

# Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Robert Frank- Public Utility Analyst (RF)

Date: May 26, 2023

Re: Montana-Dakota Utilities, Co., 2022 Gas Annual Report

Case No. PU-23-169

Montana-Dakota Utilities, Co. (MDU) consolidates Great Plains Natural Gas results with their other ND gas operations and provided service to approximately 115,521 customers in North Dakota in 2022. In Case No. PU-20-379, the Commission authorized a return on equity (ROE) of 9.30% for MDU's ND gas operations.

Staff reviewed MDU's North Dakota gas annual report for 2022. The average cost of gas across customer class in 2022 increased approximately 38% from 2021. Average use across customer class in 2022 decreased approximately 18% from 2021, an indication of a degree of customer usage sensitivity to price. MDU reports an ROE of approximately 6.5% for 2022, which represents under-earnings of approximately \$3,725,000. Staff believes the decrease in average use and weather impacts primarily explain the under-earnings. Attachment 2 shows that the reported ROE for 2022 is within the bounds of historic performance.

Given the level of under-earnings, staff recommends the Commission close the case.

Attached are staff generated summaries of MDU's ND natural gas earnings since 2011.

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>Return Deficiency</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>	<u>2022</u>
Average Rate Base	\$40,334	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121	\$165,406	\$173,240	\$186,246	\$201,183
Common Equity	\$349,672	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012	\$787,435	\$830,144	\$882,266	\$918,804
Rate of Return Required	8.513%	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%	7.054%	6.763%	6.666%	6.864%
Return Required	\$3,434	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621	\$11,668	\$11,716	\$12,414	\$13,809
Return Earned	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251	\$10,993
Return Deficiency (Excess)	(\$669)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)	\$2,493	\$2,482	\$163	\$2,816
Tax Factor	61.65%	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%	75.60%	75.60%	75.60%	75.60%
Revenue Def. (Excess)	(\$1,085)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)	\$3,298	\$3,283	\$216	\$3,725

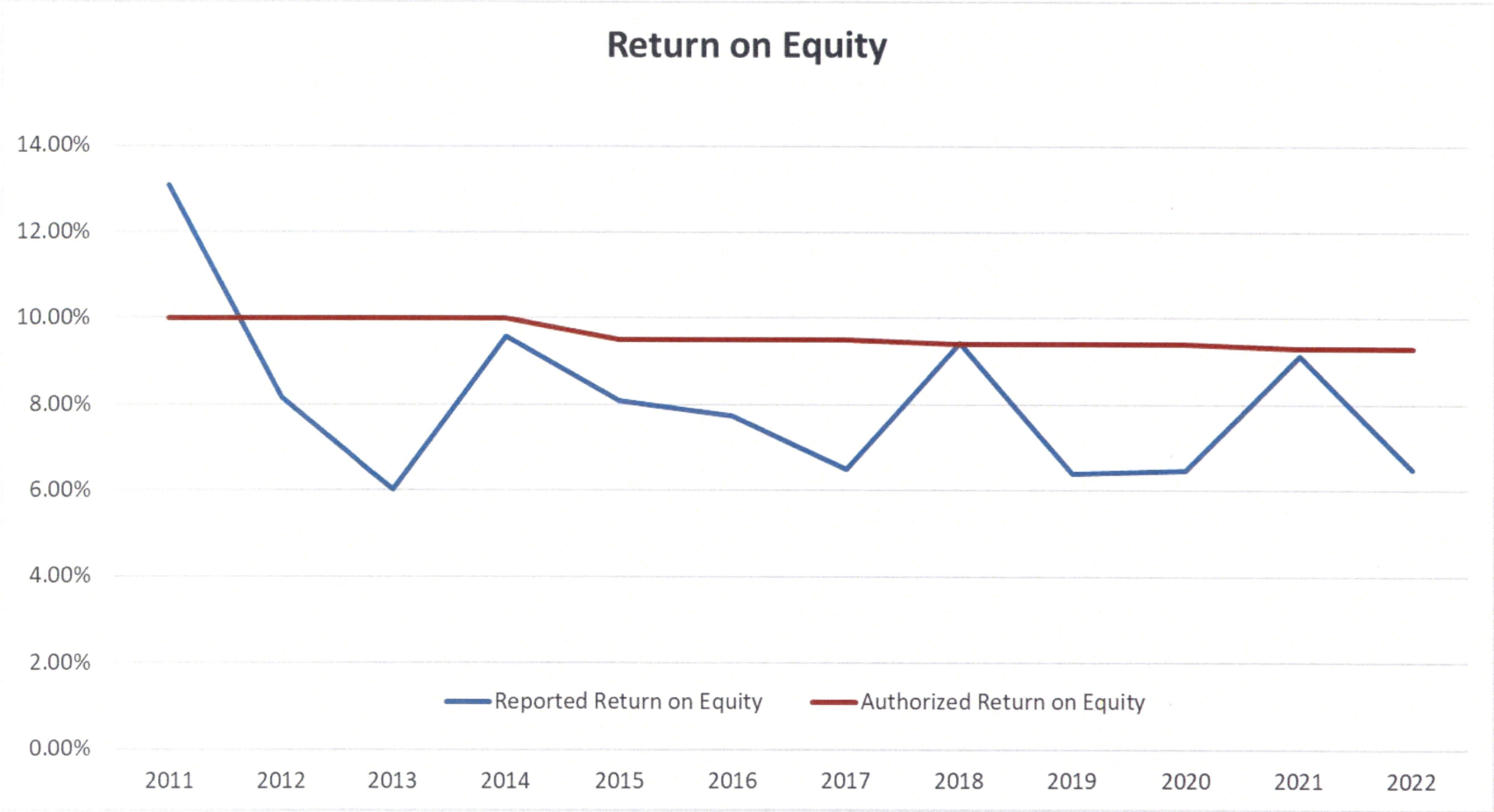
1/ Beginning 2018, MDU ND Gas consolidated with Great Plains Natural Gas Co.

