

Memorandum

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

From: Adam Renfandt

Date: May 3, 2019

Re: Montana-Dakota Utilities, Co. 2018 Electric Operations Annual Report

Case No. PU-19-131

I recommend the Commission close the above captioned case, which is Montana-Dakota Utilities, Co.'s (MDU) North Dakota annual electric operations report filing for 2018. I will include a motion to close the case on the May 15, 2019 consent agenda.

MDU provides electric service to about 92,861 customers in North Dakota. Staff reviewed the company's annual report filing for 2018. The company's return on equity (ROE) was 8.9% in 2018. The Commission authorized an ROE of 9.65% in the most recent rate case (Case No. PU-16-666). The company under-earned by approximately \$4.2M.

On November 20, 2018, the Commission approved MDU's Tax Refund Plan and compliance tariff and rates. For the period beginning December 1, 2018, the new tariff and rates will decrease energy revenues collected through rates by approximately \$8.8M annually. For the period starting January 1, 2018 through November 30, 2018, MDU refunded, excluding those refunds from riders, approximately \$7.9M to electric customers on March 15, 2019.

Due to this recent rate reduction, 2018 under-earnings, and the associated \$7.9M refunded to customers, staff sees no reason to further investigate and recommends that the Commission close the above captioned case. Attached are staff generated summaries of MDU's ND electric earnings since 2010.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

