

# **ANNUAL REPORT**

## **STATE OF NORTH DAKOTA**

### **ELECTRIC OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**



# **MONTANA-DAKOTA**

**UTILITIES CO.**

*A Division of MDU Resources Group, Inc.*

#### **INDEX**

---

- I. Intrastate Return on Equity**
- II. Capital Structure**
- III. Affiliated Transactions**
- IV. Miscellaneous Statistics**

**MONTANA-DAKOTA UTILITIES CO.**  
**ANNUAL REPORT**  
**TO THE**  
**NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2005 North Dakota	ND % (B/A)	2004 North Dakota	Variance (B-D/D)
<u>Operating Revenues:</u>						
1	Residential	\$61,576,260	\$36,293,339	58.94%	\$34,125,814	6.35%
2	Small General 1/	19,941,361	7,051,052	35.36%	6,983,262	0.97%
3	Large General 1/	67,092,255	43,999,877	65.58%	41,855,509	5.12%
4	Lighting Service 1/	2,681,441	1,548,145	57.74%	1,499,574	3.24%
5	Municipal Pumping Service	1,782,240	1,329,969	74.62%	1,279,571	3.94%
6	Cogeneration	16	16	100.00%	16	0.00%
7	Sales for Resale	22,661,437	14,000,920	61.78%	15,834,218	-11.58%
8	Margin Sharing Adjustment	(2,084,669)	(2,084,669)	100.00%	(1,135,708)	83.56%
9	Other Operating Revenues	5,818,273	3,422,769	58.83%	3,779,544	-9.44%
10	Unbilled Revenue	254,510	356,619	140.12%	865,780	-58.81%
11	<b>Total Operating Revenues</b>	<b>\$179,723,124</b>	<b>\$105,918,037</b>	<b>58.93%</b>	<b>\$105,087,580</b>	<b>0.79%</b>
<u>Operating Expenses:</u>						
12	Production Expense	\$81,983,871	\$46,576,305	56.81%	\$47,312,934	-1.56%
13	Transmission Expense	6,708,191	4,580,089	68.28%	4,658,299	-1.68%
14	Distribution Expense	10,562,616	6,131,732	58.05%	5,513,848	11.21%
15	Customer Accounts Expense	3,952,495	2,278,685	57.65%	2,328,420	-2.14%
16	Customer Service & Info. Exp.	168,050	125,399	74.62%	117,990	6.28%
17	Sales Expense	321,311	218,020	67.85%	239,746	-9.06%
18	Administration & General Exp.	19,407,736	12,241,737	63.08%	13,396,714	-8.62%
19	Depreciation Expense	20,817,919	12,570,116	60.38%	12,273,441	2.42%
20	Taxes Other than Income	8,277,517	4,474,469	54.06%	4,452,882	0.48%
21	<b>Total Operating Expenses</b>	<b>\$152,199,706</b>	<b>\$89,196,552</b>	<b>58.60%</b>	<b>\$90,294,274</b>	<b>-1.22%</b>
22	Net Operating Income					
23	before Income Taxes	\$27,523,418	\$16,721,485	60.75%	\$14,793,306	13.03%
<u>Income Tax Expense:</u>						
24	Investment Tax Credits					
25	Deferred Income Taxes	(\$4,804,230)	(\$2,893,976)	60.24%	(\$837,094)	245.72%
26	Income Taxes	12,451,564	7,487,321	60.13%	3,908,812	91.55%
27	<b>Total Income Tax Expense</b>	<b>\$7,647,334</b>	<b>\$4,593,345</b>	<b>60.06%</b>	<b>\$3,071,718</b>	<b>49.54%</b>
28	<b>Net Regulated Earnings</b>	<b>\$19,876,084</b>	<b>\$12,128,140</b>	<b>61.02%</b>	<b>\$11,721,588</b>	<b>3.47%</b>

1/ The North Dakota contract revenue delta associated with these classes is shown below. The contract revenue delta is the difference between the revenue collected under all special contracts and the revenue that would have been collected had these loads been charged the standard rate.

