

# ANNUAL REPORT



## STATE OF NORTH DAKOTA

### ELECTRIC 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 - Electric

**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	\$91,594,804	\$56,643,322	61.84%	\$53,578,078	5.72%
2	Small General	28,275,557	10,803,157	38.21%	10,071,882	7.26%
3	Large General 1/	100,149,838	67,447,484	67.35%	62,111,365	8.59%
4	Lighting Service	3,373,541	2,089,765	61.95%	1,984,377	5.31%
5	Municipal Pumping Service	2,715,944	2,153,976	79.31%	1,899,602	13.39%
6	Sales for Resale	294,720	193,589	65.69%	1,023,519	-81.09%
7	Margin Sharing Adjustment	88,573	0	0.00%	1,815,479	-100.00%
8	Other Operating Revenues	9,969,192	6,287,535	63.07%	5,453,500	15.29%
9	Unbilled Revenue	3,064,475	2,256,937	73.65%	(834,828)	-370.35%
10	Reserve for Refunds	(3,724,439)	(3,724,439)	100.00%	(640,000)	481.94%
11	Total Operating Revenues	\$235,802,205	\$144,151,326	61.13%	\$136,462,974	5.63%
<u>Operating Expenses:</u>						
12	Production Expense	\$99,113,871	\$58,997,751	59.53%	\$52,232,446	12.95%
13	Transmission Expense	8,590,688	6,155,382	71.65%	6,486,288	-5.10%
14	Distribution Expense	13,159,324	8,211,688	62.40%	6,915,801	18.74%
15	Customer Accounts Expense	3,412,583	1,997,917	58.55%	2,170,025	-7.93%
16	Customer Service & Info. Exp.	208,002	152,516	73.32%	275,987	-44.74%
17	Sales Expense	187,555	123,398	65.79%	155,503	-20.65%
18	Administration & General Exp.	19,146,308	11,875,764	62.03%	11,811,765	0.54%
19	Depreciation Expense	32,325,739	21,480,091	66.45%	21,128,808	1.66%
20	Taxes Other than Income	10,360,754	5,265,257	50.82%	4,826,878	9.08%
21	Total Operating Expenses	\$186,504,824	\$114,259,764	61.26%	\$106,003,501	7.79%
23	Net Operating Income					
24	before Income Taxes	\$49,297,381	\$29,891,562	60.64%	\$30,459,473	-1.86%
<u>Income Tax Expense:</u>						
25	Investment Tax Credits					
26	Deferred Income Taxes	\$17,729,419	\$9,787,339	55.20%	\$12,994,926	-24.68%
27	Income Taxes	(7,474,103)	(3,829,477)	51.24%	(8,477,328)	-54.83%
28	Total Income Tax Expense	\$10,255,316	\$5,957,862	58.10%	\$4,517,598	31.88%
29	<b>Net Regulated Earnings</b>	<u>\$39,042,065</u>	<u>\$23,933,700</u>	61.30%	<u>\$25,941,875</u>	-7.74%

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.

	2012	2011
Large General	<u>\$606,617</u>	<u>\$543,909</u>

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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>Rate Base:</u>						
1	Plant in Service	\$1,052,906,324	\$656,641,879	62.36%	\$615,502,467	6.68%
2	Less: Accumulated Depreciation	502,836,401	319,880,355	63.62%	307,833,183	3.91%
3	Add: Construct. Work in Prog. 1/	4,985,821	3,639,920	73.01%	4,152,609	-12.35%
4	Net Plant in Service	<u>\$555,055,744</u>	<u>\$340,401,444</u>	61.33%	<u>\$311,821,893</u>	9.17%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$15,101,081	\$10,445,893	69.17%	\$6,266,131	66.70%
6	Fuel Stocks 2/	5,219,806	3,426,542	65.65%	2,985,281	14.78%
7	Prepayments 2/	615,776	395,319	64.20%	351,025	12.62%
8	Unamortized Loss on Debt	6,510,137	3,883,269	59.65%	4,464,430	-13.02%
9	Total Additions	<u>\$27,446,800</u>	<u>\$18,151,023</u>	66.13%	<u>\$14,066,867</u>	29.03%
<u>Deductions:</u>						
10	Accum. Deferred Income Taxes	\$136,450,296	\$87,658,598	64.24%	\$73,329,222	19.54%
11	Accumulated Deferred ITCs	839,264	839,254	100.00%	820,877	2.24%
12	Cust. Advances for Construct. 2/	4,268,388	1,253,781	29.37%	285,841	338.63%
13	Total Deductions	<u>\$141,557,948</u>	<u>\$89,751,633</u>	63.40%	<u>\$74,435,940</u>	20.58%
14	<b>Average Rate Base</b>	<u><u>\$440,944,596</u></u>	<u><u>\$268,800,834</u></u>	60.96%	<u><u>\$251,452,820</u></u>	6.90%
15	Rate of Return on Avg. Rate Base	8.854%	8.904%		10.317%	
16	Less: Weighted Cost of Debt	2.832%	2.832%		3.004%	
17	Weighted Cost of Pref. Stock	<u>0.102%</u>	<u>0.102%</u>		<u>0.109%</u>	
18	Weighted Return on Equity	5.920%	5.970%		7.204%	
19	% of Equity to Capital Structure	<u>53.382%</u>	<u>53.382%</u>		<u>53.999%</u>	
20	<b>Return on Equity</b>	<u><u>11.090%</u></u>	<u><u>11.184%</u></u>		<u><u>13.341%</u></u>	

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

2/ Thirteen month average.

MONTANA-DAKOTA UTILITIES CO.  
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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>\$690,899</u>	<u>100.000%</u>		<u>3/</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	2.063%
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	Williston Basin Interstate Pipeline Company	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>

MONTANA-DAKOTA UTILITIES CO.  
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Line #	Description	2012	2011	2010	2009	2008
	<u>Customer Related</u>					
1	Year End Customers - Residential	68,784	65,517	63,751	62,221	61,784
2	- Small General	9,617	9,223	9,061	8,800	8,749
3	- Large General	3,401	3,224	3,110	3,052	2,958
4	- Lighting Service	1,107	1,057	1,015	968	920
5	- Municipal Pumping	298	297	301	305	297
6	- Cogeneration	1	1	1	3	2
7	- Total	83,208	79,319	77,239	75,349	74,710
8	Kwh's Sold - Residential	683,930,294	674,460,201	621,695,161	599,264,994	576,812,796
9	- Small General	117,302,170	112,307,071	102,044,214	99,486,018	95,767,826
10	- Large General	912,191,503	873,234,356	829,671,355	810,812,361	825,308,596
11	- Lighting Service	26,628,516	26,330,673	26,413,683	26,065,109	26,622,675
12	- Municipal Pumping	34,499,525	31,741,883	29,124,039	29,665,307	29,185,811
13	- Cogeneration	41,048	51,116	34,419	10,164	14,480
14	- Total	1,774,593,056	1,718,125,300	1,608,982,871	1,565,303,953	1,553,712,184
15	IEEE Standards SAIFI 1/	1.077	0.255	0.470	0.340	0.
16	SAIDI 1/	115.84	32.26	45.17	39.29	51.66

1/ 2011 and 2012 SAIFI and SAIDI reflect North Dakota operations. Year 2007-2010 SAIFI and SAIDI reflect total company statistics.