



# MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

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April 15, 2011

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

**PUBLIC SERVICE COMMISSION**

Re: Annual Reports

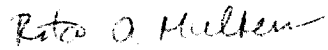
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., herewith submits one copy of its Electric and Gas Annual Reports for the year ended December 31, 2010 consisting of:

- 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

**NORTH DAKOTA COST OF SERVICE STUDY**

**GAS OPERATIONS**

**2010**

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2010**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Revenues</u></b>			
Sales Revenues			
Residential	\$137,249,579	\$54,462,268	\$82,787,311
Firm General	88,414,827	36,655,984	51,758,843
Small Interruptible	9,307,841	5,806,270	3,501,571
Large Interruptible	309,679	1,227	308,452
Unbilled Revenue	<u>(1,864,887)</u>	<u>(28,838)</u>	<u>(1,836,049)</u>
Total Sales Revenues	233,417,039	96,896,911	136,520,128
Transportation Revenues			
Small Interruptible	1,299,984	472,618	827,366
Large Interruptible	2,375,761	1,374,602	1,001,159
Unbilled Revenue	1,605	3,192	(1,587)
Total Transportation Revenues	<u>3,677,350</u>	<u>1,850,412</u>	<u>1,826,938</u>
Other Operating Revenues	<u>1,740,530</u>	<u>881,152</u>	<u>859,378</u>
Total Operating Revenues	<u>\$238,834,919</u>	<u>\$99,628,475</u>	<u>\$139,206,444</u>
<b><u>Operating Expenses</u></b>			
Operation and Maintenance			
Cost of Purchased Gas	\$173,227,213	\$74,118,692	\$99,108,521
Other Gas Supply	308,802	134,011	174,791
Distribution	15,285,755	6,544,762	8,740,993
Customer Accounts	5,804,834	2,262,573	3,542,261
Customer Service & Information	345,949	176,593	169,356
Sales	435,830	132,095	303,735
Administrative & General	<u>12,093,394</u>	<u>5,065,967</u>	<u>7,027,427</u>
Total O&M Expenses	207,501,777	88,434,693	119,067,084
Depreciation			
Distribution	7,309,936	2,612,205	4,697,731
General	671,706	176,107	495,599
Common	635,944	188,479	447,465
Amort. of Intangible Plant - General	55,329	55,329	0
Amort. of Intangible Plant - Common	442,877	155,058	287,819
Amort. of Acquisition Adjustment	<u>2,819</u>	<u>2,819</u>	<u>0</u>
Total Depreciation Expense	9,118,611	3,189,997	5,928,614

**MONTANA-DAKOTA UTILITIES CO.  
INCOME STATEMENT  
GAS UTILITY  
TWELVE MONTHS ENDED DECEMBER 31, 2010**

	<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	2,978,269	506,817	2,471,452
General	195,706	39,419	156,287
Common	351,619	44,756	306,863
Intangible	14,514	13,915	599
Total Ad Valorem Taxes	<u>3,540,108</u>	<u>604,907</u>	<u>2,935,201</u>
Other Taxes	2,190,495	746,348	1,444,147
Total Taxes Other Than Income Taxes	<u>5,730,603</u>	<u>1,351,255</u>	<u>4,379,348</u>
Current Income Taxes	(1,339,353)	(204,334)	(1,135,019)
Deferred Income Taxes	5,060,766	1,906,713	3,154,053
Total Operating Expenses	<u>\$226,072,404</u>	<u>\$94,678,324</u>	<u>\$131,394,080</u>
<b>Operating Income</b>	<u>\$12,762,515</u>	<u>\$4,950,151</u>	<u>\$7,812,364</u>
<b>Year End Rate Base</b>	<u>\$132,356,642</u>	<u>\$39,819,003</u>	<u>\$92,537,639</u>
<b>Rate of Return</b>	<u>9.64%</u>	<u>12.43%</u>	<u>8.44%</u>

**MONTANA-DAKOTA UTILITIES CO.**  
**YEAR END RATE BASE**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2010**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Plant in Service</u></b>			
Gas Plant in Service			
Production	\$10,280,259	\$4,461,331	\$5,818,928
Distribution	239,966,726	86,104,157	153,862,569
General	30,669,691	9,770,605	20,899,086
Intangible Plant - General	2,639,278	2,363,083	276,195
Common	21,320,407	6,201,501	15,118,906
Intangible Plant - Common	9,046,809	3,167,410	5,879,399
Acquisition Adjustment	97,266	97,266	
Total Gas Plant in Service	<u>314,020,436</u>	<u>112,165,353</u>	<u>201,855,083</u>
Accumulated Reserve for Depreciation			
Distribution	142,461,816	54,973,606	87,488,210
General	12,797,397	4,780,460	8,016,937
Intangible Plant - General	601,745	325,550	276,195
Common	8,146,067	3,316,355	4,829,712
Intangible Plant - Common	6,743,239	2,360,898	4,382,341
Acquisition Adjustment	49,572	49,572	0
Total Accum. Reserve for Depreciation	<u>170,799,836</u>	<u>65,806,441</u>	<u>104,993,395</u>
Net Gas Plant in Service	143,220,600	46,358,912	96,861,688
CWIP in Service Pending Reclass.	1,927,484	972,717	954,767
Total Gas Plant in Service	<u>\$145,148,084</u>	<u>\$47,331,629</u>	<u>\$97,816,455</u>
<b><u>Additions</u></b>			
Materials and Supplies	1,759,346	757,791	1,001,555
Fuel Stocks	16,066	16,066	
Prepayments	77,390	27,096	50,294
Gas in Underground Storage	6,702,686		6,702,686
Demand Charges	1,086,349		1,086,349
Other	179,952		179,952
Unamortized Loss on Debt	2,076,573	631,857	1,444,716
Total Additions	<u>11,898,362</u>	<u>1,432,810</u>	<u>10,465,552</u>
Total Before Deductions	\$157,046,446	\$48,764,439	\$108,282,007
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	20,286,563	6,313,509	13,973,054
Accumulated Investment Tax Credits	17,323	10,346	6,977
Customer Advances	4,385,918	2,621,581	1,764,337
Total Deductions	<u>24,689,804</u>	<u>8,945,436</u>	<u>15,744,368</u>
<b>Year End Rate Base</b>	<u><u>\$132,356,642</u></u>	<u><u>\$39,819,003</u></u>	<u><u>\$92,537,639</u></u>