	2005	2004
Small General	\$0	\$651
Large General	695,514	654,019
Lighting	0	6
<b>Total</b>	<b>\$695,514</b>	<b>\$654,676</b>

**MONTANA-DAKOTA UTILITIES CO.  
ANNUAL REPORT  
TO THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2005 North Dakota	ND % (B/A)	2004 North Dakota	Variance (B-D/D)
<u>Rate Base:</u>						
1	Plant in Service	\$654,769,122	\$417,100,755	63.70%	\$410,811,572	1.53%
2	Less: Accumulated Depreciation	387,950,261	244,282,364	62.97%	236,463,601	3.31%
3	Add: Construct. Work in Prog. 1/	1,635,068	863,638	52.82%	1,020,837	-15.40%
4	Net Plant in Service	<u>\$268,453,929</u>	<u>\$173,682,029</u>	64.70%	<u>\$175,368,808</u>	-0.96%
<u>Additions: 2/</u>						
5	Materials and Supplies	\$5,452,114	\$3,447,338	63.23%	\$3,374,047	2.17%
6	Fuel Stocks	2,640,337	1,695,519	64.22%	1,643,256	3.18%
7	Prepayments	435,002	280,974	64.59%	347,752	-19.20%
8	Total Additions	<u>\$8,527,453</u>	<u>\$5,423,831</u>	63.60%	<u>\$5,365,055</u>	1.10%
<u>Deductions:</u>						
9	Accum. Deferred Income Taxes	\$57,530,902	\$39,487,145	68.64%	\$40,196,097	-1.76%
10	Accumulated Deferred ITC's	1,325,066	945,056	71.32%	1,290,838	-26.79%
11	Cust. Advances for Construct. 2/	794,204	8,624	1.09%	8,624	0.00%
12	Total Deductions	<u>\$59,650,172</u>	<u>\$40,440,825</u>	67.80%	<u>\$41,495,559</u>	-2.54%
13	<b>Average Rate Base</b>	<u><u>\$217,331,210</u></u>	<u><u>\$138,665,035</u></u>	63.80%	<u><u>\$139,238,304</u></u>	-0.41%
14	Rate of Return on Avg. Rate Base	9.146%	8.746%		8.418%	
15	Less: Weighted Cost of Debt	3.500%	3.500%		3.868%	
16	Weighted Cost of Pref. Stock	<u>0.208%</u>	<u>0.208%</u>		<u>0.217%</u>	
17	Weighted Return on Equity	5.438%	5.038%		4.333%	
18	% of Equity to Capital Structure	<u>53.873%</u>	<u>53.873%</u>		<u>50.442%</u>	
19	<b>Return on Equity</b>	<u><u>10.094%</u></u>	<u><u>9.352%</u></u>		<u><u>8.590%</u></u>	

1/ Completed construction at December 31, 2005 not yet classified.

2/ Thirteen month average.

**MONTANA-DAKOTA UTILITIES CO.  
ANNUAL REPORT  
TO THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

		(A)	(B)	(C)	(D)
Line #	Description	2005 Average (000's)	Ratio	Cost	Weighted Cost
1	Long-Term Debt	\$135,425	38.058%	8.713%	3.316%
2	Short Term Debt	12,666	3.559%	5.163%	0.184%
3	Preferred Equity	16,050	4.510%	4.614%	0.208%
4	Common Equity	191,702	53.873%	1/	1/
5	Total	<u>\$355,843</u>	<u>100.000%</u>		<u>1/</u>

1/ Return on equity is calculated in Section I, page 2 of 2.

