

# Memorandum

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

From: Victor Schock - Public Utility Analyst (VS)

Date: October 8, 2018

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

Case No. PU-18-123

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 natural gas service to about 109,377 customers in North Dakota. Staff has reviewed the company's annual report filing for 2017. The company's return on equity (ROE) was 6.49% in 2017. The commission authorized a ROE of 9.5% in case PU-15-90 which applies through 2017. With that in mind, the company under earned by about \$3,319,000 in 2017.

On September 26, 2018 the commission approved a settlement agreement between Advocacy Staff and MDU in case PU-17-295 granting an annual revenue increase of \$2.5M for MDU's North Dakota Gas Operations. Among other things, the agreement reduced the ROE to 9.4%.

Due to this recent completion of a full 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 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  
 Return Calculation  
 (Dollars in Thousands)

Attachment 1

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Return Deficiency</u>											
Average Rate Base	\$25,254	\$32,159	\$35,392	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725
Common Equity	\$215,490	\$249,840	\$292,113	\$328,992	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753
Rate of Return Required	8.610%	8.031%	8.426%	8.430%	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%
Return Required	\$2,174	\$2,583	\$2,982	\$3,157	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658
Return Earned	\$2,016	\$3,207	\$3,664	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594
Return Deficiency (Excess)	\$158	(\$624)	(\$682)	(\$1,792)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064
Tax Factor	60.78%	60.78%	60.84%	60.84%	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%
Revenue Def. (Excess)	\$261	(\$1,027)	(\$1,121)	(\$2,946)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319

Return on Equity Calculation

Rate of Return on Rate Base	7.98%	9.97%	10.35%	13.22%	10.17%	7.29%	5.64%	7.58%	6.53%	6.33%	5.76%
Less: Cost of Debt	3.25%	3.16%	3.28%	3.20%	3.11%	2.93%	2.60%	2.62%	2.55%	2.45%	2.39%
Return available for common	4.73%	6.81%	7.07%	10.02%	7.06%	4.35%	3.04%	4.96%	3.98%	3.88%	3.37%
Common Equity Percentage	53.55%	48.72%	51.44%	52.30%	54.00%	53.38%	50.57%	51.77%	49.17%	50.20%	51.99%
Return on Equity	8.83%	13.98%	13.75%	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%

Reported Return on Equity 8.83%  
 Authorized Return on Equity 10.00%

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Reported Return on Equity	8.83%	13.98%	13.75%	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%
Authorized Return on Equity	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	9.50%	9.50%	9.50%

