



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

April 15, 2011

RECEIVED

APR 15 2011

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

PUBLIC SERVICE COMMISSION

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, 2010 consisting of:

- North Dakota Electric and Gas Annual Reports ✓
- North Dakota Electric and Gas Cost of Service Studies
- Report of Independent Public Accountants
- 2010 Annual Report to Stockholders
- FERC Form No. 1

The earned returns for Montana-Dakota's gas and electric operations have increased from 2009. The increase is largely the result of changes the Company has implemented to control costs, however 2010 is not viewed as representative of a normal operating year. The Company continually looks for opportunities to improve efficiencies and control costs and Montana-Dakota is currently participating in a utility integration effort, along with the three other utilities within the MDU Resources Group, Inc.'s utility group (Great Plains Natural Gas Co., Cascade Natural Gas Corporation and Intermountain Gas Company). Through this effort, the four utilities are pursuing best practices and employing technological advances in an effort to streamline similar processes across all four utilities, while also addressing the current economic uncertainties being experienced today. A number of changes have already occurred or are in the process of being implemented that have allowed the Company to control its costs and these efforts are reflected in the returns earned in 2010. However, as processes are refined and the Company continues to operate in compliance with an ever changing environment, the cost levels are expected to increase in 2011. As costs continue to increase, the integration efforts are helping manage against those and maintain customer costs at the same levels.

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,



Rita A. Mulkern
Regulatory Affairs Manager

Enclosures

ANNUAL REPORT

STATE OF NORTH DAKOTA

GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2010



MONTANA-DAKOTA
UTILITIES CO.

A Division of MDU Resources Group, Inc.

In the Community to Serve®

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- 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	2010 North Dakota	ND % (B / A)	2009 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$137,249,579	\$54,462,268	39.68%	\$64,596,974	-15.69%
2	Firm General	88,414,827	36,655,984	41.46%	44,343,510	-17.34%
3	Small Interruptible	9,307,841	5,806,270	62.38%	6,832,291	-15.02%
4	Large Interruptible	309,679	1,227	0.40%	62,903	-98.05%
5	Transportation	3,675,745	1,847,220	50.25%	994,062	85.83%
6	Other Operating Revenues	1,740,530	881,152	50.63%	813,692	8.29%
7	Unbilled Revenue	(1,863,282)	(25,646)	1.38%	(4,077,286)	-99.37%
8	Total Operating Revenues	<u>\$238,834,919</u>	<u>\$99,628,475</u>	<u>41.71%</u>	<u>\$113,566,146</u>	<u>-12.27%</u>
<u>Operating Expenses:</u>						
9	Cost of Purchased Gas	\$173,227,213	\$74,118,692	42.79%	\$88,880,917	-16.61%
10	Other Gas Supply Expense	308,802	134,011	43.40%	108,218	23.83%
11	Distribution Expense	15,285,755	6,544,762	42.82%	6,476,510	1.05%
12	Customer Accounts Expense	5,804,834	2,262,573	38.98%	2,588,292	-12.58%
13	Customer Service & Info. Exp.	345,949	176,593	51.05%	210,864	-16.25%
14	Sales Expense	435,830	132,095	30.31%	205,924	-35.85%
15	Administration & General Exp.	12,093,394	5,065,967	41.89%	5,871,425	-13.72%
16	Depreciation Expense	9,118,611	3,189,997	34.98%	3,234,717	-1.38%
17	Taxes Other than Income	5,730,603	1,351,255	23.58%	1,296,203	4.25%
18	Total Operating Expenses	<u>\$222,350,991</u>	<u>\$92,975,945</u>	<u>41.81%</u>	<u>\$108,873,070</u>	<u>-14.60%</u>
19	Net Operating Income					
20	before Income Taxes	\$16,483,928	\$6,652,530	40.36%	\$4,693,076	41.75%
<u>Income Tax Expense:</u>						
21	Investment Tax Credits					
22	Deferred Income Taxes	\$5,060,766	\$1,906,713	37.68%	(\$3,416,799)	-155.80%
23	Income Taxes	(1,339,353)	(204,334)	15.26%	4,445,379	-104.60%
24	Total Income Tax Expense	<u>\$3,721,413</u>	<u>\$1,702,379</u>	<u>45.75%</u>	<u>\$1,028,580</u>	<u>65.51%</u>
25	Net Regulated Earnings	<u>\$12,762,515</u>	<u>\$4,950,151</u>	<u>38.79%</u>	<u>\$3,664,496</u>	<u>35.08%</u>

