

# ANNUAL REPORT

## STATE OF NORTH DAKOTA

### GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2013



**MONTANA-DAKOTA**  
**UTILITIES CO.**

*A Division of MDU Resources Group, Inc.*

***In the Community to Serve®***

#### INDEX

---

- I. Intrastate Return on Equity
- II. Capital Structure
- III. Affiliated Transactions
- IV. Miscellaneous Statistics

I. INTRASTATE RETURN ON EQUITY

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2013 North Dakota	ND % (B / A)	2012 North Dakota	Variance (B-D / D)
<u>Rate Base:</u>						
1	Plant in Service	\$383,833,840	\$151,718,343	39.53%	\$126,583,949	19.86%
2	Less: Accumulated Depreciation	190,942,506	73,335,977	38.41%	69,690,438	5.23%
3	Add: Construct. Work in Prog. 1/	0	0	0.00%	8,163,741	-100.00%
4	Net Plant in Service	\$192,891,334	\$78,382,366	40.64%	\$65,057,252	20.48%
<u>Additions:</u>						
5	Materials and Supplies 2/	\$3,953,665	\$2,361,512	59.73%	\$1,890,588	24.91%
6	Prepayments 2/	1,043,571	165,975	15.90%	149,247	11.21%
7	Fuel Stocks 2/	45,206	45,206	100.00%	34,948	29.35%
8	Gas in Underground Storage	3,982,903		0.00%		
9	Other	97,819		0.00%		
10	Unamortized Loss on Debt	1,812,650	629,406	34.72%	597,754	5.30%
11	Total Additions	\$10,935,814	\$3,202,099	29.28%	\$2,672,537	19.81%
<u>Deductions:</u>						
12	Accum. Deferred Income Taxes	\$40,170,759	\$13,201,221	32.86%	\$11,027,017	19.72%
13	Accumulated Deferred ITC's	0	0	0.00%	2,668	-100.00%
14	Cust. Advances for Construct. 2/	9,547,268	7,487,658	78.43%	4,497,510	66.48%
15	Total Deductions	\$49,718,027	\$20,688,879	41.61%	\$15,527,195	33.24%
16	<b>Average Rate Base</b>	<u>\$154,109,121</u>	<u>\$60,895,586</u>	39.51%	<u>\$52,202,594</u>	16.65%
17	Rate of Return on Avg. Rate Base	5.990%	5.641%		7.286%	
18	Less: Weighted Cost of Debt	2.509%	2.509%		2.832%	
19	Weighted Cost of Pref. Stock	0.088%	0.088%		0.102%	
20	Weighted Return on Equity	3.393%	3.044%		4.352%	
21	% of Equity to Capital Structure	50.566%	50.566%		53.382%	
22	<b>Return on Equity</b>	<u>6.710%</u>	<u>6.020%</u>		<u>8.153%</u>	

1/ Completed construction at December 31, 2012 not yet classified. In 2013 Construction Work in Progress not yet classified is recorded in Account 106 which is part of Plant in Service.

2/ Thirteen month average.

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2013 Total Company	2013 North Dakota	ND % (B / A)	2012 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$133,843,475	\$55,888,568	41.76%	\$44,181,551	26.50%
2	Firm General	91,547,948	41,215,042	45.02%	30,970,263	33.08%
3	Small Interruptible	8,397,609	6,172,520	73.50%	4,775,974	29.24%
4	Large Interruptible	600,218	201,064	33.50%	95,068	111.49%
5	Transportation	4,058,495	1,997,402	49.22%	1,870,977	6.76%
6	Other Operating Revenues	2,385,189	1,287,362	53.97%	1,096,166	17.44%
7	Unbilled Revenue	7,321,413	4,034,882	55.11%	1,859,335	117.01%
8	Reserves for Refunds	(191,185)	0	0.00%	0	0.00%
9	Total Operating Revenues	<u>\$247,963,162</u>	<u>\$110,796,840</u>	44.68%	<u>\$84,849,334</u>	30.58%
<u>Operating Expenses:</u>						
10	Cost of Purchased Gas	\$174,405,752	\$81,267,611	46.60%	\$58,003,320	40.11%
11	Production	583,521	261,338	44.79%	270,727	-3.47%
12	Other Gas Supply Expense	240,296	107,620	44.79%	116,721	-7.80%
13	Distribution Expense	18,661,877	8,595,249	46.06%	7,667,588	12.10%
14	Customer Accounts Expense	6,786,687	2,616,104	38.55%	2,159,154	21.16%
15	Customer Service & Info. Exp.	435,392	201,193	46.21%	236,923	-15.08%
16	Sales Expense	388,371	175,784	45.26%	148,461	18.40%
17	Administration & General Exp.	15,173,022	6,614,691	43.60%	6,019,985	9.88%
18	Depreciation Expense	12,530,749	4,877,303	38.92%	3,723,214	31.00%
19	Taxes Other than Income	6,909,730	1,616,775	23.40%	1,599,190	1.10%
20	Total Operating Expenses	<u>\$236,115,397</u>	<u>\$106,333,668</u>	45.03%	<u>\$79,945,283</u>	33.01%
21	Net Operating Income					
22	before Income Taxes	\$11,847,765	\$4,463,172	37.67%	\$4,904,051	-8.99%
<u>Income Tax Expense:</u>						
23	Investment Tax Credits					
24	Deferred Income Taxes	\$5,646,397	\$787,391	13.95%	\$4,027,661	-80.45%
25	Income Taxes	(3,029,538)	240,815	-7.95%	(2,927,311)	-108.23%
26	Total Income Tax Expense	<u>\$2,616,859</u>	<u>\$1,028,206</u>	39.29%	<u>\$1,100,350</u>	-6.56%
27	<b>Net Regulated Earnings</b>	<u><b>\$9,230,906</b></u>	<u><b>\$3,434,966</b></u>	37.21%	<u><b>\$3,803,701</b></u>	-9.69%

