

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-15____

Direct Testimony
of
Donette Schmit

1 Q. **Please state your name and business address.**

2 A. My name is Donette Schmit and my business address is 400 North
3 Fourth Street, Bismarck, North Dakota 58501.

4 Q. **By whom are you employed and in what capacity?**

5 A. I am the Director of Financial Reporting and Planning for Montana-
6 Dakota Utilities Co. (Montana-Dakota), and Great Plains Natural Gas Co.
7 (Great Plains), divisions of MDU Resources Group, Inc.

8 Q. **Please describe your duties and responsibilities with Montana-
9 Dakota.**

10 A. I am responsible for management of the accounting and the financial
11 forecasting/planning functions, including the analysis and reporting of all
12 financial transactions for Montana-Dakota and Great Plains.

13 Q. **Would you please outline your educational and professional
14 background?**

15 A. I graduated from Moorhead State University with a Bachelor of
16 Science degree in Accounting. I started my career with Montana-Dakota
17 in 1983 as an internal auditor and during my tenure with the Company

1 have held positions of increasing responsibility, including Supervisor of
2 Financial Reporting and Planning and Manager of Financial Reporting and
3 Planning.

4 **Q. Have you testified in other proceedings before regulatory bodies?**

5 A. While I have not testified in a previous regulatory proceeding, I
6 have assisted in the preparation of testimony that was presented before
7 the Montana Public Service Commission, the South Dakota Public Utilities
8 Commission and the Wyoming Public Service Commission.

9 **Q. What is the purpose of your testimony in this proceeding?**

10 A. I am responsible for presenting Statement A, Statement B, and
11 Statement F.

12 **Q. Were these statements and the data contained therein prepared by
13 you or under your supervision?**

14 A. Yes, they were.

15 **Q. Are they true to the best of your knowledge and belief?**

16 A. Yes, they are.

17 **Q. Would you describe Statement A and Statement B?**

18 A. Statement A, pages 1 and 2 show Montana-Dakota's balance sheet
19 as of December 31, 2012 and December 31, 2013, with September 30,
20 2013 and September 30, 2014 information shown on pages 3 and 4, with
21 notes to the financial statements following. Statement B consists of
22 Montana-Dakota's income statement for the twelve months ended
23 December 31, 2013 and the nine months ended September 30, 2014.

1 These statements have been prepared from the Company's books and
2 records that are maintained in accordance with the Federal Energy
3 Regulatory Commission (FERC) Uniform System of Accounts.

4 **Q. Would you please explain Statement F?**

5 A. Statement F shows the utility capital structure of Montana-Dakota
6 for the twelve months ended December 31, 2013 and December 31, 2014
7 and the projected capital structure for 2015. Statement F includes the
8 associated costs of debt, preferred stock and common equity. This capital
9 structure and the associated costs serve as the basis for the overall rate of
10 return requested by Montana-Dakota in this rate filing of 7.588 percent.
11 The basis for the requested 10.00 percent return on common equity
12 contained within the overall requested rate of return is supported by the
13 testimony of Dr. J. Stephen Gaske.

14 Page 1 of Statement F summarizes the utility capital structure and
15 the related utility costs of capital at December 31, 2013 and December 31,
16 2014 and the projected capital structure and the related utility costs of
17 capital for 2015. As shown on page 1, the components of the 2015
18 projected overall annual rate of return, which are used by Mr. Jacobson to
19 calculate the revenue requirement, are:

	<u>Weighted Cost of Capital</u>
Long Term Debt	2.447%
Short Term Debt	0.132%
Preferred Stock	0.057%
Common Equity	<u>4.952%</u>
Required Rate of Return	7.588%

20

1 The debt costs reflected on Statement F, Schedule F-1, page 1
2 represent the actual weighted embedded costs of the long-term debt at
3 December 31, 2013 and December 31, 2014 and those projected to be
4 outstanding at December 31, 2015. In calculating the debt costs, the
5 "Yield-to-Maturity" method (also referred to as the Internal Rate of Return
6 (IRR) method) is used to determine the total cost for each respective debt
7 issue, shown on pages 2 through 4. The yield-to-maturity calculation of
8 each debt issue outstanding gives consideration to the stated rates of
9 interest being paid on such debt, the timing of the interest payments,
10 related issuance expenses, underwriters' commissions, and the losses on
11 bond redemption transactions.

12 Page 5 reflects the amortization of issuance costs associated with
13 reacquired debt.

14 Page 6 reports the twelve-month average short-term debt balance
15 and the associated interest expense and cost of short-term debt for
16 December 31, 2013 and December 31, 2014 and that projected to be
17 outstanding on December 31, 2015.

