



# ANNUAL REPORT

## STATE OF NORTH DAKOTA

### ELECTRIC OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007



# MONTANA-DAKOTA UTILITIES CO.

*A Division of MDU Resources Group, Inc.*

***In the Community to Serve®***

#### INDEX

---

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

I. INTRASTATE RETURN ON EQUITY

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2007		ND % (B/A)	2006	
	Total Company	North Dakota			North Dakota	Variance (B-D/D)
<b>Operating Revenues:</b>						
1	Residential	\$71,232,030	\$43,868,540	61.59%	\$39,844,250	10.10%
2	Small General	21,984,176	8,241,739	37.49%	7,542,793	9.27%
3	Large General 1/	78,250,885	54,023,805	69.04%	48,093,884	12.33%
4	Lighting Service	3,004,639	1,844,644	61.39%	1,676,417	10.03%
5	Municipal Pumping Service	2,176,953	1,703,122	78.23%	1,523,927	11.76%
6	Cogeneration	30	30	100.00%	16	87.50%
7	Sales for Resale	5,700,087	3,718,966	65.24%	9,491,576	-60.82%
8	Margin Sharing Adjustment	2,978,337	2,978,337	100.00%	1,081,393	175.42%
9	Other Operating Revenues	5,791,957	3,458,072	59.70%	3,187,687	8.48%
10	Unbilled Revenue	1,236,025	803,433	65.00%	90,078	791.93%
11	<b>Total Operating Revenues</b>	<b>\$192,355,119</b>	<b>\$120,640,688</b>	<b>62.72%</b>	<b>\$112,532,021</b>	<b>7.21%</b>
<b>Operating Expenses:</b>						
12	Production Expense	\$89,844,669	\$50,981,770	56.74%	\$50,588,422	0.78%
13	Transmission Expense	7,494,073	5,111,018	68.20%	5,317,382	-3.88%
14	Distribution Expense	11,315,706	6,448,991	56.99%	6,095,191	5.80%
15	Customer Accounts Expense	4,038,101	2,304,335	57.06%	2,217,928	3.90%
16	Customer Service & Info. Exp.	160,090	127,112	79.40%	130,099	-2.30%
17	Sales Expense	299,088	189,140	63.24%	236,784	-20.12%
18	Administration & General Exp.	17,763,258	11,241,131	63.28%	11,411,262	-1.49%
19	Depreciation Expense	22,460,477	13,742,426	61.18%	12,971,931	5.94%
20	Taxes Other than Income	7,879,928	4,204,204	53.35%	4,253,000	-1.15%
21	<b>Total Operating Expenses</b>	<b>\$161,255,390</b>	<b>\$94,350,127</b>	<b>58.51%</b>	<b>\$93,221,999</b>	<b>1.21%</b>
22	<b>Net Operating Income</b>					
23	before Income Taxes	\$31,099,729	\$26,290,561	84.54%	\$19,310,022	36.15%
<b>Income Tax Expense:</b>						
24	Investment Tax Credits					
25	Deferred Income Taxes	(\$767,959)	\$237,995	-30.99%	(\$435,442)	-154.66%
26	Income Taxes	8,984,553	7,552,712	84.06%	5,730,075	31.81%
27	<b>Total Income Tax Expense</b>	<b>\$8,216,594</b>	<b>\$7,790,707</b>	<b>94.82%</b>	<b>\$5,294,633</b>	<b>47.14%</b>
28	<b>Net Regulated Earnings</b>	<b>\$22,883,135</b>	<b>\$18,499,854</b>	<b>80.84%</b>	<b>\$14,015,389</b>	<b>32.00%</b>

1/ The North Dakota contract revenue delta associated with this class 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.

	2007	2006
Large General	\$689,340	\$666,578

I. INTRASTATE RETURN ON EQUITY

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2007		ND % (B/A)	2006	
	Total Company	North Dakota			North Dakota	Variance (B-D/D)
<b>Rate Base:</b>						
1	Plant in Service	\$707,160,583	\$451,957,691	63.91%	\$430,605,670	4.96%
2	Less: Accumulated Depreciation	416,103,661	262,097,978	62.99%	252,883,055	3.64%
3	Add: Construct. Work in Prog. 1/	2,740,725	1,578,413	57.59%	1,172,560	34.61%
4	Net Plant in Service	<u>\$293,797,647</u>	<u>\$191,438,126</u>	65.16%	<u>\$178,895,175</u>	7.01%
<b>Additions: 2/</b>						
5	Materials and Supplies	\$7,292,922	\$4,454,806	61.08%	\$3,855,439	15.55%
6	Fuel Stocks	3,916,573	2,553,807	65.21%	2,177,094	17.30%
7	Prepayments	329,947	213,983	64.85%	264,197	-19.01%
8	Total Additions	<u>\$11,539,442</u>	<u>\$7,222,596</u>	62.59%	<u>\$6,296,730</u>	14.70%
<b>Deductions:</b>						
9	Accum. Deferred Income Taxes	\$53,896,976	\$38,150,103	70.78%	\$38,391,447	-0.63%
10	Accumulated Deferred ITC's	612,382	417,786	68.22%	652,291	-35.95%
11	Cust. Advances for Construct. 2/	1,342,112	9,427	0.70%	8,933	5.53%
12	Total Deductions	<u>\$55,851,470</u>	<u>\$38,577,316</u>	69.07%	<u>\$39,052,671</u>	-1.22%
13	<b>Average Rate Base</b>	<u>\$249,485,619</u>	<u>\$160,083,406</u>	64.17%	<u>\$146,139,234</u>	9.54%
14	Rate of Return on Avg. Rate Base	9.172%	11.556%		9.590%	
15	Less: Weighted Cost of Debt	3.074%	3.074%		3.493%	
16	Weighted Cost of Pref. Stock	0.181%	0.181%		0.167%	
17	Weighted Return on Equity	5.917%	8.301%		5.930%	
18	% of Equity to Capital Structure	53.554%	53.554%		48.271%	
19	<b>Return on Equity</b>	<u>11.049%</u>	<u>15.500%</u>		<u>12.285%</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