Return on Equity Calculation

Rate of Return on Rate Base	10.17%	7.29%	5.64%	7.58%	6.53%	6.33%	5.76%	7.14%	5.55%	5.33%	6.58%	5.46%
Less: Cost of Debt	3.11%	2.93%	2.60%	2.62%	2.55%	2.45%	2.39%	2.42%	2.35%	2.16%	2.08%	2.21%
Return available for common	7.06%	4.35%	3.04%	4.96%	3.98%	3.88%	3.37%	4.72%	3.20%	3.17%	4.50%	3.26%
Common Equity Percentage	54.00%	53.38%	50.57%	51.77%	49.17%	50.20%	51.99%	50.02%	50.08%	49.00%	49.35%	50.08%
Return on Equity	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	9.44%	6.48%	9.12%	6.51%

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Reported Return on Equity	13.07%	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	6.39%	6.48%	9.12%	6.50%
Authorized Return on Equity	10.00%	10.00%	10.00%	10.00%	9.50%	9.50%	9.50%	9.40%	9.40%	9.40%	9.30%	9.30%

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



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

Attachment 3

Description	2011	2012	2013	2014	2015	2016	2017	2018 1/	2019	2020	2021	2022
Operating Revenues	\$104,610	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724	\$123,563	\$107,969	\$144,154	\$199,552
Cost of Gas	\$78,480	\$58,003	\$81,268	\$103,658	\$72,479	\$51,338	\$67,008	\$75,245	\$77,821	\$62,070	\$91,892	\$146,722
Production	\$287	\$271	\$261	\$0	\$0	\$0	\$0	\$295	\$334	\$306	\$285	\$276
Other Gas Supply Expense	\$112	\$117	\$108	\$227	\$291	\$356	\$315					
Net Margin	\$25,731	\$26,458	\$29,160	\$36,121	\$37,894	\$40,175	\$40,964	\$45,184	\$45,408	\$45,592	\$51,978	\$52,554
Distribution Expense	\$7,370	\$7,668	\$8,595	\$9,137	\$8,941	\$8,875	\$9,475	\$9,885	\$10,272	\$10,680	\$11,376	\$11,287
Customer Accounts Exp	\$2,364	\$2,159	\$2,616	\$2,854	\$2,494	\$2,757	\$2,603	\$2,618	\$2,584	\$2,595	\$2,540	\$2,705
Customer Service & Info	\$191	\$237	\$201	\$245	\$256	\$246	\$228	\$225	\$260	\$286	\$282	\$313
Sales Expense	\$168	\$148	\$176	\$160	\$224	\$133	\$146	\$185	\$181	\$160	\$151	\$155
A & G Expense	\$6,261	\$6,020	\$6,615	\$6,751	\$7,137	\$7,881	\$8,390	\$8,397	\$9,108	\$8,148	\$9,715	\$10,260
Other O&M	\$16,354	\$16,232	\$18,203	\$19,147	\$19,053	\$19,892	\$20,841	\$21,310	\$22,405	\$21,869	\$24,064	\$24,720
Depreciation	\$3,520	\$3,723	\$4,877	\$5,868	\$6,928	\$7,631	\$7,823	\$8,716	\$10,273	\$10,972	\$11,561	\$12,167
Taxes Other Than Income	\$1,500	\$1,599	\$1,617	\$1,638	\$1,814	\$1,901	\$2,155	\$2,276	\$2,562	\$2,547	\$2,521	\$2,750
Expenses (Lines 6-12)	\$21,374	\$21,554	\$24,697	\$26,653	\$27,795	\$29,424	\$30,820	\$32,302	\$35,239	\$35,388	\$38,146	\$39,637
Income Tax Expense	\$254	\$1,100	\$1,028	\$2,630	\$2,570	\$2,730	\$2,551	\$2,236	\$994	\$970	\$1,580	\$1,924
Net Operating Income	\$4,103	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251	\$10,993

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