



ANNUAL REPORT

STATE OF NORTH DAKOTA

ELECTRIC OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2008



MONTANA-DAKOTA
UTILITIES CO.

A Division of MDU Resources Group, Inc.

In the Community to Serve®

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115 PU-10-124 Filed: 11/8/2010 Pages: 15
Commission Advocacy Staff Exhibit 2

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2008		ND % (B/A)	2007	
	Total Company	North Dakota			North Dakota	Variance (B-D/D)
<u>Operating Revenues:</u>						
1	Residential	\$74,682,900	\$45,245,642	60.58%	\$43,868,540	3.14%
2	Small General	23,606,794	8,511,655	36.06%	8,241,739	3.27%
3	Large General 1/	84,736,694	56,784,338	67.01%	54,023,805	5.11%
4	Lighting Service	3,164,805	1,910,191	60.36%	1,844,644	3.55%
5	Municipal Pumping Service	2,272,601	1,725,261	75.92%	1,703,122	1.30%
6	Cogeneration	17	17	100.00%	30	-43.33%
7	Sales for Resale	8,043,463	5,240,636	65.15%	3,718,966	40.92%
8	Margin Sharing Adjustment	2,954,760	2,851,094	96.49%	2,978,337	-4.27%
9	Other Operating Revenues	7,688,542	4,676,426	60.82%	3,458,072	35.23%
10	Unbilled Revenue	(260,782)	(87,202)	33.44%	803,433	-110.85%
11	Total Operating Revenues	\$206,889,794	\$126,858,058	61.32%	\$120,640,688	5.15%
<u>Operating Expenses:</u>						
12	Production Expense	\$96,792,109	\$56,842,981	58.73%	\$50,981,770	11.50%
13	Transmission Expense	7,787,241	5,287,252	67.90%	5,111,018	3.45%
14	Distribution Expense	11,292,573	6,308,831	55.87%	6,448,991	-2.17%
15	Customer Accounts Expense	3,840,312	2,198,597	57.25%	2,304,335	-4.59%
16	Customer Service & Info. Exp.	226,457	177,151	78.23%	127,112	39.37%
17	Sales Expense	314,249	199,239	63.40%	189,140	5.34%
18	Administration & General Exp.	19,150,041	12,168,047	63.54%	11,241,131	8.25%
19	Depreciation Expense	23,923,604	15,077,238	63.02%	13,742,426	9.71%
20	Taxes Other than Income	8,722,282	4,574,440	52.45%	4,204,204	8.81%
21	Total Operating Expenses	\$172,048,868	\$102,833,776	59.77%	\$94,350,127	8.99%
22	Net Operating Income					
23	before Income Taxes	\$34,840,926	\$24,024,282	68.95%	\$26,290,561	-8.62%
<u>Income Tax Expense:</u>						
24	Investment Tax Credits					
25	Deferred Income Taxes	\$9,072,306	\$6,025,382	66.42%	\$237,995	2431.73%
26	Income Taxes	(1,296,422)	(475,428)	36.67%	7,552,712	-106.29%
27	Total Income Tax Expense	\$7,775,884	\$5,549,954	71.37%	\$7,790,707	-28.76%
28	Net Regulated Earnings	\$27,065,042	\$18,474,328	68.26%	\$18,499,854	-0.14%

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.

