

Memorandum

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

From: Adam Renfandt

Date: September 2, 2021

Re: Montana-Dakota Utilities, Co. (MDU), 2020 Gas Operations, Annual Report
Case No. PU-21-145

In Case No. PU-17-295, the Commission authorized a return on equity (ROE) of 9.40%.

Staff reviewed MDU's North Dakota gas annual report for 2020. MDU reports an ROE of approximately 6.48% for 2020, which represents an under-earnings of approximately \$3.3 million.

MDU's ND gas operation's reported 2020 ROE is in line with its 2019 ROE. Therefore, Staff recommends the Commission close the case.

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

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

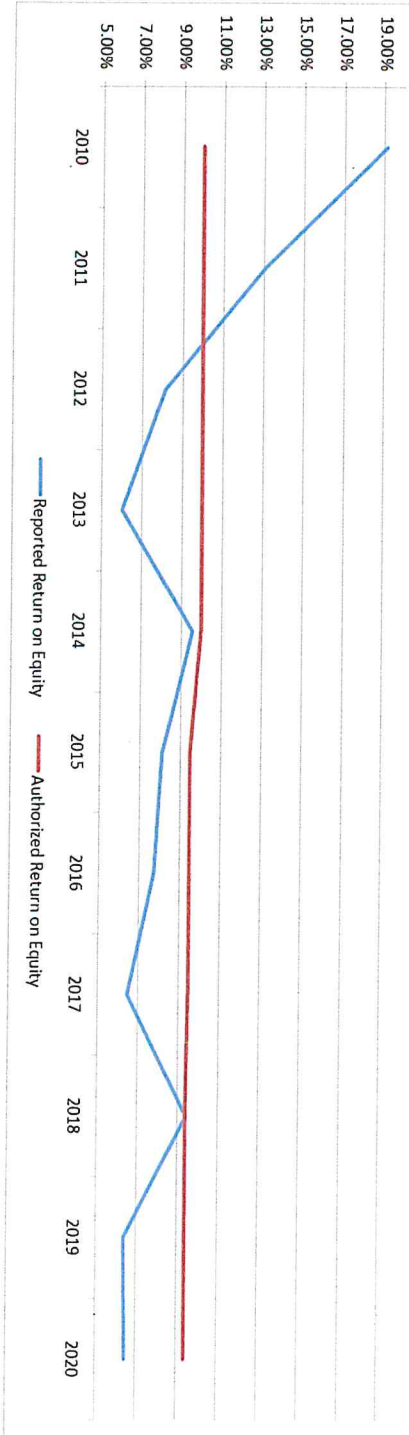
Attachment 3 – Net Operating Income

c: Travis Jacobson, MDU

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018 1/	2019	2020
Return Deficiency	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121	\$163,406	\$173,240
Average Rate Base	\$328,992	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012	\$787,435	\$830,144
Common Equity	8.430%	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%	7.054%	6.763%
Rate of Return Required	\$3,157	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621	\$11,668	\$11,716
Return Required	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234
Return Earned	(\$1,792)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)	\$2,493	\$2,482
Return Deficiency (Excess)	60.84%	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%	75.60%	75.60%
Tax Factor	(\$2,946)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)	\$3,298	\$3,283
Revenue Def. (Excess)											
1/ Beginning 2018, MDU ND Gas consolidated with Great Plains Natural Gas Co.											
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%	5.55%	5.33%
Less: Cost of Debt	3.20%	3.11%	2.93%	2.60%	2.62%	2.55%	2.45%	2.39%	2.42%	2.35%	2.16%
Return available for common	10.02%	7.06%	4.35%	3.04%	4.96%	3.98%	3.88%	3.37%	4.72%	3.20%	3.17%
Common Equity Percentage	52.30%	54.00%	53.38%	50.57%	51.77%	49.17%	50.20%	51.99%	50.02%	50.08%	49.00%
Return on Equity	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	9.44%	6.48%
Reported Return on Equity											
Reported Return on Equity	19.15%	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	9.40%	6.48%
Authorized Return on Equity											
Authorized Return on Equity	10.00%	10.00%	10.00%	10.00%	10.00%	9.50%	9.50%	9.50%	9.40%	9.40%	9.40%

Return on Equity



Montana-Dakota Utilities Co.
 North Dakota Gas Utility
 Net Operating Income
 (Dollars in Thousands)

Attachment 3

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^{1/}	2019	2020
Operating Revenues	\$99,628	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724	\$123,563	\$107,969
Cost of Gas	\$74,119	\$78,480	\$58,003	\$81,268	\$103,658	\$72,479	\$51,338	\$67,008	\$75,245	\$77,821	\$62,070
Production		\$287	\$271	\$261	\$0	\$0	\$0	\$0	\$295	\$334	\$306
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	\$45,592
Distribution Expense	\$6,545	\$7,370	\$7,668	\$8,595	\$9,137	\$8,941	\$8,875	\$9,475	\$9,885	\$10,272	\$10,680
Customer Accounts Exp	\$2,263	\$2,364	\$2,159	\$2,616	\$2,854	\$2,494	\$2,757	\$2,603	\$2,618	\$2,584	\$2,595
Customer Service & Info	\$177	\$191	\$237	\$201	\$245	\$256	\$246	\$228	\$225	\$260	\$286
Sales Expense	\$132	\$168	\$148	\$176	\$160	\$224	\$133	\$146	\$146	\$185	\$160
A & G Expense	\$5,066	\$6,261	\$6,020	\$6,615	\$6,751	\$7,137	\$7,881	\$8,390	\$8,397	\$9,108	\$8,148
Other O&M	\$14,183	\$16,354	\$16,232	\$18,203	\$19,147	\$19,053	\$19,892	\$20,841	\$21,310	\$22,405	\$21,869
Depreciation	\$3,190	\$3,520	\$3,723	\$4,877	\$5,868	\$6,928	\$7,631	\$7,823	\$8,716	\$10,273	\$10,972
Taxes Other Than Income	\$1,351	\$1,500	\$1,599	\$1,617	\$1,638	\$1,814	\$1,901	\$2,155	\$2,276	\$2,562	\$2,547
Expenses (Lines 6-12)	\$18,724	\$21,374	\$21,554	\$24,697	\$26,653	\$27,795	\$29,424	\$30,820	\$32,302	\$35,239	\$35,388
Income Tax Expense	\$1,702	\$254	\$1,100	\$1,028	\$2,630	\$2,570	\$2,730	\$2,551	\$2,236	\$994	\$970
Net Operating Income	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234

^{1/} Beginning 2018, MDU ND Gas consolidated with Great Plains Natural Gas Co.