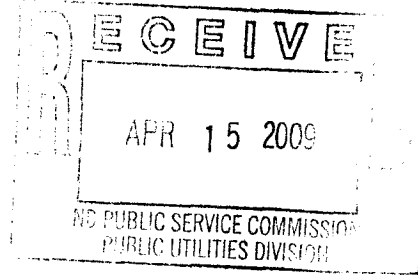


 **MONTANA-DAKOTA**  
UTILITIES CO.  
A Division of MDU Resources Group, Inc.

400 North Fourth Street  
Bismarck, ND 58501  
(701) 222-7900

April 15, 2009

Executive Secretary  
North Dakota Public Service  
Commission  
State Capitol Building  
Bismarck, ND 58505



Re: Annual Reports

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., herewith submits one copy of its Electric and Gas Annual Reports for the year ended December 31, 2008 consisting of:

North Dakota Electric and Gas Annual Reports  
North Dakota Electric and Gas Cost of Service Studies  
Report of Independent Public Accountants  
2008 Annual Report to Stockholders

A copy of the FERC Form No. 1 is not available at this time. A copy will be sent shortly.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Donald R. Ball  
Vice President - Regulatory Affairs

Enclosures

# **ANNUAL REPORT**

## **STATE OF NORTH DAKOTA**

### **GAS OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2008**



**MONTANA-DAKOTA**  
**UTILITIES CO.**

*A Division of MDU Resources Group, Inc.*

***In the Community to Serve®***

#### **INDEX**

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- 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	2008 North Dakota	ND % (B / A)	2007 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$180,896,937	\$74,353,509	41.10%	\$57,371,973	29.60%
2	Firm General	121,933,892	51,070,969	41.88%	38,463,227	32.78%
3	Small Interruptible	13,942,364	9,687,474	69.48%	6,789,738	42.68%
4	Large Interruptible	714,209	74,160	10.38%	123,564	-39.98%
5	Transportation	2,960,912	1,096,001	37.02%	805,605	36.05%
6	Other Operating Revenues	1,127,352	405,927	36.01%	336,347	20.69%
7	Unbilled Revenue	7,635,751	2,776,083	36.36%	1,420,441	95.44%
8	<b>Total Operating Revenues</b>	<b>\$329,211,417</b>	<b>\$139,464,123</b>	<b>42.36%</b>	<b>\$105,310,895</b>	<b>32.43%</b>
<u>Operating Expenses:</u>						
9	Cost of Purchased Gas	\$262,479,875	\$113,198,197	43.13%	\$82,212,374	37.69%
10	Other Gas Supply Expense	284,810	125,218	43.97%	121,556	3.01%
11	Distribution Expense	17,236,538	7,767,738	45.07%	6,629,194	17.17%
12	Customer Accounts Expense	7,477,824	2,744,634	36.70%	2,972,996	-7.68%
13	Customer Service & Info. Exp.	486,685	247,453	50.84%	190,063	30.20%
14	Sales Expense	883,994	312,949	35.40%	360,157	-13.11%
15	Administration & General Exp.	16,223,114	6,905,587	42.57%	6,679,728	3.38%
16	Depreciation Expense	8,765,665	3,026,521	34.53%	2,933,987	3.15%
17	Taxes Other than Income	5,724,363	1,478,592	25.83%	1,283,299	15.22%
18	<b>Total Operating Expenses</b>	<b>\$319,562,868</b>	<b>\$135,806,889</b>	<b>42.50%</b>	<b>\$103,383,354</b>	<b>31.36%</b>
19	Net Operating Income					
20	before Income Taxes	\$9,648,549	\$3,657,234	37.90%	\$1,927,541	89.74%
<u>Income Tax Expense:</u>						
21	Investment Tax Credits					
22	Deferred Income Taxes	\$10,821,547	\$4,708,244	43.51%	(\$1,527,115)	-408.31%
23	Income Taxes	(9,712,937)	(4,259,184)	43.85%	1,438,849	-396.01%
24	<b>Total Income Tax Expense</b>	<b>\$1,108,610</b>	<b>\$449,060</b>	<b>40.51%</b>	<b>(\$88,266)</b>	<b>-608.76%</b>
25	<b>Net Regulated Earnings</b>	<b>\$8,539,939</b>	<b>\$3,208,174</b>	<b>37.57%</b>	<b>\$2,015,807</b>	<b>59.15%</b>

