



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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APR 15 2011

April 15, 2011

PUBLIC SERVICE COMMISSION

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

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

ELECTRIC OPERATIONS

2010

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$79,206,791	\$47,648,928	\$31,557,863
Small General	24,220,072	8,917,747	15,302,325
Large General	85,057,452	57,057,749	27,999,703
Lighting Service	3,104,686	1,878,299	1,226,387
Municipal Pumping Service	2,172,797	1,697,608	475,189
Cogeneration	1,864	1,864	
Sales for Resale	1,481,696	961,453	520,243
Margin Sharing Adjustment	4,007,962	3,266,100	741,862
Unbilled Revenue	3,457,500	2,683,852	773,648
Total Sales Revenues	<u>202,710,820</u>	<u>124,113,600</u>	<u>78,597,220</u>
Other Operating Revenues	7,603,419	4,568,509	3,034,910
Total Operating Revenues	<u>\$210,314,239</u>	<u>\$128,682,109</u>	<u>\$81,632,130</u>
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	\$63,064,610	\$35,596,230	\$27,468,380
Production	22,493,952	14,450,311	8,043,641
Transmission	9,550,579	6,205,045	3,345,534
Distribution	10,637,913	6,054,360	4,583,553
Customer Accounts	3,387,265	2,015,088	1,372,177
Customer Service & Information	370,057	338,485	31,572
Sales	137,722	82,335	55,387
Administrative & General	16,553,590	10,458,854	6,094,736
Total O&M Expenses	<u>126,195,688</u>	<u>75,200,708</u>	<u>50,994,980</u>
Depreciation			
Production	15,188,277	10,061,313	5,126,964
Transmission	2,642,280	1,840,149	802,131
Distribution	6,464,029	3,837,768	2,626,261
General	482,280	304,950	177,330
Common	897,465	545,171	352,294
Amort. of Intangible Plant - General	479,287	313,062	166,225
Amort. of Intangible Plant - Common	734,530	474,917	259,613
Amort. of Acquisition Adjustment	228,242	158,289	69,953
Total Depreciation Expense	<u>27,116,390</u>	<u>17,535,619</u>	<u>9,580,771</u>

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

	<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	1,410,886	921,410	489,476
Transmission	1,075,665	543,753	531,912
Distribution	2,333,386	800,501	1,532,885
General	151,200	45,990	105,210
Common	277,081	133,541	143,540
Intangible	35,800	23,121	12,679
Total Ad Valorem Taxes	<u>5,284,018</u>	<u>2,468,316</u>	<u>2,815,702</u>
Other Taxes	<u>3,772,908</u>	<u>2,167,074</u>	<u>1,605,834</u>
Total Taxes Other Than Income Taxes	<u>9,056,926</u>	<u>4,635,390</u>	<u>4,421,536</u>
Current Income Taxes	(21,398,292)	(8,015,781)	(13,382,511)
Deferred Income Taxes	<u>31,991,768</u>	<u>15,290,604</u>	<u>16,701,164</u>
Total Operating Expenses	<u>\$172,962,480</u>	<u>\$104,646,540</u>	<u>\$68,315,940</u>
Operating Income	<u><u>\$37,351,759</u></u>	<u><u>\$24,035,569</u></u>	<u><u>\$13,316,190</u></u>
Year End Rate Base	<u><u>\$430,223,030</u></u>	<u><u>\$249,540,057</u></u>	<u><u>\$180,682,973</u></u>
Rate of Return	<u><u>8.68%</u></u>	<u><u>9.63%</u></u>	<u><u>7.37%</u></u>

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

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Plant in Service</u>			
Electric Plant in Service			
Steam Production	\$367,003,984	\$209,999,804	\$157,004,180
Other Production	153,499,278	102,712,136	50,787,142
Total Production	<u>520,503,262</u>	<u>312,711,940</u>	<u>207,791,322</u>
Transmission	151,749,263	99,619,718	52,129,545
Distribution	237,473,274	137,896,896	99,576,378
General	21,863,664	13,232,596	8,631,068
Common	29,569,776	18,032,595	11,537,181
Intangible Plant - General	6,476,793	4,207,481	2,269,312
Intangible Plant - Common	14,690,555	9,498,308	5,192,247
Acquisition Adjustment	10,387,643	7,203,995	3,183,648
Total Electric Plant in Service	<u>992,714,230</u>	<u>602,403,529</u>	<u>390,310,701</u>
Accumulated Reserve for Depreciation			
Steam Production	205,384,828	134,200,658	71,184,170
Other Production	20,469,820	13,947,946	6,521,874
Total Production	<u>225,854,648</u>	<u>148,148,604</u>	<u>77,706,044</u>
Transmission	82,729,927	53,409,546	29,320,381
Distribution	119,483,364	67,467,882	52,015,482
General	9,966,839	6,057,532	3,909,307
Common	14,955,389	9,491,507	5,463,882
Intangible Plant - General	5,618,885	3,644,076	1,974,809
Intangible Plant - Common	10,856,729	7,019,514	3,837,215
Acquisition Adjustment	9,691,081	6,720,918	2,970,163
Total Accum. Reserve for Depreciation	<u>479,156,862</u>	<u>301,959,579</u>	<u>177,197,283</u>
Net Electric Plant in Service	513,557,368	300,443,950	213,113,418
CWIP in Service Pending Reclass.	3,864,422	2,509,359	1,355,063
Total Electric Plant in Service	<u>\$517,421,790</u>	<u>\$302,953,309</u>	<u>\$214,468,481</u>
<u>Additions</u>			
Materials and Supplies	8,199,016	5,180,794	3,018,222
Fuel Stocks	4,981,610	3,232,500	1,749,110
Prepayments	166,031	108,842	57,189
Unamortized Loss on Debt	7,329,101	4,882,444	2,446,657
Total Additions	<u>20,675,758</u>	<u>13,404,580</u>	<u>7,271,178</u>
Total Before Deductions	\$538,097,548	\$316,357,889	\$221,739,659
<u>Deductions</u>			
Accumulated Deferred Income Taxes	104,346,672	65,796,939	38,549,733
Accumulated Investment Tax Credits	780,556	777,081	3,475
Customer Advances	2,747,290	243,812	2,503,478
Total Deductions	<u>107,874,518</u>	<u>66,817,832</u>	<u>41,056,686</u>
Year End Rate Base	<u><u>\$430,223,030</u></u>	<u><u>\$249,540,057</u></u>	<u><u>\$180,682,973</u></u>