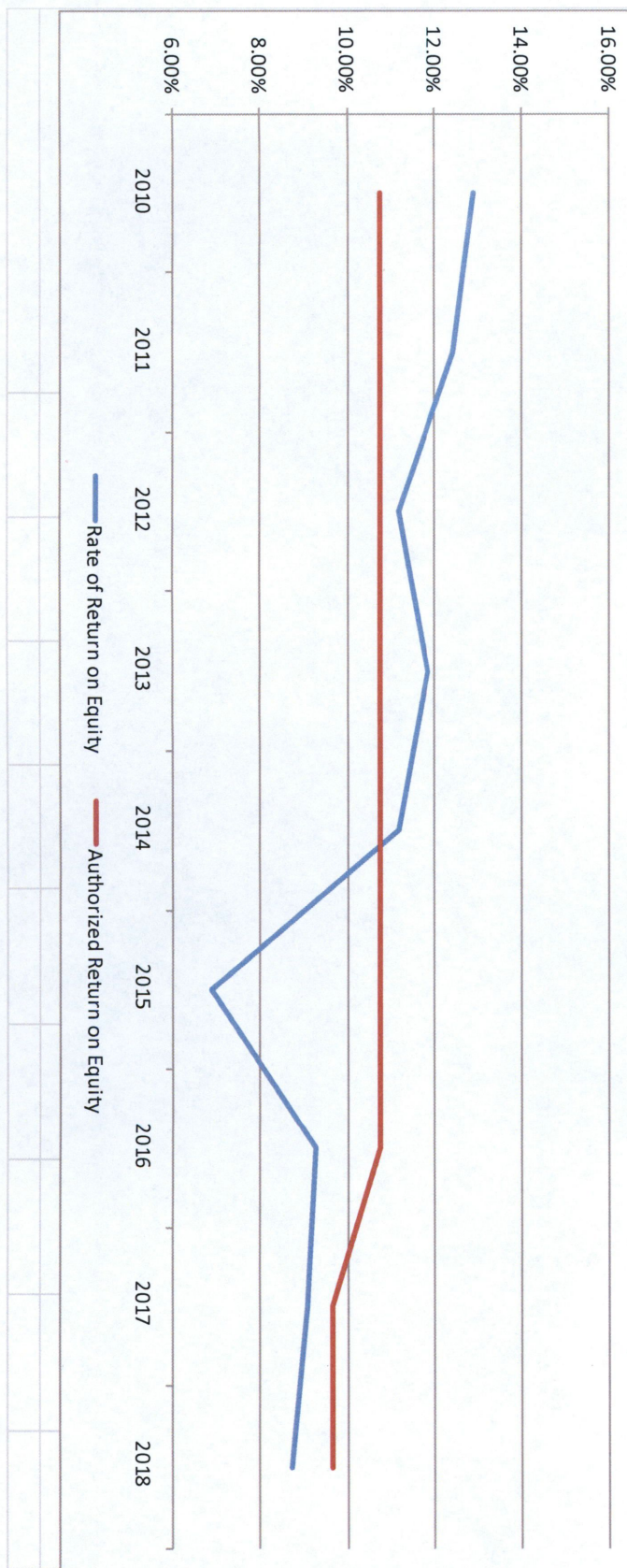
c: Tamie Aberle, MDU

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

Attachment 1

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average Rate Base	\$231,001	\$251,453	\$268,801	\$309,734	\$389,530	\$558,552	\$680,103	\$678,730	\$694,034
Rate of Return	8.82%	8.92%	8.67%	8.03%	8.19%	7.84%	7.84%	7.40%	7.32%
Return Required	\$20,385	\$22,431	\$23,315	\$24,885	\$31,894	\$43,783	\$53,344	\$50,252	\$50,836
Return Earned	\$24,036	\$25,942	\$23,933	\$26,624	\$32,769	\$33,150	\$48,296	\$48,272	\$47,636
Return (Excess)	(\$3,651)	(\$3,511)	(\$618)	(\$1,739)	(\$875)	\$10,633	\$5,049	\$1,980	\$3,200
Tax Factor	1.622	1.622	1.622	1.622	1.622	1.622	1.608	1.604	1.323
Revenue Deficiency (Excess)	(\$5,922)	(\$5,695)	(\$1,003)	(\$2,820)	(\$1,419)	\$17,095	\$8,117	\$3,175	\$4,234

Return on Equity



Montana-Dakota Utilities Co.									
North Dakota Electric Operations									
Operating Income									
(000's)									
Description	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales for Resale	\$961	\$1,024	\$194	\$378	\$442	\$0	\$701	\$573	\$711
All Other Revenues	127,721	135,439	143,957	159,835	177,154	181,011	215,464	218,243	212,150
Total Revenues	\$128,682	\$136,463	\$144,151	\$160,213	\$177,596	\$181,012	\$216,165	\$218,815	\$212,861
Cost of Fuel									
Production Expense	50,047	52,232	58,998	66,445	70,653	71,231	68,635	70,891	73,234
Gross Margins	\$78,635	\$84,231	\$85,153	\$93,768	\$106,943	\$109,781	\$147,530	\$147,924	\$139,628
Gross Margin % of Revenue	61%	62%	59%	59%	60%	61%	68%	68%	66%
Margin Change	\$10,438	\$5,596	\$922	\$8,615	\$13,175	\$2,838	\$37,749	\$394	(\$8,296)
Other O&M									
Transmission Expense	6,205	6,486	6,155	7,993	10,449	9,503	24,666	26,654	24,269
Distribution Expense	6,054	6,916	8,212	9,740	10,199	10,257	9,642	9,340	9,808
Customer Accounts	2,015	2,170	1,998	2,321	2,524	2,625	3,161	2,960	3,178
Customer Service & Info.	338	276	153	170	175	172	174	159	141
Sales Expense	82	156	123	96	105	114	66	70	70
Administration & General	10,459	11,812	11,876	13,039	12,993	14,445	16,062	16,684	17,220
Total O&M	75,200	80,048	87,515	99,804	107,099	108,347	122,406	126,759	127,920
O&M No Production Expense	25,153	27,816	28,517	33,359	36,446	37,116	53,771	55,868	54,686
Depreciation	17,536	21,129	21,480	21,147	22,910	25,070	34,884	32,552	34,918
Taxes Other Than Income	4,635	4,826	5,265	5,282	5,580	5,808	6,741	7,394	7,642
Income Tax Exp (from L. 24)	7,275	4,518	5,958	7,356	9,239	8,636	3,838	3,837	(5,255)
Net Regulated Income	24,036	25,942	23,933	26,624	32,769	33,150	48,296	48,272	47,636