	2008	2007
Large General	\$751,619	\$689,340

**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	\$757,194,289	\$486,133,091	64.20%	\$451,957,691	7.56%
2	Less: Accumulated Depreciation	431,561,504	272,405,081	63.12%	262,097,978	3.93%
3	Add: Construct. Work in Prog. 1/	3,373,730	2,462,505	72.99%	1,578,413	56.01%
4	Net Plant in Service	<u>\$329,006,515</u>	<u>\$216,190,515</u>	65.71%	<u>\$191,438,126</u>	12.93%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$8,301,401	\$5,076,302	61.15%	\$4,454,806	13.95%
6	Fuel Stocks 2/	4,260,616	2,776,235	65.16%	2,553,807	8.71%
7	Prepayments 2/	266,867	173,993	65.20%	213,983	-18.69%
8	Unamortized Loss on Debt	7,364,733	4,733,175	64.27%	5,015,578	-5.63%
9	Total Additions	<u>\$20,193,617</u>	<u>\$12,759,705</u>	63.19%	<u>\$12,238,174</u>	4.26%
<u>Deductions:</u>						
10	Accum. Deferred Income Taxes	\$59,347,970	\$42,230,987	71.16%	\$38,150,103	10.70%
11	Accumulated Deferred ITCs	364,133	253,781	69.69%	417,786	-39.26%
12	Cust. Advances for Construct. 2/	2,162,221	50,118	2.32%	9,427	431.64%
13	Total Deductions	<u>\$61,874,324</u>	<u>\$42,534,886</u>	68.74%	<u>\$38,577,316</u>	10.26%
14	Average Rate Base	<u><u>\$287,325,808</u></u>	<u><u>\$186,415,334</u></u>	64.88%	<u><u>\$165,098,984</u></u> 3/	12.91%
15	Rate of Return on Avg. Rate Base	9.420%	9.910%		11.205%	
16	Less: Weighted Cost of Debt	3.019%	3.019%		3.074%	
17	Weighted Cost of Pref. Stock	0.141%	0.141%		0.181%	
18	Weighted Return on Equity	6.260%	6.750%		7.950%	
19	% of Equity to Capital Structure	<u>48.717%</u>	<u>48.717%</u>		<u>53.554%</u>	
20	Return on Equity	<u><u>12.850%</u></u>	<u><u>13.856%</u></u>		<u><u>14.845%</u></u>	
21	Return on Equity - Adjusted 4/		<u><u>13.404%</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.

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	<u>249,840</u>	<u>48.717%</u>	3/	<u>3/</u>
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/ Reflects monthly average short term debt.

3/ 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, 2008

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition and Redemption and Issuance Expenses ^{1/}	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
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%
5.98% - Senior Note	12/15/03	12/15/33	5.980%	30,000,000	30,000,000	262,500	0.875%	280,668	9.36%
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	Embedded Cost
	Amount	Per Unit			
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
5.98% - 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>

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

Line #	Description	2008	2007	2006	2005	2004
Customer Related						
Year End Customers						
1	- Residential	61,784	61,096	60,595	60,253	59,883
2	- Small General	8,749	10,163	8,510	10,186	10,239
3	- Large General	2,958	1,655	2,822	1,175	920
4	- Lighting Service	920	588	816	544	593
5	- Municipal Pumping	297	300	297	296	294
6	- Cogeneration	2	2	2	1	1
7	- Total	74,710	73,804	73,042	72,455	71,930
Kwh's Sold						
8	- Residential	576,812,796	560,762,294	542,720,464	517,749,391	475,827,895
9	- Small General	95,767,826	93,314,822	90,219,904	87,848,074	84,805,119
10	- Large General	825,308,596	793,457,649	765,569,058	740,547,879	686,931,774
11	- Lighting Service	26,622,675	26,268,694	25,975,570	25,522,363	24,762,752
12	- Municipal Pumping	29,185,811	29,433,458	29,372,371	27,098,505	25,642,104
13	- Cogeneration	14,480	12,885	13,381	12,221	14,223
14	- Total	1,553,712,184	1,503,249,802	1,453,870,748	1,398,778,433	1,297,983,867
15	IEEE Standards SAIFI 1/	0.481	0.580	0.343		
16	SAIDI 2/	51.66	65.02	39.39		

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

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>

NORTH DAKOTA COST OF SERVICE STUDY

ELECTRIC OPERATIONS

2008

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

	Total Company	North Dakota	Others
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$74,682,900	\$45,245,642	\$29,437,258
Small General	23,606,794	8,511,655	15,095,139
Large General	84,736,694	56,784,338	27,952,356
Lighting Service	3,164,805	1,910,191	1,254,614
Municipal Pumping Service	2,272,601	1,725,261	547,340
Cogeneration	17	17	
Sales for Resale	8,043,463	5,240,636	2,802,827
Margin Sharing Adjustment	2,954,760	2,851,094	103,666
Unbilled Revenue	(260,782)	(87,202)	(173,580)
Total Sales Revenues	199,201,252	122,181,632	77,019,620
Other Operating Revenues	7,688,542	4,676,426	3,012,116
Total Operating Revenues	\$206,889,794	\$126,858,058	\$80,031,736
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	\$75,333,155	\$41,992,102	\$33,341,053
Production	21,458,954	14,850,879	6,608,075
Transmission	7,787,241	5,287,252	2,499,989
Distribution	11,292,573	6,308,831	4,983,742
Customer Accounts	3,840,312	2,198,597	1,641,715
Customer Service & Information	226,457	177,151	49,306
Sales	314,249	199,239	115,010
Administrative & General	19,150,041	12,168,047	6,981,994
Total O&M Expenses	139,402,982	83,182,098	56,220,884
Depreciation			
Production	10,989,617	7,232,967	3,756,650
Transmission	2,649,719	1,744,126	905,593
Distribution	7,015,280	4,018,398	2,996,882
General	510,149	332,974	177,175
Common	1,099,212	664,805	434,407
Amort. of Intangible Plant - General	368,623	234,897	133,726
Amort. of Intangible Plant - Common	876,744	562,211	314,533
Amort. of Acquisition Adjustment	414,260	286,860	127,400
Total Depreciation Expense	23,923,604	15,077,238	8,846,366