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2008 North Dakota	ND % (B / A)	2007 North Dakota	Variance (B-D / D)
<u>Rate Base:</u>						
1	Plant in Service	\$273,107,652	\$95,534,731	34.98%	\$86,584,608	10.34%
2	Less: Accumulated Depreciation	157,975,679	61,169,085	38.72%	58,771,983	4.08%
3	Add: Construct. Work in Prog. 1/	2,258,643	1,065,512	47.17%	1,057,146	0.79%
4	Net Plant in Service	<u>\$117,390,616</u>	<u>\$35,431,158</u>	30.18%	<u>\$28,869,771</u>	22.73%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$2,099,531	\$941,235	44.83%	\$811,274	16.02%
6	Prepayments 2/	345,807	117,308	33.92%	148,316	-20.91%
7	Fuel Stocks 2/	30,398	30,398	100.00%	29,232	3.99%
8	Gas in Underground Storage	4,676,769		0.00%		
9	Prepaid Demand/Commodity	1,149,055		0.00%		
10	Gas IRP & Other	184,165		0.00%		
11	Unamortized Loss on Debt	2,932,996	895,041	30.52%	949,317	-5.72%
12	Total Additions	<u>\$11,418,721</u>	<u>\$1,983,982</u>	17.37%	<u>\$1,938,139</u>	2.37%
<u>Deductions:</u>						
13	Accum. Deferred Income Taxes	\$12,147,573	\$4,239,423	34.90%	\$3,779,372	12.17%
14	Accumulated Deferred ITC's	121,299	55,646	45.88%	78,168	-28.81%
15	Cust. Advances for Construct. 2/	1,975,475	961,135	48.65%	747,446	28.59%
16	Total Deductions	<u>\$14,244,347</u>	<u>\$5,256,204</u>	36.90%	<u>\$4,604,986</u>	14.14%
17	<b>Average Rate Base</b>	<u><u>\$114,564,990</u></u>	<u><u>\$32,158,936</u></u>	28.07%	<u><u>\$26,202,924</u></u> 3/	22.73%
18	Rate of Return on Avg. Rate Base	7.454%	9.976%		7.693%	
19	Less: Weighted Cost of Debt	3.019%	3.019%		3.074%	
20	Weighted Cost of Pref. Stock	<u>0.141%</u>	<u>0.141%</u>		<u>0.181%</u>	
21	Weighted Return on Equity	4.294%	6.816%		4.438%	
22	% of Equity to Capital Structure	<u>48.717%</u>	<u>48.717%</u>		<u>53.554%</u>	
23	<b>Return on Equity</b>	<u><u>8.814%</u></u>	<u><u>13.991%</u></u>		<u><u>8.287%</u></u>	
24	<b>Return on Equity - Adjusted 4/</b>		<u><u>4.873%</u></u>			

1/ Completed construction at December 31, 2008 not yet classified.

2/ Thirteen month average.

3/ Includes unamortized loss on debt.

4/ Reflects exclusion of 401K tax deduction, not attributable to utility service and normalized margin.

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

Line #	Description	(A) 2008 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$193,254	37.683%	7.016%	2.644%
2	Short Term Debt 2/	53,998	10.529%	3.558%	0.375%
3	Preferred Equity	15,750	3.071%	4.601%	0.141%
4	Common Equity	249,840	48.717%	3/	3/
5	Total	<u>\$512,842</u>	<u>100.000%</u>		<u>3/</u>

- 1/ Includes Minot Air Force Base note payable issued September 23, 2008.  
2/ Return on equity is calculated in Section I, page 2 of 2  
3/ Reflects monthly average short term debt.