Line #	Description	(A) 2007 Average (000's)	(B) Ratio	(C) Cost	(D) 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

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition and Redemption and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
<b>First Mortgage Bonds:</b>									
<b>Secured Medium-term Notes, Series A:</b>									
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>	

Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost
	Amount	Per Unit				
<b>First Mortgage Bonds:</b>						
<b>Secured Medium-term Notes, Series A:</b>						
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	
<b>Total Long-Term Debt Capital</b>	<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>

IV. MISCELLANEOUS

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	61,096	60,595	60,253	59,883	59,586
2	- Small General	10,163	8,510	10,186	10,239	10,460
3	- Large General	1,655	2,822	1,175	920	718
4	- Lighting Service	588	816	544	593	412
5	- Municipal Pumping	300	297	296	294	294
6	- Cogeneration	2	2	1	1	1
7	- Total	73,804	73,042	72,455	71,930	71,471
8	Kwh's Sold - Residential	560,762,294	542,720,464	517,749,391	475,827,895	511,247,661
9	- Small General	93,314,822	90,219,904	87,848,074	84,805,119	241,516,623
10	- Large General	793,457,649	765,569,058	740,547,879	686,931,774	543,960,423
11	- Lighting Service	26,268,694	25,975,570	25,522,363	24,762,752	24,557,190
12	- Municipal Pumping	29,433,458	29,372,371	27,098,505	25,642,104	26,794,995
13	- Cogeneration	12,885	13,381	12,221	14,223	4,689
14	- Total	1,503,249,802	1,453,870,748	1,398,778,433	1,297,983,867	1,348,081,581
15	IEEE Standards SAIFI 1/	0.580	0.343			
16	SAIDI 2/	65.02	39.39			

1/ Number of total company average customer interruptions.  
2/ Company average customer interruption duration in minutes.

**NORTH DAKOTA COST OF SERVICE STUDY**

**ELECTRIC OPERATIONS**

**2007**

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Revenues</u></b>			
<b>Sales Revenues</b>			
Residential	\$71,232,030	\$43,868,540	\$27,363,490
Small General	21,984,176	8,241,739	13,742,437
Large General	78,250,885	54,023,805	24,227,080
Lighting Service	3,004,639	1,844,644	1,159,995
Municipal Pumping Service	2,176,953	1,703,122	473,831
Cogeneration	30	30	
Sales for Resale	5,700,087	3,718,966	1,981,121
Margin Sharing Adjustment	2,978,337	2,978,337	
Unbilled Revenue	1,236,025	803,433	432,592
<b>Total Sales Revenues</b>	<b>186,563,162</b>	<b>117,182,616</b>	<b>69,380,546</b>
<b>Other Operating Revenues</b>	<b>5,791,957</b>	<b>3,458,072</b>	<b>2,333,885</b>
<b>Total Operating Revenues</b>	<b>\$192,355,119</b>	<b>\$120,640,688</b>	<b>\$71,714,431</b>
<b><u>Operating Expenses</u></b>			
<b>Operation and Maintenance</b>			
Cost of Fuel & Purchased Power	\$69,616,353	\$36,939,718	\$32,676,635
Production	20,228,316	14,042,052	6,186,264
Transmission	7,494,073	5,111,018	2,383,055
Distribution	11,315,706	6,448,991	4,866,715
Customer Accounts	4,038,101	2,304,335	1,733,766
Customer Service & Information	160,090	127,112	32,978
Sales	299,088	189,140	109,948
Administrative & General	17,763,258	11,241,131	6,522,127
<b>Total O&amp;M Expenses</b>	<b>130,914,985</b>	<b>76,403,497</b>	<b>54,511,488</b>
<b>Depreciation</b>			
Production	9,444,339	5,921,769	3,522,570
Transmission	2,560,278	1,614,961	945,317
Distribution	6,569,419	3,750,127	2,819,292
General	500,662	320,494	180,168
Common	1,434,931	857,346	577,585
Amort. of Intangible Plant - General	726,389	467,990	258,399
Amort. of Intangible Plant - Common	810,199	521,986	288,213
Amort. of Acquisition Adjustment	414,260	287,753	126,507
<b>Total Depreciation Expense</b>	<b>22,460,477</b>	<b>13,742,426</b>	<b>8,718,051</b>