18 Statement F, Schedule F-2, supports the cost of Montana-Dakota's
19 preferred stock capital, representing the weighted cost of the issues at
20 December 31, 2013 and December 31, 2014 and projected to be
21 outstanding at December 31, 2015.

22 Statement F, Schedule F-3, supports the Company's utility common
23 equity balance at December 31, 2013 and December 31, 2014 and the

1 projected balance at December 31, 2015.

2 **Q. How does the Company finance its gas utility operations and**
3 **determine the amount of common equity, debt and preferred stock to**
4 **be included in its capital structure?**

5 **A. As a regulated public utility, the Company has a duty and obligation**
6 **to provide safe and reliable service to its customers across its service**
7 **territory while prudently balancing cost and risk. In order to fulfill its**
8 **service obligations, the Company is making significant capital**
9 **expenditures for new plant investment throughout its service territory,**
10 **especially in mains, services and meters. These new investments also**
11 **have associated operating and maintenance costs. Through its financial**
12 **planning process, the Company determines the amounts of necessary**
13 **financing required to support these activities. Montana-Dakota finances its**
14 **operations targeting a 50/50 debt to common equity capital structure.**
15 **Capital expenditure investments are financed through a mix of internally**
16 **generated funds, the utilization of the Company's short-term credit line**
17 **and the issuance of additional debt and common equity financing as**
18 **required to maintain targeted capital ratios and finance the combined utility**
19 **operations.**

20 The Company obtained \$14.6 million and \$82.0 million of additional
21 common equity in 2013 and 2014, respectively. In addition, the Company
22 expects to receive approximately \$100.0 million of common equity during
23 2015 in order to achieve and maintain the targeted capital structure.

1 In September 2013, the Company issued a thirteen month \$75
2 million London Interbank Offered Rate (LIBOR) floating rate note. This
3 temporary bridge financing was put in place to delay issuance of
4 permanent private placement debt in order to aggregate debt issuances
5 and achieve more attractive long-term pricing while avoiding duplication of
6 issuance costs. In January 2014, \$150 million private placements of
7 unsecured senior notes were issued with delayed draws of \$50 million in
8 April and \$100 million in July 2014. The April draw of \$50 million was
9 issued with a thirty-year maturity, at an interest rate of 5.18 percent. The
10 delayed draw in July 2014 was issued in two blocks, \$60 million, at an
11 interest rate of 4.24 percent, with a ten-year maturity, and \$40 million, at
12 an interest rate of 4.34 percent, with a twelve-year maturity. \$25 million of
13 the LIBOR note was paid off in May 2014 and the balance was paid off in
14 June 2014.

15 Since 2006, the Company has refinanced essentially all of its long-
16 term debt and has lowered its embedded long term debt cost from 8.794
17 percent at December 31, 2005 to a projected 5.949 percent at December
18 31, 2015. The mix of securities employs various maturity dates in order to
19 provide flexibility and mitigate refinancing risks.

20 **Q. What does Statement F, Schedule F-1 show?**

21 A. Page 1 is a summary showing the Company's long-term debt at
22 December 31, 2013 and 2014 and associated cost of debt, and it shows
23 the projected long-term debt and associated costs for 2015. Page 2

1 shows the cost and the debt balance by issue at December 31, 2013 and
2 page 3 shows the cost and debt balance by issue at December 31, 2014.
3 Page 4 shows the projected cost and the debt balance by issue at
4 December 31, 2015.

5 **Q. How did you derive the projected cost of debt for 2015?**

6 A. The projected cost of debt for 2015 is based upon the yield-to-
7 maturity of each debt issue outstanding.

8 **Q. Would you please describe Statement F, Schedule F-1, page 5 and**
9 **explain the amortization method utilized?**

10 A. Page 5 reflects the annual amortization of the costs associated with
11 the redemption of long-term debt. For this proceeding, the amortization
12 has been computed on a straight-line basis over the remaining life of the
13 issues. The Company uses the same calculation for accounting purposes.

14 **Q. Would you please describe Statement F, Schedule F-1, page 6?**

15 A. Page 6 presents the twelve-month average short-term debt balance
16 for 2013, 2014 and projected 2015 as well as the average cost of short-
17 term debt. A twelve-month average of short-term debt is used in the cost
18 of capital calculation to reflect the seasonality in the short-term debt
19 balance. Short-term debt is historically at or near its peak in December
20 and the twelve-month average calculation is more reflective of the
21 borrowing level than a year-end balance.

