

Memorandum

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

From: Adam Renfandt

Date: June 5, 2020

Re: Montana-Dakota Utilities, Co. (MDU), 2019 Gas Operations, Annual Report

Case No. PU-20-178

Staff has reviewed MDU's gas annual report filing for 2019. MDU provides natural gas service to about 113,329 customers in North Dakota. The company's return on equity (ROE) was 6.39% in 2019. The company under-earned by approximately \$3.3 million in 2019. The ROE authorized by the Commission is weather normalized, and the authorized ROE was 9.4% (Case No. PU-17-295).

Attached are staff generated summaries of MDU's ND natural gas earnings since 2010.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

c: Travis Jacobson, MDU

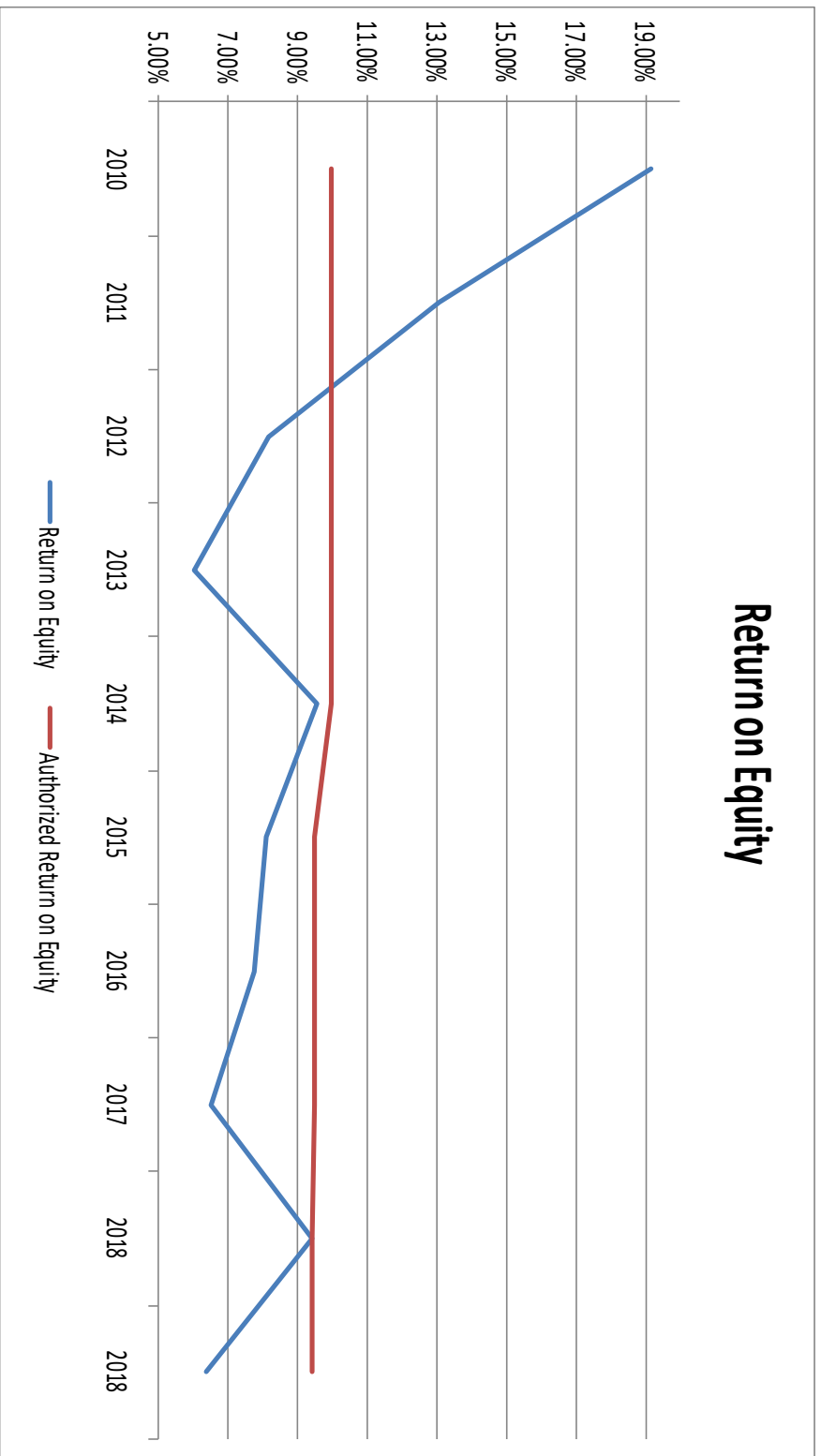
Montana-Dakota Utilities Co.
 North Dakota Gas Utility
 Return Calculation
 (Dollars in Thousands)

Attachment 1

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 1/</u>	<u>2019 1/</u>
<u>Return Deficiency</u>										
Average Rate Base	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121	\$165,406
Common Equity	\$328,992	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012	\$787,435
Rate of Return Required	8.430%	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%	7.054%
Return Required	\$3,157	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621	\$11,668
Return Earned	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174
Return Deficiency (Excess)	(\$1,792)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)	\$2,493
Tax Factor	60.84%	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%	75.60%
Revenue Def. (Excess)	(\$2,946)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)	\$3,298

1/2018 and 2019 includes Great Plains Natural Gas Co. consolidated financials

Return on Equity



Montana-Dakota Utilities Co.

Attachment 3

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

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018 \1	2019 \1
Operating Revenues	\$99,628	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724	\$123,563
Cost of Gas	74,119	78,480	58,003	81,268	103,658	72,479	51,338	67,008	75,245	77,821
Production		287	271	261	0	0	0	0	295	334
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	\$45,408
Distribution Expense	\$ 6,545	\$ 7,370	\$ 7,668	\$ 8,595	\$ 9,137	\$ 8,941	\$ 8,875	\$ 9,475	\$ 9,885	\$ 10,272
Customer Accounts Exp	2,263	2,364	2,159	2,616	2,854	2,494	2,757	2,603	2,618	2,584
Customer Service & Info	177	191	237	201	245	256	246	228	225	260
Sales Expense	132	168	148	176	160	224	133	146	185	181
A & G Expense	5,066	6,261	6,020	6,615	6,751	7,137	7,881	8,390	8,397	9,108
Other O&M	\$14,183	\$ 16,354	\$16,232	\$18,203	\$19,147	\$19,053	\$19,892	\$20,841	\$21,310	\$ 22,405
Depreciation	3,190	3,520	3,723	4,877	5,868	6,928	7,631	7,823	8,716	10,273
Taxes Other Than Income	1,351	1,500	1,599	1,617	1,638	1,814	1,901	2,155	2,276	2,562
Expenses (Lines 6-12)	\$18,724	\$ 21,374	\$21,554	\$24,697	\$26,653	\$27,795	\$29,424	\$30,820	\$32,302	\$ 35,239
Income Tax Expense	\$ 1,702	\$ 254	\$ 1,100	\$ 1,028	\$ 2,630	\$ 2,570	\$ 2,730	\$ 2,551	\$ 2,236	\$ 994
Net Operating Income	\$ 4,949	\$ 4,103	\$ 3,804	\$ 3,435	\$ 6,838	\$ 7,529	\$ 8,021	\$ 7,594	\$ 10,646	\$ 9,174

\1 2018 and 2019 include consolidated Great Plains Natural Gas Co. financials