116,922	121,617	113,366	127,721	135,439	143,957	159,835	177,154	181,011	216,165
Total Revenues	\$112,532	\$120,641	\$126,858	\$114,823	\$128,682	\$136,463	\$144,151	\$160,213	\$177,596	\$181,012	\$216,165
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	68,635
Gross Margins	\$61,944	\$69,660	\$70,015	\$68,197	\$78,635	\$84,231	\$85,153	\$93,768	\$106,943	\$109,781	\$147,530
Gross Margin % of Revenue	55%	58%	55%	59%	61%	62%	59%	59%	60%	61%	68%
Margin Change	\$2,602	\$7,716	\$355	(\$1,818)	\$10,438	\$5,596	\$922	\$8,615	\$13,175	\$2,838	\$37,749
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	24,666
Distribution Expense	6,095	6,449	6,309	6,055	6,054	6,916	8,212	9,740	10,199	10,257	9,642
Customer Accounts	2,218	2,304	2,199	2,163	2,015	2,170	1,998	2,321	2,524	2,625	3,161
Customer Service & Info.	130	127	177	264	338	276	153	170	175	172	174
Sales Expense	236	189	199	195	82	156	123	96	105	114	66
Administration & General	11,411	11,241	12,168	10,526	10,459	11,812	11,876	13,039	12,993	14,445	16,062
Total O&M	75,995	76,402	83,182	71,434	75,200	80,048	87,515	99,804	107,099	108,347	122,406
O&M No Production Expense											
Depreciation	12,972	13,742	15,077	24,808	25,153	27,816	28,517	33,359	36,446	37,116	53,771
Taxes Other Than Income	4,253	4,204	4,574	4,338	4,635	4,826	5,265	5,282	5,580	5,808	6,741
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	3,838
Net Regulated Income	14,017	18,502	18,475	18,351	24,036	25,942	23,933	26,624	32,769	33,150	48,296
Growth in Net Income	15.6%	32.0%	-0.1%	-0.7%	31.0%	7.9%	-7.7%	11.2%	23.1%	1.2%	45.7%
Return on Equity	12.29%	15.50%	13.85%	11.03%	12.90%	12.45%	11.18%	11.86%	11.18%	6.88%	9.27%
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%	0.56%
Income Tax as % of Net Income	27%	30%	23%	21%	23%	15%	20%	22%	22%	21%	7%
Depreciation as % of Plant	3.01%	3.04%	3.10%	3.01%	3.08%	3.43%	3.27%	2.95%	2.85%	2.47%	2.92%