

ANNUAL REPORT

STATE OF NORTH DAKOTA

GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007



MONTANA-DAKOTA
UTILITIES CO.

A Division of MDU Resources Group, Inc.

In the Community to Serve®

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2007 North Dakota	ND % (B / A)	2006 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$138,822,049	\$57,371,973	41.33%	\$68,212,947	-15.89%
2	Firm General	91,801,920	38,463,227	41.90%	46,243,072	-16.82%
3	Small Interruptible	9,786,838	6,789,738	69.38%	9,901,360	-31.43%
4	Large Interruptible	477,236	123,564	25.89%	41,957	194.50%
5	Transportation	2,714,711	805,605	29.68%	785,452	2.57%
6	Other Operating Revenues	839,975	336,347	40.04%	355,516	-5.39%
7	Unbilled Revenue	1,837,826	1,420,441	77.29%	(3,334,690)	-142.60%
8	Total Operating Revenues	\$246,280,555	\$105,310,895	42.76%	\$122,205,614	-13.82%
<u>Operating Expenses:</u>						
9	Cost of Purchased Gas	\$184,804,349	\$82,212,374	44.49%	\$99,531,966	-17.40%
10	Other Gas Supply Expense	277,415	121,556	43.82%	119,011	2.14%
11	Distribution Expense	15,145,199	6,629,194	43.77%	6,545,573	1.28%
12	Customer Accounts Expense	7,589,529	2,972,996	39.17%	3,107,791	-4.34%
13	Customer Service & Info. Exp.	367,101	190,063	51.77%	176,612	7.62%
14	Sales Expense	916,570	360,157	39.29%	365,997	-1.60%
15	Administration & General Exp.	15,881,923	6,679,728	42.06%	6,569,850	1.67%
16	Depreciation Expense	8,408,148	2,933,987	34.89%	2,837,693	3.39%
17	Taxes Other than Income	4,888,904	1,283,299	26.25%	1,339,285	-4.18%
18	Total Operating Expenses	\$238,279,138	\$103,383,354	43.39%	\$120,593,778	-14.27%
19	Net Operating Income					
20	before Income Taxes	\$8,001,417	\$1,927,541	24.09%	\$1,611,836	19.59%
<u>Income Tax Expense:</u>						
21	Investment Tax Credits					
22	Deferred Income Taxes	(\$3,228,968)	(\$1,527,115)	47.29%	(\$1,049,215)	45.55%
23	Income Taxes	3,715,703	1,438,849	38.72%	899,914	59.89%
24	Total Income Tax Expense	\$486,735	(\$88,266)	-18.13%	(\$149,301)	-40.88%
25	Net Regulated Earnings	\$7,514,682	\$2,015,807	26.82%	\$1,761,137	14.46%

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2007 North Dakota	ND % (B / A)	2006 North Dakota	Variance (B-D / D)
Rate Base:						
1	Plant in Service	\$250,513,946	\$86,584,608	34.56%	\$82,112,451	5.45%
2	Less: Accumulated Depreciation	151,109,020	58,771,983	38.89%	56,269,922	4.45%
3	Add: Construct. Work in Prog. 1/	2,088,670	1,057,146	50.61%	771,454	37.03%
4	Net Plant in Service	<u>\$101,493,596</u>	<u>\$28,869,771</u>	<u>28.44%</u>	<u>\$26,613,983</u>	<u>8.48%</u>
Additions:						
5	Materials and Supplies 2/	\$1,894,411	\$811,274	42.82%	\$711,485	14.03%
6	Prepayments 2/	427,567	148,316	34.69%	155,322	-4.51%
7	Fuel Stocks 2/	29,232	29,232	100.00%	21,407	36.55%
8	Gas in Underground Storage	8,241,001		0.00%		
9	Prepaid Demand/Commodity	1,083,634		0.00%		
10	Gas IRP & Other	87,248		0.00%		
11	Total Additions	<u>\$11,763,093</u>	<u>\$988,822</u>	<u>8.41%</u>	<u>\$888,214</u>	<u>11.33%</u>
Deductions:						
12	Accum. Deferred Income Taxes	\$10,395,188	\$3,779,372	36.36%	\$3,929,686	-3.83%
13	Accumulated Deferred ITC's	175,014	78,168	44.66%	100,538	-22.25%
14	Cust. Advances for Construct. 2/	1,577,735	747,446	47.37%	584,368	27.91%
15	Total Deductions	<u>\$12,147,937</u>	<u>\$4,604,986</u>	<u>37.91%</u>	<u>\$4,614,592</u>	<u>-0.21%</u>
16	Average Rate Base	<u><u>\$101,108,752</u></u>	<u><u>\$25,253,607</u></u>	<u>24.98%</u>	<u><u>\$22,887,605</u></u>	<u>10.34%</u>
17	Rate of Return on Avg. Rate Base	7.432%	7.982%		7.695%	
18	Less: Weighted Cost of Debt	3.074%	3.074%		3.493%	
19	Weighted Cost of Pref. Stock	<u>0.181%</u>	<u>0.181%</u>		<u>0.167%</u>	
20	Weighted Return on Equity	4.177%	4.727%		4.035%	
21	% of Equity to Capital Structure	<u>53.554%</u>	<u>53.554%</u>		<u>48.271%</u>	
22	Return on Equity	<u><u>7.800%</u></u>	<u><u>8.827%</u></u>		<u><u>8.359%</u></u>	

