



UTILITIES CO.
A Division of MDU Resources Group, Inc.

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Bismarck, ND 58501
(701) 222-7900

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APR 16 2012

April 16, 2012

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, 2011 consisting of:

- ✓ North Dakota Electric and Gas Annual Reports
- North Dakota Electric and Gas Cost of Service Studies
- Report of Independent Public Accountants
- 2011 Annual Report to Stockholders
- FERC Form No. 1

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, 2011



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	2011 North Dakota	ND % (B / A)	2010 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$142,575,888	\$57,165,728	40.09%	\$54,462,268	4.96%
2	Firm General	92,768,006	39,829,907	42.93%	36,655,984	8.66%
3	Small Interruptible	9,847,300	6,289,532	63.87%	5,806,270	8.32%
4	Large Interruptible	440,738	20,810	4.72%	1,227	1596.01%
5	Transportation	3,729,339	1,827,283	49.00%	1,847,220	-1.08%
6	Other Operating Revenues	1,630,614	976,727	59.90%	881,152	10.85%
7	Unbilled Revenue	(3,314,516)	(1,500,341)	45.27%	(25,646)	5750.19%
8	Total Operating Revenues	\$247,677,369	\$104,609,646	42.24%	\$99,628,475	5.00%
<u>Operating Expenses:</u>						
9	Cost of Purchased Gas	\$179,121,296	\$78,480,201	43.81%	\$74,118,692	5.88%
10	Production	656,272	286,688	43.68%	0	N/A
11	Other Gas Supply Expense	256,988	111,917	43.55%	134,011	-16.49%
12	Distribution Expense	16,088,668	7,370,016	45.81%	6,544,762	12.61%
13	Customer Accounts Expense	6,150,210	2,364,312	38.44%	2,262,573	4.50%
14	Customer Service & Info. Exp.	404,637	190,995	47.20%	176,593	8.16%
15	Sales Expense	434,793	167,840	38.60%	132,095	27.06%
16	Administration & General Exp.	14,572,686	6,260,817	42.96%	5,065,967	23.59%
17	Depreciation Expense	9,814,146	3,519,905	35.87%	3,189,997	10.34%
18	Taxes Other than Income	6,138,074	1,499,443	24.43%	1,351,255	10.97%
19	Total Operating Expenses	\$233,637,770	\$100,252,134	42.91%	\$92,975,945	7.83%
20	Net Operating Income					
21	before Income Taxes	\$14,039,599	\$4,357,512	31.04%	\$6,652,530	-34.50%
<u>Income Tax Expense:</u>						
22	Investment Tax Credits					
23	Deferred Income Taxes	\$13,390,065	\$4,309,729	32.19%	\$1,906,713	126.03%
24	Income Taxes	(11,756,557)	(4,055,284)	34.49%	(204,334)	1884.63%
25	Total Income Tax Expense	\$1,633,508	\$254,445	15.58%	\$1,702,379	-85.05%
26	Net Regulated Earnings	\$12,406,091	\$4,103,067	33.07%	\$4,950,151	-17.11%

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2011 North Dakota	ND % (B / A)	2010 North Dakota	Variance (B-D / D)
<u>Rate Base:</u>						
1	Plant in Service	\$322,437,954	\$115,184,707	35.72%	\$107,383,364	7.26%
2	Less: Accumulated Depreciation	174,081,879	67,112,011	38.55%	64,761,962	3.63%
3	Add: Construct. Work in Prog. 1/	2,807,343	1,407,106	50.12%	972,717	44.66%
4	Net Plant in Service	<u>\$151,163,418</u>	<u>\$49,479,802</u>	32.73%	<u>\$43,594,119</u>	13.50%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$2,211,913	\$967,828	43.76%	\$805,754	20.11%
6	Prepayments 2/	394,588	141,310	35.81%	116,890	20.89%
7	Fuel Stocks 2/	24,989	24,989	100.00%	30,213	-17.29%
8	Gas in Underground Storage	7,134,766		0.00%		
9	Prepaid Demand/Commodity	1,149,982		0.00%		
10	Other	152,687		0.00%		
11	Unamortized Loss on Debt	1,956,550	614,609	31.41%	715,623	-14.12%
12	Total Additions	<u>\$13,025,475</u>	<u>\$1,748,736</u>	13.43%	<u>\$1,668,480</u>	4.81%
<u>Deductions:</u>						
13	Accum. Deferred Income Taxes	\$24,948,195	\$8,133,482	32.60%	\$5,612,822	44.91%
14	Accumulated Deferred ITC's	11,925	7,841	65.75%	17,515	-55.23%
15	Cust. Advances for Construct. 2/	4,428,385	2,753,614	62.18%	2,187,112	25.90%
16	Total Deductions	<u>\$29,388,505</u>	<u>\$10,894,937</u>	37.07%	<u>\$7,817,449</u>	39.37%
17	Average Rate Base	<u><u>\$134,800,388</u></u>	<u><u>\$40,333,601</u></u>	29.92%	<u><u>\$37,445,150</u></u>	7.71%
18	Rate of Return on Avg. Rate Base	9.203%	10.173%		13.220%	
19	Less: Weighted Cost of Debt	3.004%	3.004%		3.087%	
20	Weighted Cost of Pref. Stock	<u>0.109%</u>	<u>0.109%</u>		<u>0.114%</u>	
21	Weighted Return on Equity	6.090%	7.060%		10.019%	
22	% of Equity to Capital Structure	<u>53.999%</u>	<u>53.999%</u>		<u>52.299%</u>	
23	Return on Equity	<u><u>11.278%</u></u>	<u><u>13.074%</u></u>		<u><u>19.157%</u></u>	
24	Return on Equity - Adjusted 3/ 4/		<u><u>11.567%</u></u>		<u><u>16.497%</u></u>	