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

	<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	1,060,880	736,909	323,971
Transmission	966,236	492,574	473,662
Distribution	1,978,861	775,896	1,202,965
General	132,247	47,111	85,136
Common - General	293,877	141,712	152,165
Common - Intangible	35,277	22,721	12,556
Total Ad Valorem Taxes	<u>4,467,378</u>	<u>2,216,923</u>	<u>2,250,455</u>
Other Taxes	3,412,550	1,987,281	1,425,269
Total Taxes Other Than Income Taxes	<u>7,879,928</u>	<u>4,204,204</u>	<u>3,675,724</u>
Current Income Taxes	8,984,553	7,552,712	1,431,841
Deferred Income Taxes	(767,959)	237,995	(1,005,954)
Total Operating Expenses	<u>\$169,471,984</u>	<u>\$102,140,834</u>	<u>\$67,331,150</u>
<b>Operating Income</b>	<u>\$22,883,135</u>	<u>\$18,499,854</u>	<u>\$4,383,281</u>
<b>Year End Rate Base</b>	<u>\$261,062,596</u>	<u>\$166,770,729</u>	<u>\$94,291,867</u>
<b>Rate of Return</b>	<u>8.77%</u>	<u>11.09%</u>	<u>4.65%</u>

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Plant In Service</u></b>			
Electric Plant in Service			
Steam Production	\$283,837,410	\$196,125,562	\$87,711,848
Other Production	33,583,315	23,327,642	10,255,673
Total Production	<u>317,420,725</u>	<u>219,453,204</u>	<u>97,967,521</u>
Transmission	129,801,945	82,282,853	47,519,092
Distribution	203,295,515	116,785,475	86,510,040
General	19,380,382	11,493,298	7,887,084
Common	28,247,319	15,811,894	12,435,425
Intangible Plant - General	5,513,658	3,539,767	1,973,891
Intangible Plant - Common	12,061,411	7,770,790	4,290,621
Acquisition Adjustment	10,387,643	7,215,465	3,172,178
Total Electric Plant in Service	<u>726,108,598</u>	<u>464,352,746</u>	<u>261,755,852</u>
Accumulated Reserve for Depreciation			
Steam Production	188,202,009	123,600,256	64,601,753
Other Production	10,682,664	7,420,392	3,262,272
Total Production	<u>198,884,673</u>	<u>131,020,648</u>	<u>67,864,025</u>
Transmission	76,460,899	48,681,335	27,779,564
Distribution	104,419,296	59,636,381	44,782,915
General	8,945,936	5,597,546	3,348,390
Common	13,752,064	8,841,549	4,910,515
Intangible Plant - General	4,336,645	2,795,818	1,540,827
Intangible Plant - Common	7,519,552	4,844,612	2,674,940
Acquisition Adjustment	8,820,336	6,126,782	2,693,554
Total Accum. Reserve for Depreciation	<u>423,139,401</u>	<u>267,544,671</u>	<u>155,594,730</u>
Net Electric Plant in Service	302,969,197	196,808,075	106,161,122
CWIP in Service Pending Reclass.	2,740,725	1,578,413	1,162,312
Total Electric Plant in Service	<u>\$305,709,922</u>	<u>\$198,386,488</u>	<u>\$107,323,434</u>
<b><u>Additions</u></b>			
Materials and Supplies	7,120,339	4,432,891	2,687,448
Fuel Stocks	3,948,787	2,576,348	1,372,439
Prepayments	115,876	76,507	39,369
Total Additions	<u>11,185,002</u>	<u>7,085,746</u>	<u>4,099,256</u>
Total Before Deductions	\$316,894,924	\$205,472,234	\$111,422,690
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	53,732,380	38,377,838	15,354,542
Accumulated Investment Tax Credits	461,193	314,240	146,953
Customer Advances	1,638,755	9,427	1,629,328
Total Deductions	<u>55,832,328</u>	<u>38,701,505</u>	<u>17,130,823</u>
Year End Rate Base	<u>\$261,062,596</u>	<u>\$166,770,729</u>	<u>\$94,291,867</u>

**REPORT OF INDEPENDENT  
PUBLIC ACCOUNTANTS**

**2007**



Deloitte & Touche LLP  
400 One Financial Plaza  
120 South Sixth Street  
Minneapolis, MN 55402  
USA

Tel: +1 612 397 4000  
Fax: +1 612 397 4450  
www.deloitte.com

## 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 II**

**SCHEDULE OF 2007 MONTHLY AUTOMATIC ADJUSTMENT CLAUSE  
CALCULATIONS FOR THE FUEL COST ADJUSTMENT**

---

<b>Effective for the Month of:</b>	<b>Fuel Cost Adjustments per KWH</b>
January	.00803
February	.00731
March	.01268
April	.01208
May	.00891
June	.00870
July	.00821
August	.00801
September	.01105
October	.01155
November	.01127
December	.01038