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2010 North Dakota	ND % (B / A)	2009 North Dakota	Variance (B-D / D)
	<u>Rate Base:</u>					
1	Plant in Service	\$303,240,542	\$107,383,364	35.41%	\$102,229,750	5.04%
2	Less: Accumulated Depreciation	167,960,128	64,761,962	38.56%	63,092,917	2.65%
3	Add: Construct. Work in Prog. 1/	1,927,484	972,717	50.47%	693,697	40.22%
4	Net Plant in Service	<u>\$137,207,898</u>	<u>\$43,594,119</u>	31.77%	<u>\$39,830,530</u>	9.45%
	<u>Additions:</u>					
5	Materials and Supplies 2/	\$1,897,786	\$805,754	42.46%	\$909,344	-11.39%
6	Prepayments 2/	333,712	116,890	35.03%	152,848	-23.53%
7	Fuel Stocks 2/	30,213	30,213	100.00%	28,061	7.67%
8	Gas in Underground Storage	6,785,405		0.00%		
9	Prepaid Demand/Commodity	1,079,617		0.00%		
10	Other	207,218		0.00%		
11	Unamortized Loss on Debt	2,293,642	715,623	31.20%	832,458	-14.03%
12	Total Additions	<u>\$12,627,593</u>	<u>\$1,668,480</u>	13.21%	<u>\$1,922,711</u>	-13.22%
	<u>Deductions:</u>					
13	Accum. Deferred Income Taxes	\$17,906,992	\$5,612,822	31.34%	\$4,876,849	15.09%
14	Accumulated Deferred ITC's	34,518	17,515	50.74%	34,690	-49.51%
15	Cust. Advances for Construct. 2/	3,627,860	2,187,112	60.29%	1,449,389	50.90%
16	Total Deductions	<u>\$21,569,370</u>	<u>\$7,817,449</u>	36.24%	<u>\$6,360,928</u>	22.90%
17	Average Rate Base	<u>\$128,266,121</u>	<u>\$37,445,150</u>	29.19%	<u>\$35,392,313</u>	5.80%
18	Rate of Return on Avg. Rate Base	9.950%	13.220%		10.354%	
19	Less: Weighted Cost of Debt	3.087%	3.087%		3.155%	
20	Weighted Cost of Pref. Stock	<u>0.114%</u>	<u>0.114%</u>		<u>0.127%</u>	
21	Weighted Return on Equity	6.749%	10.019%		7.072%	
22	% of Equity to Capital Structure	<u>52.299%</u>	<u>52.299%</u>		<u>51.437%</u>	
23	Return on Equity	<u>12.905%</u>	<u>19.157%</u>		<u>13.749%</u>	
24	Return on Equity - Adjusted 3/		<u>16.497%</u>		<u>11.999%</u>	

1/ Completed construction at December 31, 2010 not yet classified.

2/ Thirteen month average.

3/ Reflects exclusion of 401K tax deduction not attributable to utility service, and removal of Supplemental Insurance.

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

Line #	Description	(A) 2010 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt	\$280,499	44.590%	6.845%	3.052%
2	Short Term Debt 1/	4,016	0.639%	5.427%	0.035%
3	Preferred Equity	15,550	2.472%	4.592%	0.114%
4	Common Equity	328,992	52.299%	2/	2/
5	Total	<u>\$629,057</u>	<u>100.000%</u>		<u>2/</u>

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

2/ Reflects monthly average short term debt.

MONTANA-DAKOTA UTILITIES CO.
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2010

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
<u>First Mortgage Bonds:</u>									
Secured Medium-term Notes, Series A:									
6.61% - Senior Note	9/1/2009	9/30/2016	6.610%	\$25,000,000	\$25,000,000	\$59,494	0.238%	\$517,288	2.069%
6.66% - Senior Note	10/1/2009	9/30/2016	6.660%	25,000,000	25,000,000	59,494	0.238%	517,288	2.069%
5.98% - Senior Note	12/15/2003	12/15/2033	5.980%	30,000,000	30,000,000	262,500	0.875%	280,668	0.936%
6.33% - Senior Note	8/24/2006	8/24/2026	6.330%	100,000,000	100,000,000	344,061	0.344%	10,532,009	10.532%
6.04% - Senior Note	9/16/2008	9/16/2018	6.040%	100,000,000	100,000,000	362,432	0.362%	0	0.000%
				<u>\$280,000,000</u>	<u>\$280,000,000</u>	<u>\$1,087,981</u>		<u>\$11,847,253</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:						
6.61% - Senior Note	\$24,423,218	97.693%	7.114%	\$25,000,000	\$1,778,500	
6.66% - Senior Note	24,423,218	97.693%	7.166%	25,000,000	1,791,500	
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>\$267,064,766</u>			<u>\$280,000,000</u>	<u>\$19,126,500</u>	<u>6.831%</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	\$100,470	\$100,470
2		Natural Gas Sales	33,817	33,817
3	Williston Basin Interstate Pipeline	Electric Sales	1,154,619	226,575
4	Company	Natural Gas Pipeline Services	(38,106,184)	(15,663,489)
5		Natural Gas Sales	31,425	4,653
6	FutureSource	Electric Sales	150,065	150,065
7		Natural Gas Sales	14,444	14,444
8	Fidelity Exploration & Production	Electric Sales	69,312	0
9	Company	Natural Gas Sales	4,173	0
10	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(21,552,139)	(9,186,007)
11	Bitter Creek Pipeline	Electric Sales	4,244	0
12		Natural Gas Sales	7,089	0
13	JTL Group	Natural Gas Sales	44,423	0
14	Rocky Mountain Contractor	Natural Gas Sales	2,155	0
15	Total Corrosion Solution	Natural Gas Sales	2,750	0
	Total		<u>(\$58,039,337)</u>	<u>(\$24,319,472)</u>

IV. MISCELLANEOUS

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

Line #	Description	2010	2009	2008	2007	2006
	<u>Customer Related</u>					
1	Year End Customers - Residential	81,861	80,310	79,333	78,138	76,991
2	- Firm General	12,299	12,056	11,899	11,755	11,603
3	- Small Interruptible	88	69	74	65	47
4	- Large Interruptible	0	0	0	0	0
5	- Other - Transportation 1/	85	96	89	92	107
6	- Total	94,333	92,531	91,395	90,050	88,748
7	Dk Sold - Residential	7,705,407	8,261,875	7,881,702	7,361,698	6,911,260
8	- Firm General	5,731,725	6,165,170	5,798,692	5,418,114	5,050,791
9	- Small Interruptible	1,145,020	1,298,987	1,338,635	1,275,829	1,332,694
10	- Large Interruptible	113	9,707	9,893	17,966	4,239
11	- Other - Transportation	6,071,506	3,542,960	4,091,615	3,140,679	2,932,181
12	- Total	20,653,771	19,278,699	19,120,537	17,214,286	16,231,165

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