

ANNUAL REPORT

STATE OF NORTH DAKOTA

GREAT PLAINS NATURAL GAS CO.

FOR THE YEAR ENDED DECEMBER 31, 2013



A Division of MDU Resources Group, Inc.

In the Community to Serve®

INDEX

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**GREAT PLAINS NATURAL GAS 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>Operating Revenues:</u>						
1	Residential	\$13,676,482	\$1,238,808	9.06%	\$1,039,172	19.21%
2	Firm General	8,920,934	1,071,390	12.01%	887,757	20.69%
3	Small Interruptible	6,040,384	2,282,086	37.78%	1,164,905	95.90%
4	Large Interruptible	3,823,206				
5	Transportation	1,072,108	149,669	13.96%	139,431	7.34%
6	Other Operating Revenues	390,128	28,762	7.37%	20,458	40.59%
7	Reserve for Refunds					
8	Unbilled Revenue	294,293	54,518	18.53%	111,526	-51.12%
9	Total Operating Revenues	\$34,217,535	\$4,825,233	14.10%	\$3,363,249	43.47%
<u>Operating Expenses:</u>						
10	Cost of Purchased Gas	\$24,695,014	\$3,751,923	15.19%	\$2,508,005	49.60%
11	Production Expense	39,577	4,145	10.47%	4,033	2.78%
12	Transmission Expense	15,845	3,813	24.06%	13,749	-72.27%
13	Distribution Expense	2,402,535	259,679	10.81%	228,707	13.54%
14	Customer Accounts Expense	782,092	69,351	8.87%	71,675	-3.24%
15	Customer Service & Info. Exp.	156,589	4,705	3.00%	5,800	-18.88%
16	Sales Expense	38,034	4,258	11.20%	3,927	8.43%
17	Administration & General Exp.	2,128,210	191,830	9.01%	172,237	11.38%
18	Depreciation Expense	1,377,239	131,747	9.57%	139,180	-5.34%
19	Taxes Other than Income	865,527	53,579	6.19%	52,051	2.94%
20	Total Operating Expenses	\$32,500,662	\$4,475,030	13.77%	\$3,199,364	39.87%
21	Net Operating Income					
22	Before Income Taxes	\$1,716,873	\$350,203	20.40%	\$163,885	113.69%
<u>Income Tax Expense:</u>						
23	Investment Tax Credits					
24	Deferred Income Taxes	(\$108,814)	(\$39,338)	36.15%	\$95,691	-141.11%
25	Income Taxes	527,707	191,635	36.31%	(42,492)	-550.99%
26	Total Income Tax Expense	\$418,893	\$152,297	36.36%	\$53,199	186.28%
27	Net Regulated Earnings	\$1,297,980	\$197,906	15.25%	\$110,686	78.80%

**GREAT PLAINS NATURAL GAS 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 1/	\$39,002,590	\$4,142,069	10.62%	\$3,651,149	13.45%
2	Less: Accumulated Depreciation 1/	25,509,187	2,778,688	10.89%	2,625,265	5.84%
3	Add: Construct. Work in Prog. 2/	0	0	0.00%	47,154	-100.00%
4	Net Plant in Service	\$13,493,403	\$1,363,381	10.10%	\$1,073,038	27.06%
<u>Additions:</u>						
5	Materials and Supplies 3/	\$419,302	\$49,820	11.88%	\$38,247	30.26%
6	Prepayments 3/	63,951	4,547	7.11%	4,463	1.88%
7	Gas in Underground Storage 3/	480,102				
8	Fuel Stocks 3/	0				
9	Unamortized Loss on Debt 1/	131,883	13,160	9.98%	11,016	19.46%
10	Total Additions	\$1,095,238	\$67,527	6.17%	\$53,726	25.69%
<u>Deductions:</u>						
11	Accum. Deferred Income Taxes 1/	\$2,204,285	\$357,676	16.23%	\$207,650	72.25%
12	Accumulated Deferred ITC's					
13	Cust. Advances for Construct.	98,968	0		0	0.00%
14	Total Deductions	\$2,303,253	\$357,676	15.53%	\$207,650	72.25%
15	Average Rate Base	<u>\$12,285,388</u>	<u>\$1,073,232</u>	8.74%	<u>\$919,114</u>	16.77%
16	Rate of Return on Avg. Rate Base	10.565%	18.440%		12.043%	
17	Less: Weighted Cost of Debt	2.509%	2.509%		2.832%	
18	Weighted Cost of Pref. Stock	0.088%	0.088%		0.102%	
19	Weighted Return on Equity	7.968%	15.843%		9.109%	
20	% of Equity to Capital Structure	50.566%	50.566%		53.382%	
21	Return on Equity	<u>15.757%</u>	<u>31.331%</u>		<u>17.064%</u>	

1/ Beginning and ending year average.