22 **Q. What does Statement F, Schedule F-2 show?**

23 A. Page 1 presents the preferred stock balances at December 31,

1 2013 and December 31, 2014 and the projected balances for December
2 31, 2015. The anticipated weighted cost of preferred stock is also shown.
3 Pages 2 and 3 set forth the various preferred stock issues outstanding at
4 December 31, 2013 and December 31, 2014 and page 4 sets forth the
5 projected issues outstanding at December 31, 2015.

6 **Q. What does Statement F, Schedule F-3 show?**

7 A. The schedule presents the common equity balance at December
8 31, 2013 and December 31, 2014 and the projected balance for
9 December 31, 2015 reflecting the projected activity in the balance.

10 **Q. Does this conclude your direct testimony?**

11 A. Yes, it does.

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MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
DECEMBER 31, 2012 AND
DECEMBER 31, 2013

	2012	2013
<u>Assets and Other Debits</u>		
Utility Plant	\$1,481,687,123	\$1,618,679,070
Construction Work in Progress	95,503,974	151,552,008
Less Acc. Provision for Depreciation and Amortization	719,531,360	760,970,889
Net Utility Plant	857,659,737	1,009,260,189
Gas Stored Underground - Noncurrent	2,968,462	1,558,796
 <u>Other Property and Investments</u>		
Nonutility Property	4,584,951	15,629,869
(Less) Accum. Prov. for Depr. And Amort.	1,636,553	2,901,889
Investment in Subsidiary Companies	2,253,293,721	2,380,828,521
Other investments	52,122,735	60,687,111
Net Other Property and Investments	2,308,364,854	2,454,243,612
 <u>Current and Accrued Assets</u>		
Cash	3,444,688	4,718,520
Special Deposits	255,310	260,505
Working Fund	150,850	332,668
Temporary Cash Investments	0	0
Customer Accounts Receivable	24,120,553	29,796,719
Other Accounts Receivable	20,937,588	4,403,590
(Less) Accum.Prov. For Uncollectible Acct. - Credit	275,241	443,629
Notes Receivable from Assoc. Companies	0	0
Accounts Receivable from Assoc. Companies	2,957,114	31,371,687
Fuel Stock	5,129,837	4,751,688
Plant Materials and Operating Supplies	18,983,774	19,097,488
Merchandise	451,882	75,479
Stores Expense Undistributed	0	0
Gas Stored Underground - Current	16,903,055	5,386,681
Prepayments	4,829,235	5,074,231
Accrued Utility Revenues	39,447,024	49,648,010
Miscellaneous Current and Accrued Assets	0	0
Total Current and Accrued Assets	137,335,669	154,473,637
 <u>Deferred Debits</u>		
Unamortized Debt Expenses	1,407,362	1,219,120
Unrecovered Plant and Regulatory Study Costs	4,959,490	3,698,596
Other Regulatory Assets	115,340,807	83,915,120
Prelim. Survey and Investigation Charges (Electric)	431,776	336,423
Prelim. Survey and Investigation Charges (Natural Gas)	0	61,412
Clearing Accounts	(18,477)	(6,513)
Miscellaneous Deferred Debits	27,076,963	26,225,949
Unamortized Loss on Reaquired Debt	8,126,591	7,407,081
Accumulated Deferred Income Taxes	68,164,363	49,133,806
Unrecovered Purchased Gas Costs	2,915,460	8,019,627
Total Deferred Debits	228,404,335	180,010,621
 Total Assets and Other Debits	 \$3,534,733,057	 \$3,799,546,855

**MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
DECEMBER 31, 2012 AND
DECEMBER 31, 2013**

	<u>2012</u>	<u>2013</u>
<u>Liabilities and Other Credits</u>		
<u>Proprietary Capital</u>		
Common Stock Issued	\$189,369,450	\$189,868,780
Preferred Stock Issued	15,000,000	15,000,000
Premium on Capital Stock	1,043,190,134	1,061,253,848
(Less) Capital Stock Expense	4,110,305	4,257,578
Retained Earnings	520,210,825	540,130,502
Unappropriated Undistributed Sub Earnings	936,934,577	1,062,999,041
(Less) Reacquired Capital Stock	3,625,813	3,625,813
Accumulated Other Comprehensive Income	<u>(48,720,612)</u>	<u>(38,204,576)</u>
Total Proprietary Capital	2,648,248,256	2,823,164,204
 <u>Long-Term Debt</u>		
Bonds	280,000,000	280,000,000
Other Long-Term Debt	76,867,452	154,705,972
(Less) Unamortized Discount on Long-Term Debt-Debit	0	0
Total Long-Term Debt	<u>356,867,452</u>	<u>434,705,972</u>
 <u>Other Noncurrent Liabilities</u>		
Accumulated Provision for Injuries and Damages	1,064,262	1,355,445
Accumulated Provision for Pensions and Benefits	59,754,547	51,449,261
Accumulated Provision for Rate Refunds	4,364,636	191,185
Asset Retirement Obligations	<u>6,789,483</u>	<u>7,142,915</u>
Total Other Noncurrent Liabilities	71,972,928	60,138,806
 <u>Current and Accrued Liabilities</u>		
Notes Payable	0	0
Accounts Payable	41,180,110	44,138,862
Accounts Payable to Associated Companies	6,422,842	4,839,083
Customer Deposits	1,593,246	1,428,796
Taxes Accrued	12,398,861	12,336,506
Interest Accrued	4,926,930	4,973,368
Dividends Declared	170,817	33,737,408
Tax Collections Payable	968,815	1,143,473
Miscellaneous Current and Accrued Liabilities	<u>22,283,490</u>	<u>29,444,730</u>
Total Current and Accrued Assets	89,945,111	132,042,226
 <u>Deferred Credits</u>		
Customer Advances for Construction	13,769,060	18,726,550
Accumulated Deferred Investment Tax Credit	813,836	767,331
Other Deferred Credits	106,324,544	62,138,894
Other Regulatory Liabilities	9,543,392	16,286,380
Accumulated Deferred Income Taxes	<u>237,248,478</u>	<u>251,576,492</u>
Total Deferred Credits	367,699,310	349,495,647
 Total Liabilities and Equity	 <u>\$3,534,733,057</u>	 <u>\$3,799,546,855</u>

**MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2013 AND
SEPTEMBER 30, 2014**

	<u>2013</u>	<u>2014</u>
<u>Assets and Other Debits</u>		
Utility Plant	\$1,566,724,867	\$1,752,031,393
Construction Work in Progress	147,744,982	115,289,781
Less Acc. Provision for Depreciation and Amortization	<u>750,998,840</u>	<u>774,389,582</u>
Net Utility Plant	963,471,009	1,092,931,592
Gas Stored Underground - Noncurrent	1,856,830	653,160
<u>Other Property and Investments</u>		
Nonutility Property	4,713,360	15,896,844
(Less) Accum. Prov. for Depr. And Amort.	1,777,055	3,336,403
Investment in Subsidiary Companies	2,324,007,616	2,561,490,483
Other investments	<u>57,961,959</u>	<u>63,042,875</u>
Net Other Property and Investments	2,384,905,880	2,637,093,799
<u>Current and Accrued Assets</u>		
Cash	4,528,472	5,648,271
Special Deposits	260,505	14,870
Working Fund	150,850	150,750
Temporary Cash Investments	0	0
Customer Accounts Receivable	11,391,709	13,115,823
Other Accounts Receivable	3,645,274	4,824,279
(Less) Accum.Prov. For Uncollectible Acct. - Credit	320,901	401,529
Notes Receivable from Assoc. Companies	0	0
Accounts Receivable from Assoc.Companies	28,260,304	29,780,953
Fuel Stock	4,860,774	4,062,645
Plant Materials and Operating Supplies	21,321,064	21,761,904
Merchandise	76,123	73,304
Stores Expense Undistributed	59,590	60,736
Gas Stored Underground - Current	25,273,944	23,881,250
Prepayments	10,383,357	11,989,993
Accrued Utility Revenues	17,327,516	18,348,901
Miscellaneous Current and Accrued Assets	<u>0</u>	<u>0</u>
Total Current and Accrued Assets	127,218,581	133,312,150
<u>Deferred Debits</u>		
Unamortized Debt Expenses	1,266,564	2,086,063
Unrecovered Plant and Regulatory Study Costs	3,786,007	3,434,795
Other Regulatory Assets	120,129,055	86,376,039
Prelim. Survey and Investigation Charges (Electric)	637,458	773,586
Prelim. Survey and Investigation Charges (Natural Gas)	2,206	89,236
Clearing Accounts	485,484	(113,997)
Miscellaneous Deferred Debits	26,981,525	25,525,067
Unamortized Loss on Reaquired Debt	7,586,958	6,867,448
Accumulated Deferred Income Taxes	65,248,522	46,291,087
Unrecovered Purchased Gas Costs	<u>6,148,467</u>	<u>13,945,603</u>
Total Deferred Debits	232,272,246	185,274,927
 Total Assets and Other Debits	 <u>\$3,709,724,546</u>	 <u>\$4,049,265,628</u>