MONTANA-DAKOTA UTILITIES CO.  
LONG-TERM DEBT CAPITAL  
DECEMBER 31, 2008

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition and Redemption	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
<u>First Mortgage Bonds:</u>									
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%
5.98% - 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%
6.04% - Senior Note	09/16/08	09/16/18	6.040%	100,000,000	100,000,000	362,432	0.362%	0	0.000%
				<u>\$280,000,000</u>	<u>\$279,911,100</u>	<u>\$1,368,993</u>		<u>\$17,928,841</u>	

Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost
	Amount	Per Unit				
<u>First Mortgage Bonds:</u>						
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	
5.98% - 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	
6.04% - Senior Note	99,637,568	99.638%	6.181%	100,000,000	6,181,000	
Total Long-Term Debt Capital	<u>\$260,613,266</u>			<u>\$235,500,000</u>	<u>\$16,134,350</u>	<u>6.851%</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	\$107,634	\$107,634
2		Natural Gas Sales	34,077	34,077
3	Williston Basin Interstate Pipeline	Electric Sales	1,478,702	399,237
4	Company	Natural Gas Pipeline Services	(37,633,274)	(15,528,718)
5		Natural Gas Sales	37,601	5,850
6	FutureSource	Electric Sales	147,481	147,481
7		Natural Gas Sales	9,717	9,717
8	Fidelity Exploration & Production	Electric Sales	76,369	308
9	Company	Natural Gas Sales	1,289	0
10	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(34,459,783)	(14,459,922)
11	Bitter Creek Pipeline	Electric Sales	3,524	0
12		Natural Gas Sales	8,650	0
13	JTL Group	Natural Gas Sales	63,609	0
14	Rocky Mountain Contractor	Natural Gas Sales	3,437	0
	Total		<u>(\$70,120,967)</u>	<u>(\$29,284,336)</u>

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

Line #	Description	2008	2007	2006	2005	2004
	<u>Customer Related</u>					
1	Year End Customers - Residential	79,333	78,138	76,991	75,732	75,102
2	- Firm General	11,899	11,755	11,603	11,701	11,406
3	- Small Interruptible	74	65	47	48	35
4	- Large Interruptible	0	0	0	0	0
5	- Other - Transportation 1/	89	92	107	105	124
6	- Total	91,395	90,050	88,748	87,586	86,667
7	Dk Sold - Residential	7,881,702	7,361,698	6,911,260	7,494,854	7,377,105
8	- Firm General	5,798,692	5,418,114	5,050,791	5,430,457	5,352,509
9	- Small Interruptible	1,338,635	1,275,829	1,332,694	1,385,018	1,453,110
10	- Large Interruptible	9,893	17,966	4,239	2,583	1,379
11	- Other - Transportation	4,091,615	3,140,679	2,932,181	3,365,786	3,391,066
12	- Total	19,120,537	17,214,286	16,231,165	17,678,698	17,575,169