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

		(A)	(B)	(C)	(D)
Line #	Description	2013 Average (000's)	Ratio	Cost	Weighted Cost
1	Long-Term Debt 1/	\$317,977	39.834%	6.149%	2.449%
2	Short Term Debt 2/	61,280	7.677%	0.788%	0.060%
3	Preferred Equity	15,347	1.923%	4.583%	0.088%
4	Common Equity	<u>403,646</u>	<u>50.566%</u>	3/	<u>3/</u>
5	Total	<u>\$798,250</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, 2013

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%
Term Loan	9/6/2013	10/3/2014	0.938%	75,000,000	75,000,000	0	0.00%	0	0.000%
				<u>\$355,000,000</u>	<u>\$355,000,000</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	
Term Loan	75,000,000	100.00%	0.938%	75,000,000	703,125	
Total Long-Term Debt Capital	<u>\$342,064,766</u>			<u>\$355,000,000</u>	<u>\$19,832,625</u>	<u>5.587%</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 2013**

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	\$107,562	\$107,562
2		Natural Gas Sales	\$27,396	\$26,732
3	WBI Energy	Electric Sales	\$396,955	\$109,217
4		Natural Gas Pipeline Services	(\$39,744,110)	(\$17,461,164)
5		Natural Gas Sales	\$25,015	\$4,321
6	FutureSource	Electric Sales	\$163,513	\$163,513
7		Natural Gas Sales	\$10,891	\$10,891
8	Fidelity Exploration & Production	Electric Sales	\$6,485	\$0
9	Company	Natural Gas Sales	\$2,199	\$0
10	PrairieLands Energy Marketing, Inc.	Natural Gas Purchases	(\$2,806,015)	(\$1,274,801)
11	Bitter Creek Pipeline	Electric Sales	\$4,424	\$0
12		Natural Gas Sales	\$5,043	\$0
13	JTL Group	Natural Gas Sales	\$4,206	\$0
14	Total Corrosion Solution	Electric Sales	\$716	\$716
15		Natural Gas Sales	\$2,111	\$548
16	Whiting Petroleum	Electric Sales	\$34,719	\$22,943
17		Natural Gas Sales	\$3,610	\$3,610
	Total		<u>(\$41,755,280)</u>	<u>(\$18,285,912)</u>

IV. MISCELLANEOUS

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

Line #	Description	2013	2012	2011	2010	2009
	<u>Customer Related</u>					
1	Year End Customers - Residential	88,372	85,638	81,854	81,861	80,310
2	- Firm General	13,522	13,031	12,461	12,299	12,056
3	- Small Interruptible	164	129	87	88	69
4	- Large Interruptible	1	1	0	0	0
5	- Other - Transportation 1/	79	79	88	85	96
6	- Total	<u>102,138</u>	<u>98,878</u>	<u>94,490</u>	<u>94,333</u>	<u>92,531</u>
7	Dk Sold - Residential	8,514,963	6,762,592	8,111,226	7,705,407	8,261,875
8	- Firm General	7,041,584	5,458,987	6,228,618	5,731,725	6,165,170
9	- Small Interruptible	1,418,415	1,216,105	1,289,836	1,145,020	1,298,987
10	- Large Interruptible	44,053	24,626	3,360	113	9,707
11	- Other - Transportation	6,228,357	6,084,714	6,125,001	6,071,506	3,542,960
12	- Total	<u>23,247,371</u>	<u>19,547,024</u>	<u>21,758,040</u>	<u>20,653,771</u>	<u>19,278,699</u>

