

ANNUAL REPORT



STATE OF NORTH DAKOTA

GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2012



MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

In the Community to Serve®

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2012 North Dakota Annual Report - Gas

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2012 Total Company	2012 North Dakota	ND % (B / A)	2011 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$108,901,733	\$44,181,551	40.57%	\$57,165,728	-22.71%
2	Firm General	70,590,764	30,970,263	43.87%	39,829,907	-22.24%
3	Small Interruptible	7,346,895	4,775,974	65.01%	6,289,532	-24.06%
4	Large Interruptible	337,897	95,068	28.14%	20,810	356.84%
5	Transportation	3,755,336	1,870,977	49.82%	1,827,283	2.39%
6	Other Operating Revenues	1,990,445	1,096,166	55.07%	976,727	12.23%
7	Unbilled Revenue	3,711,049	1,859,335	50.10%	(1,500,341)	-223.93%
8	Total Operating Revenues	<u>\$196,634,119</u>	<u>\$84,849,334</u>	<u>43.15%</u>	<u>\$104,609,646</u>	<u>-18.89%</u>
<u>Operating Expenses:</u>						
9	Cost of Purchased Gas	\$129,670,689	\$58,003,320	44.73%	\$78,480,201	-26.09%
10	Production	609,800	270,727	44.40%	286,688	-5.57%
11	Other Gas Supply Expense	262,909	116,721	44.40%	111,917	4.29%
12	Distribution Expense	16,570,574	7,667,588	46.27%	7,370,016	4.04%
13	Customer Accounts Expense	5,548,053	2,159,154	38.92%	2,364,312	-8.68%
14	Customer Service & Info. Exp.	496,714	236,923	47.70%	190,995	24.05%
15	Sales Expense	370,688	148,461	40.05%	167,840	-11.55%
16	Administration & General Exp.	13,939,321	6,019,985	43.19%	6,260,817	-3.85%
17	Depreciation Expense	10,304,112	3,723,214	36.13%	3,519,905	5.78%
18	Taxes Other than Income	6,733,725	1,599,190	23.75%	1,499,443	6.65%
19	Total Operating Expenses	<u>\$184,506,585</u>	<u>\$79,945,283</u>	<u>43.33%</u>	<u>\$100,252,134</u>	<u>-20.26%</u>
20	Net Operating Income					
21	before Income Taxes	\$12,127,534	\$4,904,051	40.44%	\$4,357,512	12.54%
<u>Income Tax Expense:</u>						
22	Investment Tax Credits					
23	Deferred Income Taxes	\$12,287,395	\$4,027,661	32.78%	\$4,309,729	-6.54%
24	Income Taxes	(9,717,713)	(2,927,311)	30.12%	(4,055,284)	-27.81%
25	Total Income Tax Expense	<u>\$2,569,682</u>	<u>\$1,100,350</u>	<u>42.82%</u>	<u>\$254,445</u>	<u>332.45%</u>
26	Net Regulated Earnings	<u>\$9,557,852</u>	<u>\$3,803,701</u>	<u>39.80%</u>	<u>\$4,103,067</u>	<u>-7.30%</u>

I. INTRASTATE RETURN ON EQUITY

GAS UTILITY
PAGE 2 OF 2MONTANA-DAKOTA UTILITIES CO.
ANNUAL REPORT
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2012 North Dakota	ND % (B / A)	2011 North Dakota	Variance (B-D / D)
<u>Rate Base:</u>						
1	Plant in Service	\$345,140,647	\$126,583,949	36.68%	\$115,184,707	9.90%
2	Less: Accumulated Depreciation	181,249,610	69,690,438	38.45%	67,112,011	3.84%
3	Add: Construct. Work in Prog. 1/	9,932,138	8,163,741	82.20%	1,407,106	480.18%
4	Net Plant in Service	<u>\$173,823,175</u>	<u>\$65,057,252</u>	37.43%	<u>\$49,479,802</u>	31.48%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$3,396,433	\$1,890,588	55.66%	\$967,828	95.34%
6	Prepayments 2/	924,976	149,247	16.14%	141,310	5.62%
7	Fuel Stocks 2/	34,948	34,948	100.00%	24,989	39.85%
8	Gas in Underground Storage	6,845,965		0.00%		
9	Prepaid Demand/Commodity	1,117,307		0.00%		
10	Other	98,157		0.00%		
11	Unamortized Loss on Debt	1,840,788	597,754	32.47%	614,609	-2.74%
12	Total Additions	<u>\$14,258,574</u>	<u>\$2,672,537</u>	18.74%	<u>\$1,748,736</u>	52.83%
<u>Deductions:</u>						
13	Accum. Deferred Income Taxes	\$33,629,858	\$11,027,017	32.79%	\$8,133,482	35.58%
14	Accumulated Deferred ITC's	3,263	2,668	81.77%	7,841	-65.97%
15	Cust. Advances for Construct. 2/	6,212,449	4,497,510	72.40%	2,753,614	63.33%
16	Total Deductions	<u>\$39,845,570</u>	<u>\$15,527,195</u>	38.97%	<u>\$10,894,937</u>	42.52%
17	Average Rate Base	<u><u>\$148,236,179</u></u>	<u><u>\$52,202,594</u></u>	35.22%	<u><u>\$40,333,601</u></u>	29.43%
18	Rate of Return on Avg. Rate Base	6.448%	7.286%		10.173%	
19	Less: Weighted Cost of Debt	2.832%	2.832%		3.004%	
20	Weighted Cost of Pref. Stock	<u>0.102%</u>	<u>0.102%</u>		<u>0.109%</u>	
21	Weighted Return on Equity	3.514%	4.352%		7.060%	
22	% of Equity to Capital Structure	<u>53.382%</u>	<u>53.382%</u>		<u>53.999%</u>	
23	Return on Equity	<u><u>6.583%</u></u>	<u><u>8.153%</u></u>		<u><u>13.074%</u></u>	

