

Memorandum

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

From: Victor Schock - Public Utility Analyst

VS

Date: October 9, 2018

Re: Montana-Dakota Utilities, Co. 2017 Electric Operations Annual Report

Case No. PU-18-122

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2017. I will include a motion to close the case on the October 24, 2018 consent agenda.

Montana-Dakota Utilities, Co. provides electric service to about 92,833 customers in North Dakota. Staff has reviewed the company's annual report filing for 2017. The company's return on equity (ROE) was 9.09% in 2017. The commission authorized a ROE of 9.65% in the most recent rate case (PU-16-666). With that in mind, the company under earned by about \$3,175,000 in 2017.

On September 26, 2018 the commission approved a settlement agreement between Advocacy Staff and MDU in case PU-18-89 ordering an annual revenue decrease of \$8.8M for MDU's North Dakota Electric Operations due to the Tax Cuts and Jobs Act of 2017.

Due to this recent rate reduction and associated refund to customers for 2018, 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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Rate Base	\$160,084	\$186,415	\$204,796	\$231,001	\$251,453	\$268,801	\$309,734	\$389,530	\$558,552	\$680,103	\$678,730
Rate of Return	9.41%	8.76%	9.20%	8.82%	8.92%	8.67%	8.03%	8.19%	7.84%	7.84%	7.40%
Return Required	\$15,069	\$16,337	\$18,841	\$20,385	\$22,431	\$23,315	\$24,885	\$31,894	\$43,783	\$53,344	\$50,252
Return Earned	\$18,502	\$18,475	\$18,351	\$24,036	\$25,942	\$23,933	\$26,624	\$32,769	\$33,150	\$48,296	\$48,272
Return (Excess)	(\$3,433)	(\$2,138)	\$490	(\$3,651)	(\$3,511)	(\$618)	(\$1,739)	(\$875)	\$10,633	\$5,049	\$1,980
Tax Factor	1.645	1.645	1.644	1.622	1.622	1.622	1.622	1.622	1.608	1.608	1.604
Revenue Deficiency (Excess)	(\$5,649)	(\$3,518)	\$806	(\$5,922)	(\$5,695)	(\$1,003)	(\$2,820)	(\$1,419)	\$17,095	\$8,117	\$3,175

Rate of Return on Rate Base	11.56%	9.91%	8.96%	10.41%	10.32%	8.90%	8.60%	8.41%	5.94%	7.10%	7.11%
Rate of Return on Equity	15.50%	13.85%	11.03%	12.90%	12.45%	11.18%	11.86%	11.18%	6.88%	9.27%	9.09%
Authorized Return on Equity	11.50%	11.50%	11.50%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	9.65%
Change in PIS Balance	\$21,352	\$34,175	\$35,247	\$47,245	\$46,877	\$41,140	\$59,883	\$88,542	\$211,334	\$178,602	\$34,033
Accum Depr / PIS	57.99%	56.04%	54.22%	51.89%	50.01%	48.71%	46.69%	43.20%	35.70%	32.33%	33.21%
Accum Deferred IT / PIS	8.44%	8.69%	9.20%	10.17%	11.91%	13.35%	13.99%	14.52%	12.96%	11.80%	12.49%
Combined	66.43%	64.72%	63.42%	62.06%	61.93%	62.06%	60.68%	57.72%	48.66%	44.13%	45.71%

Contract Revenue Delta \$689,340 \$751,619 \$620,240 \$505,930 \$543,909 \$600,617 \$621,790 ##### \$17,095 \$8,117 \$3,175 #####