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

**NORTH DAKOTA COST OF SERVICE STUDY**

**GAS OPERATIONS**

**2013**

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2013**

	Total Company	North Dakota	Others
<b><u>Operating Revenues</u></b>			
Sales Revenues			
Residential	\$133,843,475	\$55,888,568	\$77,954,907
Firm General	91,547,948	41,215,042	50,332,906
Small Interruptible	8,397,609	6,172,520	2,225,089
Large Interruptible	600,218	201,064	399,154
Unbilled Revenue	7,274,709	3,997,791	3,276,918
Reserved for Refunds	(191,185)	0	(191,185)
Total Sales Revenues	<u>241,472,774</u>	<u>107,474,985</u>	<u>133,997,789</u>
Transportation Revenues			
Small Interruptible	1,443,292	624,311	818,981
Large Interruptible	2,615,203	1,373,091	1,242,112
Unbilled Revenue	46,704	37,091	9,613
Total Transportation Revenues	<u>4,105,199</u>	<u>2,034,493</u>	<u>2,070,706</u>
Other Operating Revenues	2,385,189	1,287,362	1,097,827
Total Operating Revenues	<u>\$247,963,162</u>	<u>\$110,796,840</u>	<u>\$137,166,322</u>
<b><u>Operating Expenses</u></b>			
Operation and Maintenance			
Cost of Purchased Gas	\$174,405,752	\$81,267,611	\$93,138,141
Production	583,521	261,338	322,183
Other Gas Supply	240,296	107,620	132,676
Distribution	18,661,877	8,595,249	10,066,628
Customer Accounts	6,786,687	2,616,104	4,170,583
Customer Service & Information	435,392	201,193	234,199
Sales	388,371	175,784	212,587
Administrative & General	15,173,022	6,614,691	8,558,331
Total O&M Expenses	<u>216,674,918</u>	<u>99,839,590</u>	<u>116,835,328</u>
Depreciation			
Production	332,320	148,834	183,486
Distribution	9,315,352	3,624,156	5,691,196
General	552,916	169,265	383,651
Common	897,170	316,674	580,496
Amort. of Intangible Plant - General	98,724	98,724	0
Amort. of Intangible Plant - Common	1,331,448	516,831	814,617
Amort. of Acquisition Adjustment	2,819	2,819	0
Total Depreciation Expense	<u>12,530,749</u>	<u>4,877,303</u>	<u>7,653,446</u>

**MONTANA-DAKOTA UTILITIES CO.  
INCOME STATEMENT  
GAS UTILITY  
TWELVE MONTHS ENDED DECEMBER 31, 2013**

	Total Company	North Dakota	Others
<b><u>Operating Expenses Con't.</u></b>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Production	281,180	125,931	155,249
Distribution	4,016,881	577,315	3,439,566
General	244,162	50,788	193,374
Common	399,101	51,536	347,565
Intangible	15,036	14,260	776
Total Ad Valorem Taxes	<u>4,956,360</u>	<u>819,830</u>	<u>4,136,530</u>
Other Taxes	1,953,370	796,945	1,156,425
Total Taxes Other Than Income Taxes	<u>6,909,730</u>	<u>1,616,775</u>	<u>5,292,955</u>
Current Income Taxes	(3,029,538)	240,815	(3,270,353)
Deferred Income Taxes	5,646,397	787,391	4,859,006
Total Operating Expenses	<u>\$238,732,256</u>	<u>\$107,361,874</u>	<u>\$131,370,382</u>
<b>Operating Income</b>	<u>\$9,230,906</u>	<u>\$3,434,966</u>	<u>\$5,795,940</u>
<b>Year End Rate Base</b>	<u>\$165,393,625</u>	<u>\$72,296,808</u>	<u>\$93,096,817</u>
<b>Rate of Return</b>	<u>5.58%</u>	<u>4.75%</u>	<u>6.23%</u>