MONTANA-DAKOTA UTILITIES CO.  
LONG-TERM DEBT CAPITAL  
DECEMBER 31, 2005

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition Redemption and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
<u>First Mortgage Bonds:</u>									
Secured Medium-term Notes, Series A:									
8.25%	04/01/92	04/01/07	8.250%	\$30,000,000	\$30,000,000	\$225,000	0.750%	\$3,663,204	12.211%
8.6%	04/01/92	04/01/12	8.600%	35,000,000	34,911,100	306,250	0.877%	5,698,318	16.322%
6.71%	09/30/97	10/01/09	6.710%	15,000,000	15,000,000	93,750	0.625%	1,417,846	9.452%
5.83%	09/18/98	10/01/08	5.830%	15,000,000	15,000,000	93,750	0.625%	92,336	0.616%
5.98% - Senior Note	12/15/03	12/15/33	5.980%	30,000,000	30,000,000	262,500	0.875%	280,668	0.936%
				<u>\$125,000,000</u>	<u>\$124,911,100</u>	<u>\$981,250</u>		<u>\$11,152,372</u>	
<u>Description</u>									
First Mortgage Bonds:									
Secured Medium-term Notes, Series A:									
8.25%	\$26,111,796	87.039%	10.177%	\$30,000,000	\$3,053,100				
8.6%	28,906,532	82.590%	11.020%	35,000,000	3,857,000				
6.71%	13,488,404	89.923%	8.195%	15,000,000	1,229,250				
5.83%	14,813,914	98.759%	6.086%	15,000,000	912,900				
5.98% - Senior Note	29,456,832	98.189%	6.205%	30,000,000	1,861,500				
Total Long-Term Debt Capital	<u>\$112,777,478</u>			<u>\$125,000,000</u>	<u>\$10,913,750</u>			<u>8,731%</u>	

Embedded Cost

Principal Outstanding

Cost of Money 1/

Net Proceeds

Amount

Per Unit

Annual Cost

1/ Yield to maturity based upon the life, net proceeds, semiannual compounding of stated interest rate, and amortization of indenture revision costs.

**MONTANA-DAKOTA UTILITIES CO.  
ANNUAL REPORT  
TO THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION  
MAJOR TRANSACTIONS**

Line #	Affiliate's Name	General Description of Service Rendered and/or Supplied	Revenue or (Expense)	
			Total Company	Allocated to North Dakota
1	Knife River Corporation	Electric Sales	\$28,183	\$28,183
2		Natural Gas Sales	10,832	10,832
3	Williston Basin Interstate Pipeline	Electric Sales	316,692	159,073
4	Company	Natural Gas Pipeline Services	(38,918,832)	(8,996,815)
5		Refunds/Adjustments	16,356,266	6,916,578
6		Natural Gas Sales	49,564	5,647
7	FutureSource	Electric Sales	53,277	53,277
8		Natural Gas Sales	30,029	30,029
9	Atlas Inc.	Electric Sales	14,814	14,814
10		Natural Gas Sales	6,566	6,566
11	Pioneer Construction	Electric Sales	275	275
12	Fidelity Exploration & Production	Electric Sales	86,452	0
13	Company	Natural Gas Sales	4,256	0
14	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(36,987,723)	(15,740,388)
15	Bitter Creek Pipeline	Electric Sales	3,420	0
16		Natural Gas Sales	4,782	0
17	JTL Group	Natural Gas Sales	90,088	0
18	Rocky Mountain Contractor	Natural Gas Sales	3,621	0
19	MDU CSG	Natural Gas Sales	23	23
20	Total		<u>(\$58,847,415)</u>	<u>(\$17,511,906)</u>