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

	<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			
Production	1,246,870	863,414	383,456
Transmission	1,125,884	569,460	556,424
Distribution	2,311,826	885,030	1,426,796
General	158,747	55,897	102,850
Common - General	312,371	155,752	156,619
Common - Intangible	39,471	25,284	14,187
Total Ad Valorem Taxes	<u>5,195,169</u>	<u>2,554,837</u>	<u>2,640,332</u>
Other Taxes	3,527,113	2,019,603	1,507,510
Total Taxes Other Than Income Taxes	<u>8,722,282</u>	<u>4,574,440</u>	<u>4,147,842</u>
Current Income Taxes	(1,296,422)	(475,428)	(820,994)
Deferred Income Taxes	9,072,306	6,025,382	3,046,924
Total Operating Expenses	<u>\$179,824,752</u>	<u>\$108,383,730</u>	<u>\$71,441,022</u>
Operating Income	<u>\$27,065,042</u>	<u>\$18,474,328</u>	<u>\$8,590,714</u>
Year End Rate Base	<u>\$302,447,000</u>	<u>\$198,861,899</u>	<u>\$103,585,101</u>
Rate of Return	<u>8.95%</u>	<u>9.29%</u>	<u>8.29%</u>

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

	Total Company	North Dakota	Others
<u>Plant in Service</u>			
Electric Plant in Service			
Steam Production	\$287,592,840	\$198,234,235	\$89,358,605
Other Production	68,261,214	47,268,499	20,992,715
Total Production	355,854,054	245,502,734	110,351,320
Transmission	139,536,337	90,531,411	49,004,926
Distribution	216,271,449	124,308,209	91,963,240
General	20,228,268	11,861,366	8,366,902
Common	27,157,942	16,420,907	10,737,035
Intangible Plant - General	5,971,307	3,840,944	2,130,363
Intangible Plant - Common	12,872,980	8,254,786	4,618,194
Acquisition Adjustment	10,387,642	7,193,078	3,194,564
Total Electric Plant in Service	788,279,979	507,913,435	280,366,544
Accumulated Reserve for Depreciation			
Steam Production	193,730,913	126,796,381	66,934,532
Other Production	12,903,039	8,934,903	3,968,136
Total Production	206,633,952	135,731,284	70,902,668
Transmission	78,504,024	49,866,544	28,637,480
Distribution	108,491,370	61,577,407	46,913,963
General	9,555,494	5,966,939	3,588,555
Common	14,271,545	9,199,905	5,071,640
Intangible Plant - General	4,705,269	3,022,145	1,683,124
Intangible Plant - Common	8,587,356	5,506,633	3,080,723
Acquisition Adjustment	9,234,596	6,394,634	2,839,962
Total Accum. Reserve for Depreciation	439,983,606	277,265,491	162,718,115
Net Electric Plant in Service	348,296,373	230,647,944	117,648,429
CWIP in Service Pending Reclas.	3,373,730	2,462,505	911,225
Total Electric Plant in Service	\$351,670,103	\$233,110,449	\$118,559,654
<u>Additions</u>			
Materials and Supplies	7,854,671	4,856,615	2,998,056
Fuel Stocks	3,980,989	2,593,773	1,387,216
Prepayments	118,355	77,862	40,493
Unamortized Loss on Debt	7,138,875	4,577,368	2,561,507
Total Additions	19,092,890	12,105,618	6,987,272
Total Before Deductions	\$370,762,993	\$245,216,067	\$125,546,926
<u>Deductions</u>			
Accumulated Deferred Income Taxes	64,963,560	46,084,136	18,879,424
Accumulated Investment Tax Credits	267,073	193,321	73,752
Customer Advances	3,085,360	76,711	3,008,649
Total Deductions	68,315,993	46,354,168	21,961,825
Year End Rate Base	<u>\$302,447,000</u>	<u>\$198,861,899</u>	<u>\$103,585,101</u>

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

2008



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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.

Deloitte & Touche LLP

April 13, 2009

SCHEDULE I

MONTANA-DAKOTA UTILITIES CO.

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

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**

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