2/ 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 a part of Plant in Service.

3/ Thirteen month average.

GREAT PLAINS NATURAL GAS CO.
ANNUAL REPORT
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Line #	Description	(A) 2013 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 3/	\$317,977	39.834%	6.149%	2.449%
2	Short Term Debt 1/	61,280	7.677%	0.788%	0.060%
3	Preferred Equity	15,347	1.923%	4.583%	0.088%
4	Common Equity	403,646	50.566%	2/	2/
5	Total	<u>\$798,250</u>	<u>100.000%</u>		<u>2/</u>

1/ Reflects monthly average short term debt.

2/ Return on equity is calculated in Section I, page 2 of 2.

3/ Includes additional other long term debt.

II. CAPITAL STRUCTURE - TOTAL UTILITY

GREAT PLAINS NATURAL GAS 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.

GREAT PLAINS NATURAL GAS CO.
ANNUAL REPORT TO THE
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Line #	Description	2013	2012	2011	2010	2009
	<u>Customer Related</u>					
1	Year End Customers - Residential	1,753	1,741	1,717	1,697	1,689
2	- Firm General	373	365	359	354	352
3	- Small Interruptible	17	17	16	13	13
4	- Large Interruptible	0	0	0	0	0
5	- Other - Transportation 1/	9	9	9	9	9
6	- Total	<u>2,152</u>	<u>2,132</u>	<u>2,101</u>	<u>2,073</u>	<u>2,063</u>
7	Dk Throughput - Residential	155,353	116,351	139,430	133,226	147,266
8	- Firm General	142,223	107,274	130,454	123,182	132,721
9	- Small Interruptible	498,956	329,900	245,764	231,044	157,139
10	- Large Interruptible	0	0	0	0	0
11	- Other - Transportation	<u>1,361,572</u>	<u>1,280,574</u>	<u>1,281,482</u>	<u>1,319,331</u>	<u>1,323,127</u>
12	- Total	<u>2,158,104</u>	<u>1,834,099</u>	<u>1,797,130</u>	<u>1,806,783</u>	<u>1,760,253</u>

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

NORTH DAKOTA COST OF SERVICE STUDY

GREAT PLAINS GAS OPERATIONS

2013

**GREAT PLAINS NATURAL GAS CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2013**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Other</u>
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$13,676,482	\$1,238,808	\$12,437,674
Firm General	8,920,934	1,071,390	7,849,544
Small Interruptible	6,040,384	2,282,086	3,758,298
Large Interruptible	3,823,206		3,823,206
Unbilled Revenue	294,293	54,518	239,775
Total Sales Revenues	<u>\$32,755,299</u>	<u>\$4,646,802</u>	<u>\$28,108,497</u>
Transportation Revenues	1,072,108	149,669	922,439
Total Transportation Revenues	<u>\$1,072,108</u>	<u>\$149,669</u>	<u>922,439</u>
Other Operating Revenues	390,128	28,762	361,366
Total Operating Revenues	<u>\$34,217,535</u>	<u>\$4,825,233</u>	<u>\$29,392,302</u>
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Purchased Gas	\$24,695,014	\$3,751,923	\$20,943,091
Production	39,577	4,145	35,432
Transmission	15,845	3,813	12,032
Distribution	2,402,535	259,679	2,142,856
Customer Accounts	782,092	69,351	712,741
Customer Service & Information	156,589	4,705	151,884
Sales	38,034	4,258	33,776
Administrative & General	2,128,210	191,830	1,936,380
Total O&M Expenses	<u>\$30,257,896</u>	<u>\$4,289,704</u>	<u>\$25,968,192</u>
Depreciation			
Transmission	26,641	\$2,828	23,813
Distribution	1,151,890	114,330	1,037,560
General	87,777	4,775	83,002
Common	55,888	5,763	50,125
Amort. of Intangible Plant - General	15,703	0	15,703
Amort. of Intangible Plant - Common	39,340	4,050	35,290
Total Depreciation Expense	<u>\$1,377,239</u>	<u>\$131,746</u>	<u>\$1,245,493</u>