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2013 AND
SEPTEMBER 30, 2014

	2013	2014
<u>Liabilities and Other Credits</u>		
<u>Proprietary Capital</u>		
Common Stock Issued	\$189,369,450	\$194,548,389
Preferred Stock Issued	15,000,000	15,000,000
Premium on Capital Stock	1,045,897,571	1,206,998,507
(Less) Capital Stock Expense	4,110,305	6,407,851
Retained Earnings	531,320,071	550,563,219
Unappropriated Undistributed Sub Earnings	1,014,678,935	1,163,210,655
(Less) Reacquired Capital Stock	3,625,813	3,625,813
Accumulated Other Comprehensive Income	(56,936,894)	(37,032,456)
Total Proprietary Capital	2,731,593,015	3,083,254,650
 <u>Long-Term Debt</u>		
Bonds	280,000,000	0
Other Long-Term Debt	120,361,529	430,775,689
(Less) Unamortized Discount on Long-Term Debt-Debit	0	0
Total Long-Term Debt	400,361,529	430,775,689
 <u>Other Noncurrent Liabilities</u>		
Accumulated Provision for Injuries and Damages	1,278,379	3,202,065
Accumulated Provision for Pensions and Benefits	59,888,347	51,569,424
Accumulated Provision for Rate Refunds	602,013	0
Asset Retirement Obligations	7,053,617	7,414,351
Total Other Noncurrent Liabilities	68,822,356	62,185,840
 <u>Current and Accrued Liabilities</u>		
Notes Payable	0	0
Accounts Payable	29,757,209	37,092,632
Accounts Payable to Associated Companies	6,496,903	6,262,360
Customer Deposits	1,421,185	1,405,818
Taxes Accrued	21,456,366	6,984,122
Interest Accrued	1,471,634	3,530,936
Dividends Declared	32,744,516	34,606,928
Tax Collections Payable	624,702	670,769
Miscellaneous Current and Accrued Liabilities	26,466,931	25,386,179
Total Current and Accrued Assets	120,439,446	115,939,744
 <u>Deferred Credits</u>		
Customer Advances for Construction	17,362,130	21,455,055
Accumulated Deferred Investment Tax Credit	778,961	1,657,568
Other Deferred Credits	100,486,610	54,804,948
Other Regulatory Liabilities	7,349,234	15,699,362
Accumulated Deferred Income Taxes	262,531,265	263,492,772
Total Deferred Credits	388,508,200	357,109,705
Total Liabilities and Equity	\$3,709,724,546	\$4,049,265,628

NOTES TO THE FINACIAL STATEMENTS

Name of Respondent
MDU Resources Group, Inc.

This Report Is:
(1) An Original
(2) A Resubmission

Date of Report
12/31/2013

Year/Period of Report
End of 2013/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

Name of Respondent MDU Resources Group, Inc.	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report 2013/Q4
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NOTES TO FINANCIAL STATEMENTS (Continued)

Definitions

The following abbreviations and acronyms used in the Notes are defined below:

Abbreviation or Acronym	
AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
BART	Best available retrofit technology
Big Stone Station	475-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership)
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Company	MDU Resources Group, Inc.
Coyote Station	427-MW coal fired electric generating facility near Beulah, North Dakota (25 percent ownership)
EBITDA	Earnings before interest, taxes, depreciation and amortization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
K-Plan	Company's 401(k) Retirement Plan
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
SDPUC	South Dakota Public Utilities Commission
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan
Wygen III	100-MW coal-fired electric generating facility near Gillette, Wyoming (25 percent ownership)
WYPSC	Wyoming Public Service Commission

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
MDU Resources Group, Inc.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) 12/31/2013	2013/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The Company is a diversified natural resource company, which was incorporated under the laws of the state of Delaware in 1924. Montana-Dakota and Great Plains are public utility divisions of the Company.

Montana-Dakota generates, transmits, and distributes electricity and distributes natural gas in Montana, North Dakota, South Dakota, and Wyoming. Great Plains distributes natural gas in western Minnesota and southeastern North Dakota. These operations also supply related value-added services. The Company provides service to more than 134,000 electric and 280,000 natural gas residential, commercial, industrial and municipal customers in 277 communities and adjacent rural areas as of December 31, 2013.

Montana-Dakota is subject to regulation by the FERC, NDPS, MTPSC, SDPUC, and WYPSC. Great Plains is subject to regulation by the MNPUC and the NDPS.