1/ Completed construction at December 31, 2012 not yet classified.

2/ Thirteen month average.

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

Line #	Description	(A) 2012 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$280,485	40.597%	6.846%	2.779%
2	Short Term Debt 2/	26,206	3.793%	1.406%	0.053%
3	Preferred Equity	15,393	2.228%	4.585%	0.102%
4	Common Equity	<u>368,815</u>	<u>53.382%</u>	3/	<u>3/</u>
5	Total	<u><u>\$690,899</u></u>	<u><u>100.000%</u></u>		<u><u>3/</u></u>

1/ Includes additional other long term debt.

2/ Reflects monthly average short term debt.

3/ 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, 2012

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
<u>Unsecured Long -Term Debt</u>									
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>Unsecured Long -Term Debt</u>						
6.61% - Senior Note	\$24,423,218	97.693%	7.120%	\$25,000,000	\$1,780,000	
6.66% - Senior Note	24,423,218	97.693%	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>\$267,064,766</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 2012**

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	\$55,806	\$55,806
2		Natural Gas Sales	30,836	30,836
3	WBI Energy	Electric Sales	626,780	87,321
4		Natural Gas Pipeline Services	(38,593,642)	(16,075,063)
5		Natural Gas Sales	20,834	3,698
6	FutureSource	Electric Sales	171,760	171,760
7		Natural Gas Sales	10,343	10,343
8	Fidelity Exploration & Production Company	Electric Sales	64,387	0
9		Natural Gas Sales	3,235	0
10	Prairielands Energy Marketing, Inc.	Natural Gas Purchases	(8,569,891)	(3,829,118)
11	Bitter Creek Pipeline	Electric Sales	3,843	0
12		Natural Gas Sales	5,048	0
13	JTL Group	Natural Gas Sales	17,398	0
14	Total Corrosion Solution	Electric Sales	385	385
15		Natural Gas Sales	1,989	201
	Total		<u>(\$46,150,889)</u>	<u>(\$19,543,831)</u>

IV. MISCELLANEOUS

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

Line #	Description	2012	2011	2010	2009	2008
	<u>Customer Related</u>					
1	Year End Customers - Residential	85,638	81,854	81,861	80,310	79,333
2	- Firm General	13,031	12,461	12,299	12,056	11,899
3	- Small Interruptible	129	87	88	69	74
4	- Large Interruptible	1	0	0	0	0
5	- Other - Transportation 1/	79	88	85	96	89
6	- Total	<u>98,878</u>	<u>94,490</u>	<u>94,333</u>	<u>92,531</u>	<u>91,395</u>
7	Dk Sold - Residential	6,762,592	8,111,226	7,705,407	8,261,875	7,881,702
8	- Firm General	5,458,987	6,228,618	5,731,725	6,165,170	5,798,692
9	- Small Interruptible	1,216,105	1,289,836	1,145,020	1,298,987	1,338,635
10	- Large Interruptible	24,626	3,360	113	9,707	9,893
11	- Other - Transportation	6,084,714	6,125,001	6,071,506	3,542,960	4,091,615
12	- Total	<u>19,547,024</u>	<u>21,758,040</u>	<u>20,653,771</u>	<u>19,278,699</u>	<u>19,120,537</u>

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