

Memorandum

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

From: Adam Renfandt

Date: May 3, 2019

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

Case No. PU-19-132

I recommend the Commission close the above captioned case, which is Montana-Dakota Utilities, Co.'s (MDU) North Dakota annual gas operations report filing for 2018. Beginning in 2018, the financials for Great Plains Natural Gas Co., a division of MDU, have been consolidated in the reports for MDU's gas operations. I will include a motion to close the case on the May 15, 2019 consent agenda.

MDU provides natural gas service to about 112,342 customers in North Dakota. Staff has reviewed the company's annual report filing for 2018. The company's return on equity (ROE) was 9.435% in 2018, and its authorized ROE is 9.4%. The company over-earned by approximately \$34,000 in 2018.

On September 26, 2018, the Commission approved a settlement agreement between advocacy staff and MDU in case no. PU-17-295 granting an annual revenue increase of \$2.5M for MDU's North Dakota gas operations and reducing the authorized ROE to 9.4%.

Due to the recent completion of a full rate case and the level of 2018 over-earnings, 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 natural gas earnings since 2010.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

c: Tamie Aberle, MDU

	2010	2011	2012	2013	2014	2015	2016	2017	2018 1/
Return Deficiency	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121
Average Rate Base	\$328,992	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012
Common Equity	8.430%	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%
Rate of Return Required	\$3,157	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621
Return Required	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646
Return Earned	(\$1,792)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)
Return Deficiency (Excess)	60.84%	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%
Tax Factor	(\$2,946)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)
Revenue Def. (Excess)									
1/ Only 2018 includes Great Plains Natural Gas Co. consolidated financials									
Return on Equity Calculation									
Rate of Return on Rate Base	13.22%	10.17%	7.29%	5.64%	7.58%	6.53%	6.33%	5.76%	7.14%
Less: Cost of Debt	3.20%	3.11%	2.93%	2.60%	2.62%	2.55%	2.45%	2.39%	2.42%
Return available for common	10.02%	7.06%	4.35%	3.04%	4.96%	3.98%	3.88%	3.37%	4.72%
Common Equity Percentage	52.30%	54.00%	53.38%	50.57%	51.77%	49.17%	50.20%	51.99%	50.02%
Return on Equity	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%
Reported Return on Equity	2010	2011	2012	2013	2014	2015	2016	2017	2018
Authorized Return on Equity	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%
Reported Return on Equity	10.00%	10.00%	10.00%	10.00%	10.00%	9.50%	9.50%	9.50%	9.40%

Return on Equity



Montana-Dakota Utilities Co.

Attachment 2

North Dakota Gas Utility
 Net Operating Income
 (Dollars in Thousands)

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018 \1
Operating Revenues	\$99,628	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724
Cost of Gas	74,119	78,480	58,003	81,268	103,658	72,479	51,338	67,008	75,245
Production		287	271	261	0	0	0	0	295
Other Gas Supply Expense	134	112	117	108	227	291	356	315	
Net Margin	\$25,375	\$25,731	\$26,458	\$29,160	\$36,121	\$37,894	\$40,175	\$40,964	\$45,184
Distribution Expense	\$ 6,545	\$ 7,370	\$ 7,668	\$ 8,595	\$ 9,137	\$ 8,941	\$ 8,875	\$ 9,475	\$ 9,885
Customer Accounts Exp	2,263	2,364	2,159	2,616	2,854	2,494	2,757	2,603	2,618
Customer Service & Info	177	191	237	201	245	256	246	228	225
Sales Expense	132	168	148	176	160	224	133	146	185
A & G Expense	5,066	6,261	6,020	6,615	6,751	7,137	7,881	8,390	8,397
Other O&M	\$14,183	\$16,354	\$16,232	\$18,203	\$19,147	\$19,053	\$19,892	\$20,841	\$21,310
Depreciation	3,190	3,520	3,723	4,877	5,868	6,928	7,631	7,823	8,716
Taxes Other Than Income	1,351	1,500	1,599	1,617	1,638	1,814	1,901	2,155	2,276
Expenses (Lines 6-12)	\$18,724	\$21,374	\$21,554	\$24,697	\$26,653	\$27,795	\$29,424	\$30,820	\$32,302
Income Tax Expense	\$ 1,702	\$ 254	\$ 1,100	\$ 1,028	\$ 2,630	\$ 2,570	\$ 2,730	\$ 2,551	\$ 2,236
Net Operating Income	\$ 4,949	\$ 4,103	\$ 3,804	\$ 3,435	\$ 6,838	\$ 7,529	\$ 8,021	\$ 7,594	\$ 10,646

\1 Only 2018 includes consolidated Great Plains Natural Gas Co. financials