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

**NORTH DAKOTA COST OF SERVICE STUDY**

**GAS OPERATIONS**

**2008**

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2008**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Revenues</u></b>			
<b>Sales Revenues</b>			
Residential	\$180,896,937	\$74,353,509	\$106,543,428
Firm General	121,933,892	51,070,969	70,862,923
Small Interruptible	13,942,364	9,687,474	4,254,890
Large Interruptible	714,209	74,160	640,049
Unbilled Revenue	7,677,697	2,772,683	4,905,014
Total Sales Revenues	<u>325,165,099</u>	<u>137,958,795</u>	<u>187,206,304</u>
<b>Transportation Revenues</b>			
Small Interruptible	1,370,476	424,450	946,026
Large Interruptible	1,590,436	671,551	918,885
Unbilled Revenue	(41,946)	3,400	(45,346)
Total Transportation Revenues	<u>2,918,966</u>	<u>1,099,401</u>	<u>1,819,565</u>
Other Operating Revenues	1,127,352	405,927	721,425
Total Operating Revenues	<u>\$329,211,417</u>	<u>\$139,464,123</u>	<u>\$189,747,294</u>
<b><u>Operating Expenses</u></b>			
<b>Operation and Maintenance</b>			
Cost of Purchased Gas	\$262,479,875	\$113,198,197	\$149,281,678
Other Gas Supply	284,810	125,218	159,592
Distribution	17,236,538	7,767,738	9,468,800
Customer Accounts	7,477,824	2,744,634	4,733,190
Customer Service & Information	486,685	247,453	239,232
Sales	883,994	312,949	571,045
Administrative & General	16,223,114	6,905,587	9,317,527
Total O&M Expenses	<u>305,072,840</u>	<u>131,301,776</u>	<u>173,771,064</u>
<b>Depreciation</b>			
Distribution	6,670,824	2,354,151	4,316,673
General	623,237	190,567	432,670
Common	809,405	237,662	571,743
Amort. of Intangible Plant - General	27,655	27,442	213
Amort. of Intangible Plant - Common	629,958	213,459	416,499
Amort. of Acquisition Adjustment	2,819	2,819	0
Gas Leased to Others	1,767	421	1,346
Total Depreciation Expense	<u>8,765,665</u>	<u>3,026,521</u>	<u>5,739,144</u>

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2008**

	<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			
Distribution	2,804,058	568,347	2,235,711
General	190,635	48,644	141,991
Common	379,864	54,530	325,334
Intangible	2,989	2,373	616
Total Ad Valorem Taxes	<u>3,377,546</u>	<u>673,894</u>	<u>2,703,652</u>
Other Taxes	<u>2,346,817</u>	<u>804,698</u>	<u>1,542,119</u>
Total Taxes Other Than Income Taxes	<u>5,724,363</u>	<u>1,478,592</u>	<u>4,245,771</u>
Current Income Taxes	(9,712,937)	(4,259,184)	(5,453,753)
Deferred Income Taxes	<u>10,821,547</u>	<u>4,708,244</u>	<u>6,113,303</u>
Total Operating Expenses	<u>\$320,671,478</u>	<u>\$136,255,949</u>	<u>\$184,415,529</u>
<b>Operating Income</b>	<u><u>\$8,539,939</u></u>	<u><u>\$3,208,174</u></u>	<u><u>\$5,331,765</u></u>
<b>Year End Rate Base</b>	<u><u>\$121,062,367</u></u>	<u><u>\$36,317,760</u></u>	<u><u>\$84,744,607</u></u>
<b>Rate of Return</b>	<u><u>7.05%</u></u>	<u><u>8.83%</u></u>	<u><u>6.29%</u></u>