The Company owns two wholly owned subsidiaries, Centennial and MDU Energy Capital, as well as ownership interests in the assets, liabilities and expenses of jointly owned electric generating facilities.

The financial statements were prepared in accordance with the accounting requirements of the FERC set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than GAAP. These requirements differ from GAAP related to the presentation of certain items including, but not limited to, the current portion of long-term debt, deferred income taxes, cost of removal liabilities, and current unrecovered purchased gas costs. As required by the FERC for Form 1 report purposes, the Company reports its subsidiary investments using the equity method rather than consolidating the assets, liabilities, revenues and expenses of the subsidiaries, as required by GAAP. If GAAP were followed, utility plant, other property and investments would increase by \$1.6 billion; current and accrued assets would increase by \$962.2 million; deferred debits would increase by \$720.3 million; long-term debt would increase by \$1.4 billion; other noncurrent liabilities and current and accrued liabilities would increase by \$592.7 million; deferred credits would increase by \$1.2 billion; and capital would increase by \$32.7 million as of December 31, 2013. Furthermore, operating revenues would increase by \$3.9 billion and operating expenses, excluding income taxes, would increase by \$3.5 billion for the twelve months ended December 31, 2013. In addition, net cash provided by operating activities would increase by \$534.9 million; net cash used in investing activities would increase by \$582.8 million; net cash provided by financing activities would increase by \$42.9 million; the effect of exchange rate changes on cash would decrease by \$215,000; and the net change in cash and cash equivalents would be a decrease of \$5.3 million for the twelve months ended December 31, 2013. Reporting its subsidiary investments using the equity method rather than GAAP has no effect on net income or retained earnings.

The Notes to Financial Statements accompanying this FERC Form No. 1 relate to the nonconsolidated parent company and its two public utility divisions. For information on disclosures of the subsidiary companies, refer to the Company's Form 10-K.

Montana-Dakota and Great Plains are regulated businesses which account for certain income and expense items under the provisions of regulatory accounting, which requires these businesses to defer as regulatory assets or liabilities certain items that would have otherwise been reflected as expense or income, respectively, based on the expected regulatory treatment in future rates. The expected recovery or flowback of these deferred items generally is based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are being amortized consistently with the regulatory treatment established by the FERC and the applicable state public service commissions. See

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Note 3 for more information regarding the nature and amounts of these regulatory deferrals.

Management has also evaluated the impact of events occurring after December 31, 2013, up to the date of issuance of these consolidated financial statements.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of trade receivables from the sale of goods and services which are recorded at the invoiced amount. The total balance of receivables past due 90 days or more was \$623,000 and \$92,000 as of December 31, 2013 and 2012, respectively.

The allowance for doubtful accounts is determined through a review of past due balances and other specific account data. Account balances are written off when management determines the amounts to be uncollectible. The Company's allowance for doubtful accounts as of December 31, 2013 and 2012, was \$444,000 and \$275,000, respectively.

Inventories and natural gas in storage

Inventories, other than natural gas in storage, were stated at the lower of average cost or market value. Natural gas in storage is carried at cost using the last-in, first-out method. The portion of the cost of natural gas in storage expected to be used within one year was included in inventories. Inventories at December 31 consisted of:

	2013	2012
	(In thousands)	
Plant materials and operating supplies	\$ 19,097	\$ 18,984
Gas stored underground-current	5,387	16,903
Fuel stock	4,752	5,130
Merchandise	75	452
Total	\$ 29,311	\$ 41,469

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was \$1.6 million and \$3.0 million at December 31, 2013 and 2012, respectively.

Investments

The Company's investments include its investment in subsidiary companies, the cash surrender value of life insurance policies, an insurance contract, and other miscellaneous investments. The Company measures its investment in the insurance contract at fair value with any unrealized gains and losses recorded on the Statement of Income. The Company has not elected the fair value option for its other investments. For more information, see Notes 4 and 11.

Property, plant and equipment

Additions to property, plant and equipment are recorded at cost. When regulated assets are retired, or otherwise disposed of in the ordinary course of business, the original cost of the asset is charged to accumulated depreciation. With respect to the retirement or disposal of all other assets, the resulting gains or losses are recognized as a component of income. The Company is permitted to capitalize AFUDC on regulated construction projects and to include such amounts in rate base when the related facilities are placed in service. The amount of AFUDC capitalized was \$5.0 million and \$4.8 million in 2013 and 2012, respectively. Property, plant and equipment are depreciated on a straight-line basis

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over the average useful lives of the assets. The Company collects removal costs for plant assets in regulated utility rates. These amounts are included in accumulated provision for depreciation, amortization and depletion.

