

Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Christopher C. Hanson- Public Utility Analyst
CH

Date: August 30, 2024

Re: Montana-Dakota Utilities, Co., 2023 Gas Annual Report
Case No. PU-24-175

Montana-Dakota Utilities, Co. (MDU) consolidates Great Plains Natural Gas results with their other ND gas operations and provided service to approximately 116,242 customers in North Dakota in 2023. 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 2023. The average cost of gas across customer class in 2023 decreased approximately 29% from 2022. Average use across customer class in 2022 decreased approximately 4.8% from 2022. MDU reports an ROE of approximately 2.56% for 2023, which represents under-earnings of approximately \$5.941 million. Staff believes the decrease in average use and weather impacts primarily explain the under-earnings. Attachment 2 shows that the reported ROE is the lowest in the last 12 years.

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 2012.

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

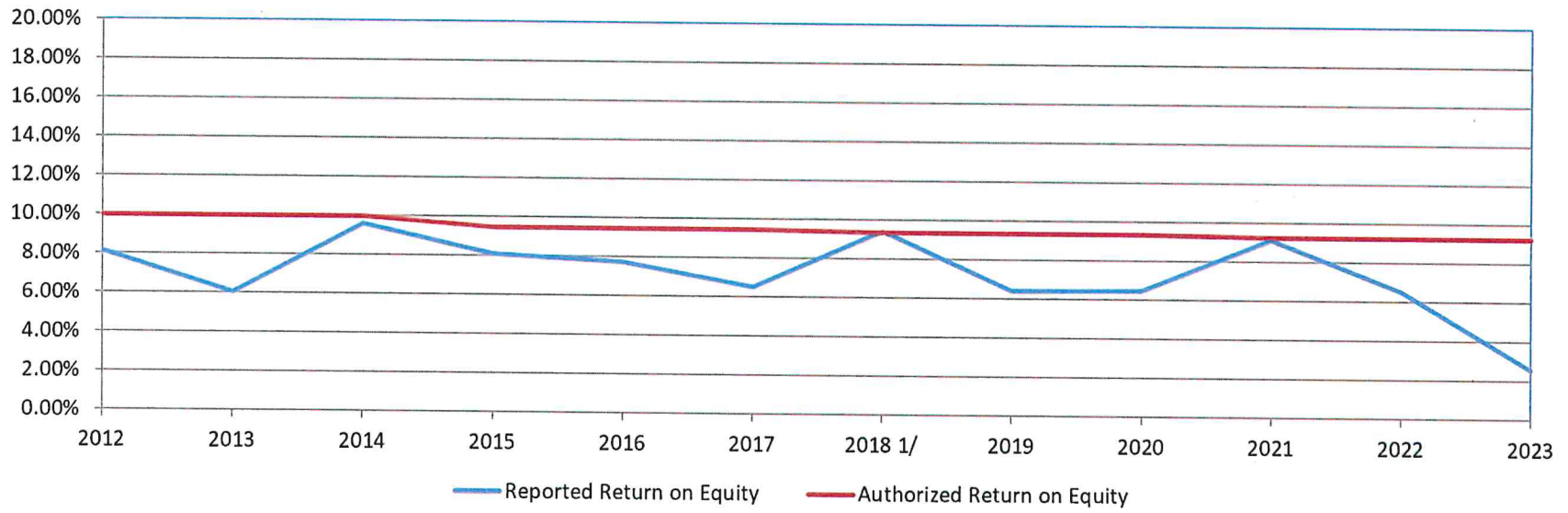
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 1/</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<u>Return Deficiency</u>												
Average Rate Base	\$52,202	\$60,895	\$90,160	\$115,261	\$126,663	\$131,725	\$149,121	\$165,406	\$173,240	\$186,246	\$201,183	\$213,462
Common Equity	\$368,815	\$403,646	\$478,047	\$593,956	\$678,262	\$710,753	\$750,012	\$787,435	\$830,144	\$882,266	\$918,804	\$949,831
Rate of Return Required	8.273%	7.655%	7.800%	7.224%	7.216%	7.332%	7.122%	7.054%	6.763%	6.666%	6.864%	6.964%
Return Required	\$4,319	\$4,661	\$7,032	\$8,326	\$9,140	\$9,658	\$10,621	\$11,668	\$11,716	\$12,414	\$13,809	\$14,865
Return Earned	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251	\$10,984	\$10,373
Return Deficiency (Excess)	\$515	\$1,226	\$194	\$797	\$1,119	\$2,064	(\$26)	\$2,493	\$2,482	\$163	\$2,826	\$4,491
Tax Factor	61.65%	62.06%	62.06%	62.20%	62.20%	62.20%	75.60%	75.60%	75.60%	75.60%	75.60%	75.60%
Revenue Def. (Excess)	\$835	\$1,976	\$313	\$1,282	\$1,799	\$3,319	(\$34)	\$3,298	\$3,283	\$216	\$3,738	\$5,941

