



UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

RECEIVED

April 15, 2011

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

Rita A. Mulkern
Regulatory Affairs Manager

Enclosures

ANNUAL REPORT

STATE OF NORTH DAKOTA

ELECTRIC 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
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**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	\$79,206,791	\$47,648,928	60.16%	\$43,361,646	9.89%
2	Small General	24,220,072	8,917,747	36.82%	8,242,185	8.20%
3	Large General 1/	85,057,452	57,057,749	67.08%	51,993,818	9.74%
4	Lighting Service	3,104,686	1,878,299	60.50%	1,731,422	8.48%
5	Municipal Pumping Service	2,172,797	1,697,608	78.13%	1,587,726	6.92%
6	Cogeneration	1,864	1,864	100.00%	411	353.53%
7	Sales for Resale	1,481,696	961,453	64.89%	1,456,519	-33.99%
8	Margin Sharing Adjustment	4,007,962	3,266,100	81.49%	3,241,038	0.77%
9	Other Operating Revenues	7,603,419	4,568,509	60.08%	4,684,059	-2.47%
10	Unbilled Revenue	3,457,500	2,683,852	77.62%	(1,475,466)	-281.90%
11	Total Operating Revenues	\$210,314,239	\$128,682,109	61.19%	\$114,823,358	12.07%
<u>Operating Expenses:</u>						
12	Production Expense	\$85,558,562	\$50,046,541	58.49%	\$46,625,598	7.34%
13	Transmission Expense	9,550,579	6,205,045	64.97%	5,605,166	10.70%
14	Distribution Expense	10,637,913	6,054,360	56.91%	6,055,201	-0.01%
15	Customer Accounts Expense	3,387,265	2,015,088	59.49%	2,163,061	-6.84%
16	Customer Service & Info. Exp.	370,057	338,485	91.47%	264,054	28.19%
17	Sales Expense	137,722	82,335	59.78%	194,519	-57.67%
18	Administration & General Exp.	16,553,590	10,458,854	63.18%	10,525,633	-0.63%
19	Depreciation Expense	27,116,390	17,535,619	64.67%	15,704,897	11.66%
20	Taxes Other than Income	9,056,926	4,635,390	51.18%	4,338,397	6.85%
21	Total Operating Expenses	\$162,369,004	\$97,371,717	59.97%	\$91,476,526	6.44%
22	Net Operating Income					
23	before Income Taxes	\$47,945,235	\$31,310,392	65.30%	\$23,346,832	34.11%
<u>Income Tax Expense:</u>						
24	Investment Tax Credits					
25	Deferred Income Taxes	\$31,991,768	\$15,290,604	47.80%	\$8,806,351	73.63%
26	Income Taxes	(21,398,292)	(8,015,781)	37.46%	(3,810,895)	110.34%
27	Total Income Tax Expense	\$10,593,476	\$7,274,823	68.67%	\$4,995,456	45.63%
28	Net Regulated Earnings	\$37,351,759	\$24,035,569	64.35%	\$18,351,376	30.97%

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 contract rates and the revenue that would have been collected had these loads been charged the standard rate.

	2010	2009
Large General	\$505,930	\$620,240

**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)
	Rate Base:					
1	Plant in Service	\$911,084,779	\$568,625,188	62.41%	\$521,380,142	9.06%
2	Less: Accumulated Depreciation	468,665,848	295,031,600	62.95%	282,684,556	4.37%
3	Add: Construct. Work in Prog. 1/	3,864,422	2,509,359	64.93%	1,477,259	69.87%
4	Net Plant in Service	<u>\$446,283,353</u>	<u>\$276,102,947</u>	61.87%	<u>\$240,172,845</u>	14.96%
	Additions:					
5	Materials and Supplies 2/	\$8,301,411	\$5,173,131	62.32%	\$5,086,877	1.70%
6	Fuel Stocks 2/	4,478,110	2,906,354	64.90%	2,746,839	5.81%
7	Prepayments 2/	579,730	378,973	65.37%	272,069	39.29%
8	Unamortized Loss on Debt	7,444,737	4,948,506	66.47%	4,795,968	3.18%
9	Total Additions	<u>\$20,803,988</u>	<u>\$13,406,964</u>	64.44%	<u>\$12,901,753</u>	3.92%
	Deductions:					
10	Accum. Deferred Income Taxes	\$87,671,374	\$57,849,727	65.98%	\$47,993,325	20.54%
11	Accumulated Deferred ITCs	445,456	435,570	97.78%	143,690	203.13%
12	Cust. Advances for Construct. 2/	2,748,808	223,097	8.12%	141,240	57.96%
13	Total Deductions	<u>\$90,865,638</u>	<u>\$58,508,394</u>	64.39%	<u>\$48,278,255</u>	21.19%
14	Average Rate Base	<u>\$376,221,703</u>	<u>\$231,001,517</u>	61.40%	<u>\$204,796,343</u>	12.80%
15	Rate of Return on Avg. Rate Base	9.928%	10.405%		8.961%	
16	Less: Weighted Cost of Debt	3.087%	3.087%		3.155%	
17	Weighted Cost of Pref. Stock	<u>0.114%</u>	<u>0.114%</u>		<u>0.127%</u>	
18	Weighted Return on Equity	6.727%	7.204%		5.679%	
19	% of Equity to Capital Structure	<u>52.299%</u>	<u>52.299%</u>		<u>51.437%</u>	
20	Return on Equity	<u>12.863%</u>	<u>13.775%</u>		<u>11.041%</u>	
21	Return on Equity - Adjusted 3/		<u>12.903%</u>		<u>10.646%</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 exclusion of Supplemental Insurance.

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

Line #	Description	(A) 2010 Average 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	<u>328,992</u>	<u>52.299%</u>	2/	<u>2/</u>
5	Total	<u><u>\$629,057</u></u>	<u><u>100.000%</u></u>		<u><u>2/</u></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, 2010

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition Redemption and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
First Mortgage Bonds:									
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				
First Mortgage Bonds:						
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**

Line #	Description	2010	2009	2008	2007	2006
	<u>Customer Related</u>					
1	Year End Customers - Residential	63,751	62,221	61,784	61,096	60,595
2	- Small General	9,061	8,800	8,749	10,163	8,510
3	- Large General	3,110	3,052	2,958	1,655	2,822
4	- Lighting Service	1,015	968	920	588	816
5	- Municipal Pumping	301	305	297	300	297
6	- Cogeneration	1	3	2	2	2
7	- Total	77,239	75,349	74,710	73,804	73,042
8	Kwh's Sold - Residential	621,695,161	599,264,994	576,812,796	560,762,294	542,720,464
9	- Small General	102,044,214	99,486,018	95,767,826	93,314,822	90,219,904
10	- Large General	829,671,355	810,812,361	825,308,596	793,457,649	765,569,058
11	- Lighting Service	26,413,683	26,065,109	26,622,675	26,268,694	25,975,570
12	- Municipal Pumping	29,124,039	29,665,307	29,185,811	29,433,458	29,372,371
13	- Cogeneration	34,419	10,164	14,480	12,885	13,381
14	- Total	1,608,982,871	1,565,303,953	1,553,712,184	1,503,249,802	1,453,870,748
15	IEEE Standards SAIFI 1/	0.470	0.340	0.481	0.580	0.343
16	SAIDI 2/	45.17	39.29	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	\$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>