1/ Completed construction at December 31, 2007 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	2007 Average (000's)	Ratio	Cost	Weighted Cost
1	Long-Term Debt	\$153,750	38.210%	7.311%	2.794%
2	Short Term Debt 1/	17,289	4.297%	6.512%	0.280%
3	Preferred Equity	15,850	3.939%	4.605%	0.181%
4	Common Equity	215,490	53.554%	2/	2/
5	Total	<u>\$402,379</u>	<u>100.000%</u>		<u>2/</u>

1/ Reflects monthly average short term debt.

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

II. CAPITAL STRUCTURE - TOTAL UTILITY

**MONTANA-DAKOTA UTILITIES CO.
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2007**

<u>Description</u>	<u>Date of Issuance</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount of Issue</u>	<u>Gross Proceeds</u>	<u>Underwriters' Commission</u>		<u>Loss on Reacquirement Redemption and Issuance Expense</u>	
						<u>Amount</u>	<u>% Gross Proceeds</u>	<u>Amount</u>	<u>% Gross Proceeds</u>
First Mortgage Bonds:									
Secured Medium-term Notes, Series A:									
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%
6.33% - Senior Note	08/24/06	08/24/26	6.330%	100,000,000	100,000,000	344,061	0.344%	10,532,009	10.532%
				<u>\$195,000,000</u>	<u>\$194,911,100</u>	<u>\$1,100,311</u>		<u>\$18,021,177</u>	
<u>Description</u>	<u>Net Proceeds</u>		<u>Cost of Money 1/</u>	<u>Principal Outstanding</u>	<u>Annual Cost</u>	<u>Embedded Cost</u>			
	<u>Amount</u>	<u>Per Unit</u>							
First Mortgage Bonds:									
Secured Medium-term Notes, Series A:									
8.6%	\$28,906,532	82.590%	11.020%	\$4,500,000	\$495,900				
6.71%	13,488,404	89.923%	8.195%	1,000,000	81,950				
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				
6.33% - Senior Note	89,123,930	89.124%	7.514%	100,000,000	7,514,000				
Total Long-Term Debt Capital	<u>\$175,789,612</u>			<u>\$150,500,000</u>	<u>\$10,866,250</u>	<u>7.220%</u>			

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	\$53,342	\$53,342
2		Natural Gas Sales	7,102	7,102
3	Williston Basin Interstate Pipeline	Electric Sales	946,981	302,682
4	Company	Natural Gas Pipeline Services	(37,216,085)	(15,554,814)
5		Natural Gas Sales	29,043	4,359
6	FutureSource	Electric Sales	145,033	145,033
7		Natural Gas Sales	8,495	8,495
8	Atlas Inc.	Electric Sales	17,077	17,077
9		Natural Gas Sales	5,546	5,546
10	Pioneer Construction	Electric Sales	13	13
11	Fidelity Exploration & Production	Electric Sales	76,938	0
12	Company	Natural Gas Sales	3,992	0
13	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(21,819,004)	(9,583,673)
14	Bitter Creek Pipeline	Electric Sales	3,866	0
15		Natural Gas Sales	3,370	0
16	JTL Group	Natural Gas Sales	61,788	0
17	Rocky Mountain Contractor	Natural Gas Sales	3,185	0
18	Total		<u>(\$57,669,318)</u>	<u>(\$24,594,838)</u>

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

Line #	Description	2007	2006	2005	2004	2003
	<u>Customer Related</u>					
1	Year End Customers - Residential	78,138	76,991	75,732	75,102	74,112
2	- Firm General	11,755	11,603	11,701	11,406	11,346
3	- Small Interruptible	65	47	48	35	42
4	- Large Interruptible	0	0	0	0	0
5	- Other - Transportation 1/	92	107	105	124	113
6	- Total	<u>90,050</u>	<u>88,748</u>	<u>87,586</u>	<u>86,667</u>	<u>85,613</u>
7	Dk Sold - Residential	7,361,698	6,911,260	7,494,854	7,377,105	8,083,189
8	- Firm General	5,418,114	5,050,791	5,430,457	5,352,509	5,779,570
9	- Small Interruptible	1,275,829	1,332,694	1,385,018	1,453,110	1,553,157
10	- Large Interruptible	17,966	4,239	2,583	1,379	63,409
11	- Other - Transportation	3,140,679	2,932,181	3,365,786	3,391,066	3,155,747
12	- Total	<u>17,214,286</u>	<u>16,231,165</u>	<u>17,678,698</u>	<u>17,575,169</u>	<u>18,635,072</u>

1/ May include duplication of customers also receiving sales service.