Property, plant and equipment at December 31 was as follows:

	2013	2012	Weighted Average Depreciable Life in Years
(Dollars in thousands, where applicable)			
Electric:			
Generation	\$ 570,394	\$ 546,011	42
Distribution	308,202	276,446	39
Transmission	196,824	180,543	48
Construction in progress	141,365	62,123	-
Other	94,286	81,553	14
Natural gas distribution:			
Distribution	348,167	308,090	41
Construction in progress	10,219	33,389	-
Other	100,774	89,036	13
Less accumulated depreciation, depletion and amortization	760,971	719,531	
Net utility plant	\$ 1,009,260	\$ 857,660	
Nonutility property	\$ 15,630	\$ 4,585	
Less accumulated depreciation, depletion and amortization	2,902	1,637	
Net nonutility property	\$ 12,728	\$ 2,948	

Impairment of long-lived assets

The Company reviews the carrying values of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. No significant impairment losses were recorded in 2013 and 2012. Unforeseen events and changes in circumstances could require the recognition of impairment losses at some future date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. Goodwill is required to be tested for impairment annually, which is completed in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

The goodwill impairment test is a two-step process performed at the reporting unit level. The Company has determined that the reporting units for its goodwill impairment test are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. The first step of the impairment test involves comparing the fair value of each reporting unit to its carrying value. If the fair value

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of a reporting unit exceeds its carrying value, the test is complete and no impairment is recorded. If the fair value of a reporting unit is less than its carrying value, step two of the test is performed to determine the amount of the impairment loss, if any. The impairment is computed by comparing the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. If the carrying value is greater than the implied fair value, an impairment loss must be recorded. For the years ended December 31, 2013 and 2012, there were no impairment losses recorded. At December 31, 2013, the fair value of the natural gas distribution reporting unit substantially exceeded its carrying value. For more information on goodwill, see Note 2.

Determining the fair value of a reporting unit requires judgment and the use of significant estimates which include assumptions about the Company's future revenue, profitability and cash flows, amount and timing of estimated capital expenditures, inflation rates, weighted average cost of capital, operational plans, and current and future economic conditions, among others. The fair value of each reporting unit is determined using a weighted combination of income and market approaches. The Company uses a discounted cash flow methodology for its income approach. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specified period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects the best estimate of the weighted average cost of capital at each reporting unit. The weighted average cost of capital of approximately 5 percent, and a long-term growth rate projection of approximately 3 percent were utilized in the goodwill impairment test performed in the fourth quarter of 2013. Under the market approach, the Company estimates fair value using multiples derived from comparable sales transactions and enterprise value to EBITDA for comparative peer companies for each respective reporting unit. These multiples are applied to operating data for each reporting unit to arrive at an indication of fair value. In addition, the Company adds a reasonable control premium when calculating the fair value utilizing the peer multiples, which is estimated as the premium that would be received a sale in an orderly transaction between market participants. The Company believes that the estimates and assumptions used in its impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is reasonably assured. The Company recognizes utility revenue each month based on the services provided to all utility customers during the month. Accrued utility revenues represent revenues recognized in excess of amounts billed. Accrued utility revenues were \$49.6 million and \$39.4 million at December 31, 2013 and 2012, respectively. The Company recognizes all other revenues when services are rendered or goods are delivered. The Company presents revenues net of taxes collected from customers at the time of sale to be remitted to governmental authorities, including sales and use taxes.

Asset retirement obligations

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for the recorded amount or incurs a regulatory asset or liability. For more information on asset retirement obligations, see Note 6.

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Legal costs

The Company expenses external legal fees as they are incurred.

Natural gas costs recoverable or refundable through rate adjustments

Under the terms of certain orders of the applicable state public service commissions, the Company is deferring natural gas commodity, transportation and storage costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments over a 12 month period. Natural gas costs recoverable or refundable, as applicable, through rate adjustments were \$8.0 million and \$2.9 million at December 31, 2013 and 2012, respectively, which is included in unrecovered purchased gas costs.

Insurance

The Company is insured for workers' compensation losses in guaranteed cost programs. Automobile liability and general liability losses are insured, subject to self insured retentions of \$500,000 per accident or occurrence. The Company also has coverage above the self insured retentions on a claims made basis. The Company is retaining losses within its retentions on the basis of estimates of liability for claims incurred but not reported.