**GREAT PLAINS NATURAL GAS CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2013**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Other</u>
<u>Operating Expenses Con't.</u>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Production	\$18,384	\$0	\$18,384
Transmission	14,306	3,817	10,489
Distribution	537,864	23,133	514,731
General	38,004	1,692	36,312
Common	10,801	1,101	9,700
Intangible	59	59	0
Total Ad Valorem Taxes	<u>\$619,419</u>	<u>\$29,803</u>	<u>\$589,616</u>
Other Taxes	<u>246,109</u>	<u>23,776</u>	<u>222,333</u>
Total Taxes Other Than Income Taxes	<u>\$865,527</u>	<u>\$53,579</u>	<u>\$811,948</u>
Current Income Taxes	527,707	191,635	336,072
Deferred Income Taxes	<u>(108,814)</u>	<u>(39,338)</u>	<u>(69,476)</u>
Total Operating Expenses	<u>\$32,919,555</u>	<u>\$4,627,326</u>	<u>\$28,292,229</u>
Operating Income	<u>\$1,297,980</u>	<u>\$197,907</u>	<u>\$1,100,073</u>
Year End Rate Base	<u>\$13,099,978</u>	<u>\$1,210,012</u>	<u>\$11,889,966</u>
Rate of Return	<u>9.91%</u>	<u>16.36%</u>	<u>9.25%</u>

**GREAT PLAINS NATURAL GAS CO.
YEAR END RATE BASE
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2013**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Other</u>
<u>Plant in Service</u>			
Gas Plant in Service			
Transmission	2,389,197	\$457,021	1,932,176
Distribution	30,228,195	3,502,643	26,725,552
General	5,013,962	180,651	4,833,311
Intangible Plant - General	862,579	63,703	798,876
Common	1,121,853	115,499	1,006,354
Intangible Plant - Common	935,404	96,303	839,101
Total Gas Plant in Service	<u>\$40,551,189</u>	<u>\$4,415,820</u>	<u>\$36,135,369</u>
Accumulated Reserve for Depreciation			
Production	\$234,023	(\$3,232)	\$237,255
Transmission	1,646,601	389,208	1,257,393
Distribution	20,343,649	2,215,784	18,127,865
General	2,150,732	37,972	2,112,760
Intangible Plant - General	678,174	63,703	614,471
Common	455,416	46,765	408,651
Intangible Plant - Common	617,456	63,570	553,886
Total Accum. Reserve for Depreciation	<u>\$26,126,051</u>	<u>\$2,813,770</u>	<u>\$23,312,281</u>
Total Gas Plant in Service	\$14,425,138	\$1,602,050	\$12,823,088
<u>Additions</u>			
Materials and Supplies	\$379,359	\$49,403	\$329,956
Fuel Stocks	0	0	0
Prepayments	32,903	(16)	32,919
Gas in Underground Storage	835,387	0	835,387
Unamortized Loss on Debt	128,036	13,074	114,962
Total Additions	<u>\$1,375,685</u>	<u>\$62,461</u>	<u>\$1,313,224</u>
Total Before Deductions	\$15,800,823	\$1,664,511	\$14,136,312
<u>Deductions</u>			
Accumulated Deferred Income Taxes	\$2,362,737	\$454,499	\$1,908,238
Customer Advances	338,108	0	\$338,108
Total Deductions	<u>\$2,700,845</u>	<u>\$454,499</u>	<u>\$2,246,346</u>
Year End Rate Base	<u>\$13,099,978</u>	<u>\$1,210,012</u>	<u>\$11,889,966</u>

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

2013



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INDEPENDENT AUDITORS' REPORT

To the Managing Committee of
Great Plains Natural Gas Co.:

We have audited the accompanying schedule of the Cost of Gas Adjustment (COG) included in the monthly filings of Great Plains Natural Gas Co. (the "Company"), a division of MDU Resources Group Inc., for the year ended December 31, 2013, based upon Chapter 69-09-01-30 of the North Dakota Administrative Code (the "Code"), North Dakota Century Code 49-05-05, and the Cost of Gas Rates (the "Tariffs") filed by the Company with the North Dakota Public Service Commission (the "Commission").

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule 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 a schedule that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this COG schedule based on our audit. We conducted our audit 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule referred to above presents fairly, in all material respects, the calculations of the COG 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 schedule was prepared for the purpose of complying with Chapter 69-09-01-30 of the Code and is 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

GREAT PLAINS NATURAL GAS CO.

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

Effective for the Month of:	Adjustments per mcf	
	Firm	Interruptible
January	\$0.9161	(\$1.8494)
February	0.9611	(1.8044)
March	0.8979	(1.8676)
April	1.5078	(1.2577)
May	1.6069	(1.1555)
June	1.5023	(0.8889)
July	1.0372	(1.3540)
August	1.0612	(1.3300)
September	0.9551	(1.4361)
October	0.9515	(1.4397)
November	1.1897	(1.1888)
December	1.1866	(1.1899)