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

Return on Equity Calculation

Rate of Return on Rate Base	7.29%	5.64%	7.58%	6.53%	6.33%	5.76%	7.14%	5.55%	5.33%	6.58%	5.46%	4.86%
Less: Cost of Debt	2.93%	2.60%	2.62%	2.55%	2.45%	2.39%	2.42%	2.35%	2.16%	2.08%	2.21%	2.30%
Return available for common	4.35%	3.04%	4.96%	3.98%	3.88%	3.37%	4.72%	3.20%	3.17%	4.50%	3.25%	2.56%
Common Equity Percentage	53.38%	50.57%	51.77%	49.17%	50.20%	51.99%	50.02%	50.08%	49.00%	49.35%	50.08%	50.20%
Return on Equity	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	9.44%	6.48%	9.12%	6.50%	5.11%
	<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>	<u>2023</u>
Reported Return on Equity	8.15%	6.02%	9.58%	8.09%	7.74%	6.49%	9.44%	6.39%	6.48%	9.12%	6.50%	2.56%
Authorized Return on Equity	10.00%	10.00%	10.00%	9.50%	9.50%	9.50%	9.40%	9.40%	9.40%	9.30%	9.30%	9.30%

Return on Equity



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

Attachment 3

<u>Description</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>	<u>2023</u>
Operating Revenues	\$84,849	\$110,797	\$140,007	\$110,664	\$91,870	\$108,287	\$120,724	\$123,563	\$107,969	\$144,154	\$199,552	\$153,408
Cost of Gas	58,003	81,268	103,658	72,479	51,338	67,008	75,245	77,821	62,070	91,892	146,722	99,175
Production	271	261	-	-	-	-	295	334	306	285	276	377
Other Gas Supply Expense	117	108	227	291	356	315					10	4
Net Margin	\$26,458	\$29,160	\$36,121	\$37,894	\$40,175	\$40,964	\$45,184	\$45,408	\$45,592	\$51,978	\$52,544	\$53,852
Distribution Expense	\$7,668	\$8,595	\$9,137	\$8,941	\$8,875	\$9,475	\$9,885	\$10,272	\$10,680	\$11,376	\$11,287	\$12,200
Customer Accounts Exp	2,159	2,616	2,854	2,494	2,757	2,603	2,618	2,584	2,595	2,540	2,705	2,919
Customer Service & Info	237	201	245	256	246	228	225	260	286	282	313	340
Sales Expense	148	176	160	224	133	146	185	181	160	151	155	203
A & G Expense	6,020	6,615	6,751	7,137	7,881	8,390	8,397	9,108	8,148	9,715	10,260	11,328
Other O&M	\$16,232	\$18,203	\$19,147	\$19,053	\$19,892	\$20,841	\$21,310	\$22,405	\$21,869	\$24,064	\$24,720	\$26,990
Depreciation	\$3,723	\$4,877	\$5,868	\$6,928	\$7,631	\$7,823	\$8,716	\$10,273	\$10,972	\$11,561	\$12,167	\$12,889
Taxes Other Than Income	1,599	1,617	1,638	1,814	1,901	2,155	2,276	2,562	2,547	2,521	2,750	2,854
Expenses (Lines 6-12)	\$21,554	\$24,697	\$26,653	\$27,795	\$29,424	\$30,820	\$32,302	\$35,239	\$35,388	\$38,146	\$39,637	\$42,732
Income Tax Expense	\$1,100	\$1,028	\$2,630	\$2,570	\$2,730	\$2,551	\$2,236	\$994	\$970	\$1,580	\$1,924	\$747
Net Operating Income	\$3,804	\$3,435	\$6,838	\$7,529	\$8,021	\$7,594	\$10,646	\$9,174	\$9,234	\$12,251	\$10,984	\$10,373

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