1/ Completed construction at December 31, 2011 not yet classified.

2/ Thirteen month average.

3/ Adjusted return on equity in 2011 and 2010 reflects exclusion of 401K tax deduction not attributable to utility service and the removal of supplemental insurance and related adjustments.

4/ Adjusted return on equity in 2011 reflects the removal of an out of period amortization for the manufactured gas plant and out of period and closing/filing federal and state income taxes.

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

Line #	Description	(A) 2011 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 3/	\$280,492	43.316%	6.845%	2.965%
2	Short Term Debt 1/	1,934	0.299%	13.053%	0.039%
3	Preferred Equity	15,450	2.386%	4.588%	0.109%
4	Common Equity	349,672	53.999%	2/	2/
5	Total	<u>\$647,548</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.
- 3/ Includes additional other long term debt.

II. CAPITAL STRUCTURE - TOTAL UTILITY

MONTANA-DAKOTA UTILITIES CO.
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2011

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
Unsecured Long -Term Debt									
6.61% - Senior Note	9/1/2009	9/30/2016	6.610%	\$25,000,000	\$25,000,000	\$68,319	0.273%	\$517,288	2.06
6.66% - Senior Note	10/1/2009	9/30/2016	6.660%	25,000,000	25,000,000	68,319	0.273%	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>\$1,105,631</u>		<u>\$11,847,253</u>	
Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost			
	Amount	Per Unit					Amount	% Gross Proceeds	Amount
Unsecured Long -Term Debt									
6.61% - Senior Note	\$24,414,393	97.658%	7.120%	\$25,000,000	\$1,780,000				
6.66% - Senior Note	24,414,393	97.658%	7.172%	25,000,000	1,793,000				
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>\$267,047,116</u>			<u>\$280,000,000</u>	<u>\$19,129,500</u>		<u>6.832%</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	\$57,782	\$57,782
2		Natural Gas Sales	23,013	23,013
3	Williston Basin Interstate Pipeline Company	Electric Sales	1,612,081	236,351
4		Natural Gas Pipeline Services	(38,385,411)	(15,876,620)
5		Natural Gas Sales	31,374	5,567
6	FutureSource	Electric Sales	156,212	156,212
7		Natural Gas Sales	13,309	13,309
8	Fidelity Exploration & Production Company	Electric Sales	97,570	0
9		Natural Gas Sales	4,278	0
10	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(16,040,744)	(7,001,294)
11	Bitter Creek Pipeline	Electric Sales	4,720	0
12		Natural Gas Sales	7,063	0
13	JTL Group	Natural Gas Sales	28,200	0
14	Total Corrosion Solution	Natural Gas Sales	2,627	0
	Total		<u>(\$52,387,926)</u>	<u>(\$22,385,680)</u>

IV. MISCELLANEOUS

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

Line #	Description	2011	2010	2009	2008	2007
	<u>Customer Related</u>					
1	Year End Customers - Residential	81,854	81,861	80,310	79,333	78,138
2	- Firm General	12,461	12,299	12,056	11,899	11,755
3	- Small Interruptible	87	88	69	74	65
4	- Large Interruptible	0	0	0	0	0
5	- Other - Transportation 1/	88	85	96	89	92
6	- Total	<u>94,490</u>	<u>94,333</u>	<u>92,531</u>	<u>91,395</u>	<u>90,050</u>
7	Dk Sold - Residential	8,111,226	7,705,407	8,261,875	7,881,702	7,361,698
8	- Firm General	6,228,618	5,731,725	6,165,170	5,798,692	5,418,114
9	- Small Interruptible	1,289,836	1,145,020	1,298,987	1,338,635	1,275,829
10	- Large Interruptible	3,360	113	9,707	9,893	17,966
11	- Other - Transportation	6,125,001	6,071,506	3,542,960	4,091,615	3,140,679
12	- Total	<u>21,758,040</u>	<u>20,653,771</u>	<u>19,278,699</u>	<u>19,120,537</u>	<u>17,214,286</u>

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