MONTANA-DAKOTA UTILITIES CO.  
ANNUAL REPORT TO THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Line #	Description	2005	2004	2003	2002	2001
	<u>Customer Related</u>					
1	Year End Customers - Residential	60,253	59,883	59,586	59,220	58,898
2	- Small General	10,186	10,239	10,460	10,150	10,076
3	- Large General	1,175	920	718	717	713
4	- Lighting Service	544	593	412	527	478
5	- Municipal Pumping	296	294	294	299	299
6	- Cogeneration	1	1	1	1	1
7	- Total	72,455	71,930	71,471	70,914	70,465
8	Kwh's Sold - Residential	517,749,391	475,827,895	511,247,661	503,431,095	488,409,884
9	- Small General	87,848,074	84,805,119	241,516,623	234,674,877	230,074,029
10	- Large General	740,547,879	686,931,774	543,960,423	539,075,284	530,284,891
11	- Lighting Service	25,522,363	24,762,752	24,557,190	24,372,568	24,343,481
12	- Municipal Pumping	27,098,505	25,642,104	26,794,995	26,533,603	26,110,532
13	- Cogeneration	12,221	14,223	4,689	1	1
14	- Total	1,398,778,433	1,297,983,867	1,348,081,581	1,328,087,428	1,299,222,818

**NORTH DAKOTA COST OF SERVICE STUDY**

**ELECTRIC OPERATIONS**

**2005**

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**ELECTRIC UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2005**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Revenues</u></b>			
Sales Revenues			
Residential	\$61,576,260	\$36,293,339	\$25,282,921
Small General	19,941,361	7,051,052	12,890,309
Large General	67,092,255	43,999,877	23,092,378
Lighting Service	2,681,441	1,548,145	1,133,296
Municipal Pumping Service	1,782,240	1,329,969	452,271
Cogeneration	16	16	
Sales for Resale	22,661,437	14,000,920	8,660,517
Margin Sharing Adjustment	(2,084,669)	(2,084,669)	
Unbilled Revenue	254,510	356,619	(102,109)
Total Sales Revenues	<u>173,904,851</u>	<u>102,495,268</u>	<u>71,409,583</u>
Other Operating Revenues	5,818,273	3,422,769	2,395,504
Total Operating Revenues	<u>\$179,723,124</u>	<u>\$105,918,037</u>	<u>\$73,805,087</u>
<b><u>Operating Expenses</u></b>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	\$63,590,872	\$34,049,314	\$29,541,558
Production	18,392,999	12,526,991	5,866,008
Transmission	6,708,191	4,580,089	2,128,102
Distribution	10,562,616	6,131,732	4,430,884
Customer Accounts	3,952,495	2,278,685	1,673,810
Customer Service & Information	168,050	125,399	42,651
Sales	321,311	218,020	103,291
Administrative & General	19,407,736	12,241,737	7,165,999
Total O&M Expenses	<u>123,104,270</u>	<u>72,151,967</u>	<u>50,952,303</u>
Depreciation			
Production	8,777,574	5,380,386	3,397,188
Transmission	2,542,602	1,556,533	986,069
Distribution	5,903,193	3,378,635	2,524,558
General	465,900	295,349	170,551
Common	1,347,937	809,108	538,829
Amort. of Intangible Plant - General	496,197	315,177	181,020
Amort. of Intangible Plant - Common	870,256	552,625	317,631
Amort. of Acquisition Adjustment	414,260	282,303	131,957
Total Depreciation Expense	<u>20,817,919</u>	<u>12,570,116</u>	<u>8,247,803</u>