NORTH DAKOTA COST OF SERVICE STUDY

GAS OPERATIONS

2007

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2007

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$138,822,049	\$57,371,973	\$81,450,076
Firm General	91,801,920	38,463,227	53,338,693
Small Interruptible	9,786,838	6,789,738	2,997,100
Large Interruptible	477,236	123,564	353,672
Unbilled Revenue	1,812,458	1,409,351	403,107
Total Sales Revenues	<u>242,700,501</u>	<u>104,157,853</u>	<u>138,542,648</u>
Transportation Revenues			
Small Interruptible	1,474,966	400,372	1,074,594
Large Interruptible	1,239,745	405,233	834,512
Unbilled Revenue	25,368	11,090	14,278
Total Transportation Revenues	<u>2,740,079</u>	<u>816,695</u>	<u>1,923,384</u>
Other Operating Revenues	839,975	336,347	503,628
Total Operating Revenues	<u>\$246,280,555</u>	<u>\$105,310,895</u>	<u>\$140,969,660</u>
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Purchased Gas	\$184,804,349	\$82,212,374	\$102,591,975
Other Gas Supply	277,415	121,556	155,859
Distribution	15,145,199	6,629,194	8,516,005
Customer Accounts	7,589,529	2,972,996	4,616,533
Customer Service & Information	367,101	190,063	177,038
Sales	916,570	360,157	556,413
Administrative & General	15,881,923	6,679,728	9,202,195
Total O&M Expenses	<u>224,982,086</u>	<u>99,166,068</u>	<u>125,816,018</u>
Depreciation			
Distribution	6,055,207	2,134,784	3,920,423
General	835,556	256,866	578,690
Common	899,174	326,422	572,752
Amort. of Intangible Plant - General	425	0	425
Amort. of Intangible Plant - Common	613,200	212,675	400,525
Amort. of Acquisition Adjustment	2,819	2,819	0
Gas Leased to Others	1,767	421	1,346
Total Depreciation Expense	<u>8,408,148</u>	<u>2,933,987</u>	<u>5,474,161</u>

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2007

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Operating Expenses Con't.</u>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Distribution	2,404,582	477,334	1,927,248
General	183,040	43,594	139,446
Common	210,768	52,199	158,569
Intangible	2,837	2,199	638
Total Ad Valorem Taxes	<u>2,801,227</u>	<u>575,326</u>	<u>2,225,901</u>
Other Taxes	<u>2,087,677</u>	<u>707,973</u>	<u>1,379,704</u>
Total Taxes Other Than Income Taxes	<u>4,888,904</u>	<u>1,283,299</u>	<u>3,605,605</u>
Current Income Taxes	3,715,703	1,438,849	2,276,854
Deferred Income Taxes	<u>(3,228,968)</u>	<u>(1,527,115)</u>	<u>(1,701,853)</u>
Total Operating Expenses	<u>\$238,765,873</u>	<u>\$103,295,088</u>	<u>\$135,470,785</u>
Operating Income	<u><u>\$7,514,682</u></u>	<u><u>\$2,015,807</u></u>	<u><u>\$5,498,875</u></u>
Year End Rate Base	<u><u>\$104,177,215</u></u>	<u><u>\$26,742,374</u></u>	<u><u>\$77,434,841</u></u>
Rate of Return	<u><u>7.21%</u></u>	<u><u>7.54%</u></u>	<u><u>7.10%</u></u>