**MONTANA-DAKOTA UTILITIES CO.**  
**YEAR END RATE BASE**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2013**

	Total Company	North Dakota	Others
<b><u>Plant in Service</u></b>			
Gas Plant in Service			
Distribution	317,696,427	134,453,223	183,243,204
General	32,501,944	10,312,936	22,189,008
Intangible Plant - General	3,844,920	3,573,402	271,518
Common	24,993,129	8,779,969	16,213,160
Intangible Plant - Common	29,108,174	11,256,051	17,852,123
Acquisition Adjustment	97,266	97,266	0
Total Gas Plant in Service	<u>408,241,860</u>	<u>168,472,847</u>	<u>239,769,013</u>
Accumulated Reserve for Depreciation			
Distribution	163,342,033	62,973,602	100,368,431
General	13,871,765	4,717,764	9,154,001
Intangible Plant - General	812,080	540,561	271,519
Common	9,271,659	3,848,825	5,422,834
Intangible Plant - Common	9,394,147	3,569,876	5,824,271
Acquisition Adjustment	58,030	58,030	0
Total Accum. Reserve for Depreciation	<u>196,749,714</u>	<u>75,708,658</u>	<u>121,041,056</u>
Total Gas Plant in Service	<u>\$211,492,146</u>	<u>\$92,764,189</u>	<u>\$118,727,957</u>
<b><u>Additions</u></b>			
Materials and Supplies	3,773,753	2,216,723	1,557,030
Fuel Stocks	53,917	53,917	0
Prepayments	1,072,635	13,108	1,059,527
Gas in Underground Storage	1,840,723	0	1,840,723
Other	124,746	0	124,746
Unamortized Loss on Debt	1,780,252	660,664	1,119,588
Total Additions	<u>8,646,026</u>	<u>2,944,412</u>	<u>5,701,614</u>
Total Before Deductions	<u>\$220,138,172</u>	<u>\$95,708,601</u>	<u>\$124,429,571</u>
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	42,691,628	14,301,863	28,389,765
Customer Advances	12,052,919	9,109,930	2,942,989
Total Deductions	<u>54,744,547</u>	<u>23,411,793</u>	<u>31,332,754</u>
Year End Rate Base	<u>\$165,393,625</u>	<u>\$72,296,808</u>	<u>\$93,096,817</u>

**REPORT OF INDEPENDENT  
PUBLIC ACCOUNTANTS**

**2013**

## INDEPENDENT AUDITORS' REPORT

To the Managing Committee of  
Montana-Dakota Utilities Co.:

We have audited the accompanying schedules of the Cost of Gas Adjustment (COG) and Fuel Cost Adjustment (FCA) included in the monthly filings of Montana-Dakota Utilities Co. (the "Company"), a division of MDU Resources Group Inc., for the year ended December 31, 2013, based upon Chapters 69-09-01-30 and 69-09-02-39, respectively, of the North Dakota Administrative Code (the "Code") and Cost of Gas Rate 88 and Fuel Clause Rate 58 (the "Tariffs") filed by the Company with the North Dakota Public Service Commission (the "Commission").

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with the financial reporting provisions of the Code and the Tariffs. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these COG and FCA schedules based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the COG and FCA schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying schedules referred to above present fairly, in all material respects, the calculations of the COG and FCA for the year ended December 31, 2013, in accordance with the Code and Tariffs approved by the Commission.

**Emphasis of Matter**

We draw attention to the fact that the accompanying schedules were prepared for the purpose of complying with Chapters 69-09-01-30 and 69-09-02-39, respectively, of the Code and are not intended to be a complete presentation of the Company's revenues and expenses. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of the Managing Committee of the Company and the North Dakota Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte \* Touche LLP*

April 4, 2014

SCHEDULE I

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2013 AUTOMATIC ADJUSTMENT CLAUSE  
CALCULATIONS FOR THE COST OF GAS ADJUSTMENT

---

Effective for the Month of:

	Adjustments per dekatherm		
	Residential and General Service	Small and Large Interruptible	Air Force Interruptible
January	\$ (0.153)	\$ (0.139)	\$ (0.138)
February	\$ 0.171	\$ 0.183	\$ 0.182
March (1)	N/A	N/A	N/A
April (1)	N/A	N/A	N/A
May	\$ 0.307	\$ 0.346	\$ 0.345
June	\$ 0.186	\$ 0.180	\$ 0.179
July (1)	N/A	N/A	N/A
August	\$ (0.512)	\$ (0.494)	\$ (0.492)
September	\$ (0.135)	\$ (0.131)	\$ (0.130)
October	\$ 0.156	\$ 0.255	\$ 0.581
November (1)	N/A	N/A	N/A
December	\$ 0.189	\$ 0.170	\$ 0.170

(1) No COG filing was required for the indicated month pursuant to COG Rate 88, since the adjustment was less than \$0.10 per dekatherm.

SCHEDULE II

MONTANA-DAKOTA UTILITIES CO.

**SCHEDULE OF 2013 AUTOMATIC ADJUSTMENT CLAUSE  
CALCULATIONS FOR THE FUEL COST ADJUSTMENT**

---

Effective for the Month of:

	Fuel Cost Adjustments per Kilowatt Hour	
	Primary	Secondary
	(1)	(1)
January (2)	0.00436	0.00423
February (2)	0.00564	0.00546
March (2)	0.00718	0.00682
April (2)	0.00572	0.00575
May	0.00439	0.00433
June	0.00266	0.00262
July	0.00192	0.00196
August	0.00214	0.00236
September	0.00424	0.00456
October	0.00651	0.00697
November	0.00583	0.00632
December	0.00622	0.00671

1) Excludes base cost of fuel of \$0.02024 for primary service customers and \$0.02087 for secondary service customers.

2) Includes deferred generation development costs of \$0.00154