**MONTANA-DAKOTA UTILITIES CO.**  
**YEAR END RATE BASE**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2008**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Plant in Service</u></b>			
Gas Plant in Service			
Distribution	\$225,103,503	\$80,588,493	\$144,515,010
General	28,178,715	8,508,521	19,670,194
Intangible Plant - General	3,927,115	3,649,536	277,579
Common	20,501,107	5,908,092	14,593,015
Intangible Plant - Common	9,133,302	3,094,845	6,038,457
Acquisition Adjustment	97,266	97,266	
Gas Plant Leased to Others - Distribution	25,773	11,374	14,399
Total Gas Plant in Service	<u>286,966,781</u>	<u>101,858,127</u>	<u>185,108,654</u>
Accumulated Reserve for Depreciation			
Distribution	133,362,355	51,421,305	81,941,050
General	13,817,513	5,415,879	8,401,634
Intangible Plant - General	481,477	203,898	277,579
Common	7,587,883	3,291,653	4,296,230
Intangible Plant - Common	6,150,353	2,084,031	4,066,322
Acquisition Adjustment	43,934	43,934	0
Gas Plant Leased to Others - Distribution	26,495	7,650	18,845
Total Accum. Reserve for Depreciation	<u>161,470,010</u>	<u>62,468,350</u>	<u>99,001,660</u>
Net Gas Plant in Service	125,496,771	39,389,777	86,106,994
CWIP in Service Pending Reclass.	2,258,643	1,065,512	1,193,131
Total Gas Plant in Service	<u>\$127,755,414</u>	<u>\$40,455,289</u>	<u>\$87,300,125</u>
<b><u>Additions</u></b>			
Materials and Supplies	2,193,544	985,484	1,208,060
Fuel Stocks	33,492	33,492	
Prepayments	60,708	20,587	40,121
Gas in Underground Storage	3,133,884		3,133,884
Demand Charges	1,247,383		1,247,383
Gas IRP & Other	289,014		289,014
Unamortized Loss on Debt	2,851,773	865,528	1,986,245
Total Additions	<u>9,809,798</u>	<u>1,905,091</u>	<u>7,904,707</u>
Total Before Deductions	\$137,565,212	\$42,360,380	\$95,204,832
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	14,204,189	4,841,563	9,362,626
Accumulated Investment Tax Credits	94,261	44,696	49,565
Customer Advances	2,204,395	1,156,361	1,048,034
Total Deductions	<u>16,502,845</u>	<u>6,042,620</u>	<u>10,460,225</u>
Year End Rate Base	<u>\$121,062,367</u>	<u>\$36,317,760</u>	<u>\$84,744,607</u>

**REPORT OF INDEPENDENT  
PUBLIC ACCOUNTANTS**

**2008**



Deloitte & Touche LLP  
50 South Sixth Street  
Suite 2800  
Minneapolis, MN 55402-1538  
USA

Tel: +1 612 397 4445  
Fax: +1 612 397 4450  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the calculations of the Cost of Gas Adjustment (COG) and Fuel Cost Adjustment (FCA) shown on the accompanying schedules and included in the monthly filings of Montana-Dakota Utilities Co. (the "Company"), a division of MDU Resources Group Inc., for the year ended December 31, 2008, based upon Chapters 69-09-01-30 and 69-09-02-39, respectively, of the North Dakota Administrative Code (the "Code") and Cost of Gas Rate 88 and Fuel Clause Rate 58 (the "Tariffs") filed by the Company with the North Dakota Public Service Commission (the "Commission"). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting as it relates to the calculations. Our audit included 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, and significant estimates made by management, as well as evaluating the overall presentation of the calculations. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules were prepared for the purpose of complying with Chapters 69-09-01-30 and 69-09-02-39, respectively, of the Code and are not intended to be a complete presentation of the Company's revenues and expenses.

In our opinion, the accompanying schedules present fairly, in all material respects, the calculations of the COG and FCA for the year ended December 31, 2008 in accordance with the Code and Tariffs approved by the Commission.

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.

April 13, 2009

SCHEDULE I

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2008 AUTOMATIC ADJUSTMENT CLAUSE  
CALCULATIONS FOR THE COST OF GAS ADJUSTMENT

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Effective for the Month of:	Residential and General Service	Small and Large Interruptible	Air Force Interruptible
January	\$ 1.718	\$ 1.706	\$ 1.699
February	1.047	1.057	1.052
March	0.650	0.641	0.638
April	0.830	0.843	0.839
May	0.424	0.446	0.444
June	1.233	1.215	1.210
July (1)	N/A	N/A	N/A
August	0.749	0.930	0.646
September	(2.221)	(2.217)	(2.207)
October	(3.530)	(4.011)	(4.174)
November	1.143	1.151	1.147
December	(0.290)	(0.293)	(0.292)

(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.

SCHEDULE II

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2008 AUTOMATIC ADJUSTMENT CLAUSE  
CALCULATIONS FOR THE FUEL COST ADJUSTMENT

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Effective for the Month of:	Fuel Cost Adjustments per KWH
January	\$ 0.00899
February	0.01121
March	0.01165
April	0.01227
May	0.01142
June	0.00653
July	0.00710
August	0.01039
September	0.01263
October	0.01590
November	0.01352
December	0.00990