**MONTANA-DAKOTA UTILITIES CO.
YEAR END RATE BASE
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2007**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Plant in Service</u>			
Gas Plant in Service			
Distribution	\$203,533,079	\$71,305,481	\$132,227,598
General	27,829,945	8,511,255	19,318,690
Intangible Plant - General	451,800	177,170	274,630
Common	18,320,125	5,990,612	12,329,513
Intangible Plant - Common	8,990,535	3,118,176	5,872,359
Acquisition Adjustment	97,266	97,266	
Gas Plant Leased to Others - Distribution	25,773	11,374	14,399
Total Gas Plant in Service	<u>259,248,523</u>	<u>89,211,334</u>	<u>170,037,189</u>
Accumulated Reserve for Depreciation			
Distribution	127,743,211	49,441,869	78,301,342
General	13,167,300	4,919,806	8,247,494
Intangible Plant - General	451,586	177,169	274,417
Common	7,399,080	3,321,549	4,077,531
Intangible Plant - Common	5,654,328	1,961,082	3,693,246
Acquisition Adjustment	41,115	41,115	0
Gas Plant Leased to Others - Distribution	24,727	7,229	17,498
Total Accum. Reserve for Depreciation	<u>154,481,347</u>	<u>59,869,819</u>	<u>94,611,528</u>
Net Gas Plant in Service	104,767,176	29,341,515	75,425,661
CWIP in Service Pending Reclass.	2,088,670	1,057,146	1,031,524
Total Gas Plant in Service	<u>\$106,855,846</u>	<u>\$30,398,661</u>	<u>\$76,457,185</u>
<u>Additions</u>			
Materials and Supplies	1,815,878	803,096	1,012,782
Fuel Stocks	38,013	38,013	
Prepayments	61,195	21,225	39,970
Gas in Underground Storage	6,219,654		6,219,654
Demand Charges	1,050,726		1,050,726
Gas IRP & Other	79,316		79,316
Total Additions	<u>9,264,782</u>	<u>862,334</u>	<u>8,402,448</u>
Total Before Deductions	\$116,120,628	\$31,260,995	\$84,859,633
<u>Deductions</u>			
Accumulated Deferred Income Taxes	10,090,957	3,637,283	6,453,674
Accumulated Investment Tax Credits	148,337	66,596	81,741
Customer Advances	1,704,119	814,742	889,377
Total Deductions	<u>11,943,413</u>	<u>4,518,621</u>	<u>7,424,792</u>
Year End Rate Base	<u><u>\$104,177,215</u></u>	<u><u>\$26,742,374</u></u>	<u><u>\$77,434,841</u></u>

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

2007



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INDEPENDENT AUDITORS' REPORT

To the Managing Committee of
Montana-Dakota Utilities Co.:

We have audited the accompanying schedules of Cost of GAS (COG) and Fuel Cost Adjustments (FCA) computed as set forth in Chapters 69-09-01-30 and 69-09-02-39, respectively, of the North Dakota Administrative Code (the "Code"), and included in the monthly filings of Montana-Dakota Utilities Co. (the "Company") for the year ended December 31, 2007. These calculations of the COG and FCA are the responsibility of the Company's management. Our responsibility is to express an opinion on the calculations of the COG and FCA based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the calculations are free of material misstatement. An audit includes consideration of internal control over the calculations as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over the calculations. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts in the calculations, assessing the accounting principles used by management (including compliance with the financial procedural aspects of the automatic adjustment clause calculations of the North Dakota Public Service Commission (the "Commission") for the COG and FCA as set forth in Chapters 69-09-01-30 and 69-09-02-39, respectively, of the Code) and significant estimates made by management, as well as evaluating the overall presentation of the calculations in conformity with the Cost of Gas and Fuel Clause Tariffs, respectively, approved by the Commission and the Federal Energy Regulatory Commission (FERC) uniform system of accounts prescribed by the Commission. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules were prepared for the purpose of complying with the Commission's approved Cost of Gas and Fuel Clause Adjustment Tariffs, respectively, and the uniform system of accounts prescribed by the FERC and is not intended to be a complete presentation of the Company's revenues and expenses.

In our opinion, such schedules present fairly, in all material respects, the results of the monthly COG and FCA calculations for the year ended December 31, 2007, in accordance with the Cost of Gas and Fuel Clause Tariffs approved by the Commission and in conformity with the uniform system of accounts prescribed by FERC.

This report is intended solely for the information and use of the Managing Committee of the Company and the North Dakota Public Service Commission and should not be used for any other purposes.

Deloitte & Touche LLP

April 8, 2008

MONTANA-DAKOTA UTILITIES CO.**SCHEDULE I****SCHEDULE OF 2007 MONTHLY AUTOMATIC ADJUSTMENT CLAUSE
CALCULATIONS FOR THE CHANGE IN THE COST OF GAS**

Effective for the Month of:	Residential and General Service	Small and Large Interruptible	Air Force Interruptible
January (1)	\$ -	\$ -	\$ -
February	(0.754)	(0.798)	(0.794)
March	1.279	1.275	1.269
April (1)	-	-	-
May	(1.642)	(2.182)	(2.055)
June	0.801	0.799	0.795
July	(1.093)	(1.088)	(1.083)
August (1)	-	-	-
September (1)	-	-	-
October	(1.516)	(1.260)	(1.130)
November	(0.759)	(0.765)	(0.761)
December	1.678	1.678	1.670

(1) No COG filing was required for the indicated month pursuant to COG Rate 88, since the adjustment was less than \$0.10 per dekatherm.