**MONTANA-DAKOTA UTILITIES CO.  
INCOME STATEMENT  
ELECTRIC UTILITY  
TWELVE MONTHS ENDED DECEMBER 31, 2005**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Expenses Con't.</u></b>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Production	1,124,481	766,294	358,187
Transmission	1,041,845	536,713	505,132
Distribution	1,999,109	819,534	1,179,575
General	132,195	49,707	82,488
Common - General	312,869	160,035	152,834
Common - Intangible	32,023	20,338	11,685
Total Ad Valorem Taxes	<u>4,642,522</u>	<u>2,352,621</u>	<u>2,289,901</u>
Other Taxes	<u>3,634,995</u>	<u>2,121,848</u>	<u>1,513,147</u>
Total Taxes Other Than Income Taxes	<u>8,277,517</u>	<u>4,474,469</u>	<u>3,803,048</u>
Current Income Taxes	12,451,564	7,487,321	4,964,243
Deferred Income Taxes	<u>(4,804,230)</u>	<u>(2,893,976)</u>	<u>(1,910,254)</u>
Total Operating Expenses	<u>\$159,847,040</u>	<u>\$93,789,897</u>	<u>\$66,057,143</u>
<b>Operating Income</b>	<u><u>\$19,876,084</u></u>	<u><u>\$12,128,140</u></u>	<u><u>\$7,747,944</u></u>
<b>Year End Rate Base</b>	<u><u>\$218,357,727</u></u>	<u><u>\$139,112,737</u></u>	<u><u>\$79,244,990</u></u>
<b>Rate of Return</b>	<u><u>9.10%</u></u>	<u><u>8.72%</u></u>	<u><u>9.78%</u></u>

**MONTANA-DAKOTA UTILITIES CO.**  
**YEAR END RATE BASE**  
**ELECTRIC UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2005**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Plant in Service</u></b>			
Electric Plant in Service			
Steam Production	\$264,678,677	\$179,125,532	\$85,553,145
Other Production	29,266,843	19,944,315	9,322,528
Total Production	<u>293,945,520</u>	<u>199,069,847</u>	<u>94,875,673</u>
Transmission	125,992,047	77,391,477	48,600,570
Distribution	172,955,767	101,421,148	71,534,619
General	16,894,233	10,149,553	6,744,680
Common	26,861,154	16,148,080	10,713,074
Intangible Plant - General	4,585,971	2,913,868	1,672,103
Intangible Plant - Common	11,772,835	7,475,921	4,296,914
Acquisition Adjustment	<u>10,387,642</u>	<u>7,078,809</u>	<u>3,308,833</u>
Total Electric Plant in Service	663,395,169	421,648,703	241,746,466
Accumulated Reserve for Depreciation			
Steam Production	180,713,903	117,185,289	63,528,614
Other Production	9,813,859	6,687,797	3,126,062
Total Production	<u>190,527,762</u>	<u>123,873,086</u>	<u>66,654,676</u>
Transmission	75,304,438	45,637,095	29,667,343
Distribution	94,084,694	55,559,202	38,525,492
General	7,640,946	4,796,306	2,844,640
Common	12,518,192	8,127,584	4,390,608
Intangible Plant - General	2,999,636	1,906,523	1,093,113
Intangible Plant - Common	5,935,121	3,768,888	2,166,233
Acquisition Adjustment	<u>7,991,817</u>	<u>5,446,140</u>	<u>2,545,677</u>
Total Accum. Reserve for Depreciation	397,002,606	249,114,824	147,887,782
Net Electric Plant in Service	266,392,563	172,533,879	93,858,684
CWIP in Service Pending Reclass.	1,635,068	863,638	771,430
Total Electric Plant in Service	<u>\$268,027,631</u>	<u>\$173,397,517</u>	<u>\$94,630,114</u>
<b><u>Additions</u></b>			
Materials and Supplies	5,374,778	3,421,147	1,953,631
Fuel Stocks	2,885,170	1,851,638	1,033,532
Prepayments	<u>147,041</u>	<u>94,835</u>	<u>52,206</u>
Total Additions	8,406,989	5,367,620	3,039,369
Total Before Deductions	\$276,434,620	\$178,765,137	\$97,669,483
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	56,132,591	38,860,526	17,272,065
Accumulated Investment Tax Credits	1,108,792	783,250	325,542
Customer Advances	<u>835,510</u>	<u>8,624</u>	<u>826,886</u>
Total Deductions	58,076,893	39,652,400	18,424,493
<b>Year End Rate Base</b>	<u><u>\$218,357,727</u></u>	<u><u>\$139,112,737</u></u>	<u><u>\$79,244,990</u></u>