

# Memorandum

To: Commissioners Fedorchak, Christmann, and Haugen-Hoffart

From: Adam Renfandt

Date: May 12, 2022

Re: Montana-Dakota Utilities, Co. (MDU), 2021 Gas, Annual Report  
Case No. PU-22-176 & Great Plains Natural Gas Co., 2021 Gas, Annual Report,  
Case No. PU-22-177

In Case No. PU-20-379, the Commission authorized a return on equity (ROE) of 9.30% for MDU's ND gas operations. MDU consolidates Great Plains Natural Gas results with their other ND gas operations.

Staff reviewed MDU's North Dakota gas annual report for 2021. MDU reports an ROE of approximately 9.1% for 2021, which represents an under-earnings of approximately \$216,000.

Given the level of under-earnings and how the Commission recently concluded an MDU gas rate case, Staff recommends the Commission close the cases.

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

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</u>	<u>2020</u>	<u>2021</u>
Return Deficiency												
Average Rate Base	\$37,445	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121	\$165,406	\$173,240	\$186,246
Common Equity	\$328,992	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012	\$787,435	\$830,144	\$882,266
Rate of Return Required	8.430%	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%	7.054%	6.763%	6.666%
Return Required	\$3,157	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621	\$11,668	\$11,716	\$12,414
Return Earned	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251
Return Deficiency (Excess)	(\$1,792)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)	\$2,493	\$2,482	\$163
Tax Factor	60.84%	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%	75.60%	75.60%	75.60%
Revenue Def. (Excess)	(\$2,946)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)	\$3,298	\$3,283	\$216

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

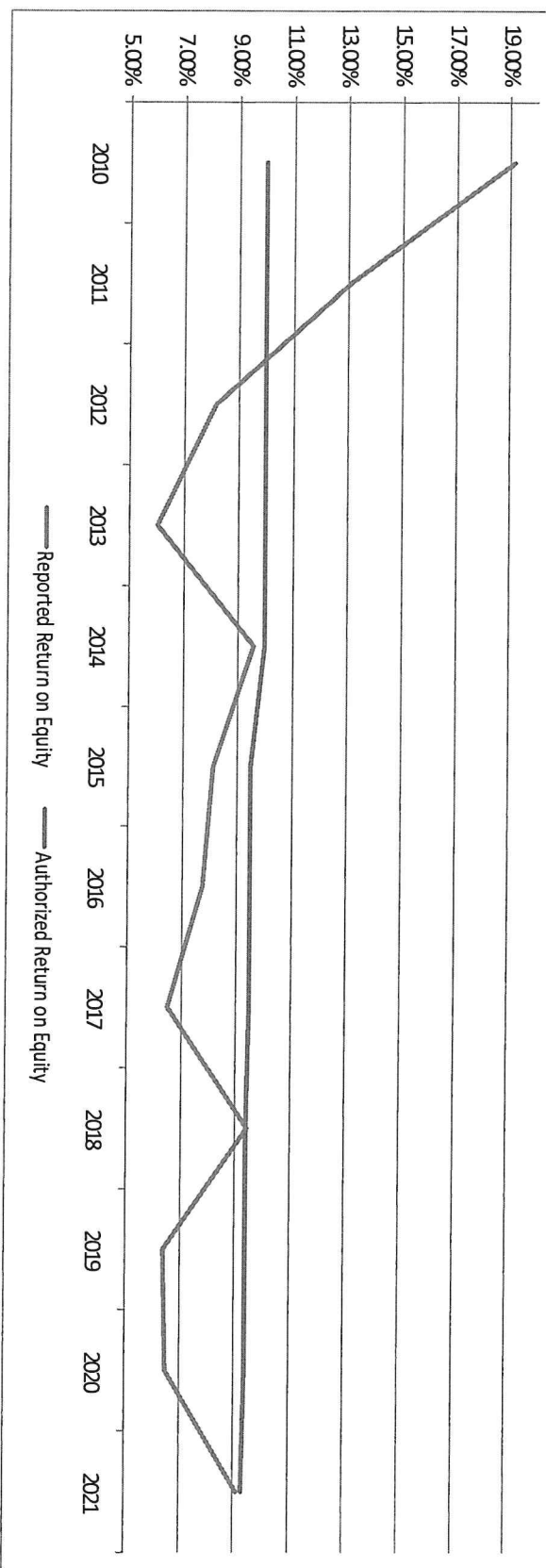
Return on Equity Calculation

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%	6.58%
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%	2.08%
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%	4.50%
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%	49.35%
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%	9.12%

Reported Return on Equity	<u>2010</u> 19.15%	<u>2011</u> 13.07%	<u>2012</u> 8.15%	<u>2013</u> 6.02%	<u>2014</u> 9.58%	<u>2015</u> 8.09%	<u>2016</u> 7.74%	<u>2017</u> 6.49%	<u>2018</u> 9.44%	<u>2019</u> 6.39%	<u>2020</u> 6.48%	<u>2021</u> 9.12%
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%	9.30%

1/ Starting with 2018, financials are consolidated with Great Plains Natural Gas Co.

### Return on Equity



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

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018 VI	2019	2020	2021
Operating Revenues	\$99,628	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724	\$123,563	\$107,969	\$144,154
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	\$91,892
Production		\$287	\$271	\$261	\$0	\$0	\$0	\$0	\$295	\$334	\$306	\$285
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	\$51,978
Distribution Expense	\$6,545	\$7,370	\$7,668	\$8,595	\$9,137	\$8,941	\$8,875	\$9,475	\$9,885	\$10,272	\$10,680	\$11,376
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	\$2,540
Customer Service & Info	\$177	\$191	\$237	\$201	\$245	\$256	\$246	\$228	\$225	\$260	\$286	\$282
Sales Expense	\$132	\$168	\$148	\$176	\$160	\$224	\$133	\$146	\$185	\$181	\$160	\$151
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	\$9,715
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	\$24,064
Depreciation	\$3,190	\$3,520	\$3,723	\$4,877	\$5,868	\$6,928	\$7,631	\$7,823	\$8,716	\$10,273	\$10,972	\$11,561
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	\$2,521
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	\$38,146
Income Tax Expense	\$1,702	\$254	\$1,100	\$1,028	\$2,630	\$2,570	\$2,730	\$2,551	\$2,236	\$994	\$970	\$1,580
Net Operating Income	\$4,949	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$9,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251

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