Income taxes

The Company and its subsidiaries file consolidated method federal income tax returns and combined and separate state income tax returns. Federal income taxes paid by the Company, as parent of the consolidated group, are allocated to the individual subsidiaries based on the ratio of the separate company computations of tax. The Company makes a similar allocation for state income taxes paid in connection with combined state filings. The Company provides deferred federal and state income taxes on all temporary differences between the book and tax basis of the Company's assets and liabilities. Taxes recoverable from customers have been recorded as regulatory assets. Taxes refundable to customers and excess deferred income tax balances associated with the Company's rate-regulated activities have been recorded as regulatory liabilities. These regulatory assets and liabilities are expected to be recovered from or refunded to customers in future rates in accordance with applicable regulatory procedures.

The Company uses the deferral method of accounting for investment tax credits and amortizes the credits on regulated electric and natural gas distribution plant over various periods that conform to the ratemaking treatment prescribed by the applicable state public service commissions.

Tax positions taken or expected to be taken in an income tax return are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in interest and penalties, respectively.

Use of estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as impairment testing of long-lived assets and goodwill; fair value of acquired assets and liabilities under the acquisition method of accounting; property depreciable lives; tax provisions; uncollectible accounts; environmental and other loss contingencies; accumulated provision for revenues subject to refund; unbilled revenues; actuarially determined benefit costs; asset retirement

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NOTES TO FINANCIAL STATEMENTS (Continued)

obligations; and the valuation of stock-based compensation. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Cash flow information

Cash expenditures for interest and income taxes for the years ended December 31 were as follows:

	2013	2012
	(In thousands)	
Interest, net of amount capitalized	\$ 16,152	\$ 15,802
Income taxes refunded, net	\$ (11,453)	\$ (10,137)

Noncash investing transactions at December 31 were as follows:

	2013	2012
	(In thousands)	
Property, plant and equipment additions in accounts payable	\$ 7,075	\$ 14,323

Comprehensive income (loss)

Comprehensive income (loss) is the sum of net income (loss) as reported and other comprehensive income (loss). The Company's other comprehensive loss resulted from postretirement liability adjustments and other comprehensive loss recorded by its subsidiaries.

The postretirement liability adjustment in other comprehensive income was \$454,000 and \$396,000, net of tax of \$(304,000) and \$(245,000), for the years ended December 31, 2013 and 2012, respectively.

The after-tax changes in the components of accumulated other comprehensive loss as of December 31, 2013, were as follows:

	Postretirement Liability Adjustment	Subsidiary Other Comprehensive Loss	Total Accumulated Other Comprehensive Loss
	(In thousands)		
Balance at December 31, 2012	\$ (4,913)	\$ (43,808)	\$ (48,721)
Other comprehensive gain before reclassifications	348	12,104	12,452
Amounts reclassified from accumulated other comprehensive loss	106	(2,042)	(1,936)
Net current-period other comprehensive gain	454	10,062	10,516
Balance at December 31, 2013	\$ (4,459)	\$ (33,746)	\$ (38,205)

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Reclassifications out of accumulated other comprehensive loss for the year ended December 31 were as follows:

	2013	Location on Statement of Income
	(In thousands)	
Amortization of postretirement liability losses included in net periodic benefit cost	\$ (176)	(a)
	70	Income taxes
	(106)	
Subsidiary reclassifications out of accumulated other comprehensive loss	2,042	Equity in earnings of Subsidiary Companies
Total reclassifications	\$ 1,936	

(a) Included in net periodic benefit cost (credit). For more information, see Note 11.

Note 2 - Goodwill and Other Intangible Assets

The carrying amount of goodwill, which is related to the natural gas distribution business, remained unchanged at \$4.8 million for the years ended December 31, 2013 and 2012. This amount is included in miscellaneous deferred debits. No impairments have been recorded in any periods.

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Note 3 - Regulatory Assets and Liabilities

The following table summarizes the individual components of unamortized regulatory assets and liabilities as of December 31:

	Estimated Recovery Period*	2013	2012
(In thousands)			
Regulatory assets:			
Pension and postretirement benefits (a)	(f)	\$ 67,130	\$ 103,937
Taxes recoverable from customers (a)	Over plant lives	10,902	---
Unrecovered purchased gas costs	Up to 12 months	8,020	2,915
Unamortized loss on required debt	Up to 13 years	7,407	8,127
Costs related to identifying generation development (a) (e)	Up to 13 years	4,512	5,773
Plant costs (a)	Up to 3 years	4,333	9,194
Other (a) (b) (g)	Largely within 1 year	6,026	5,912
Total regulatory assets		108,330	135,858
Regulatory liabilities:			
Plant removal and decommissioning costs (c)		110,790	106,858
Pension and postretirement benefits (d)		8,017	---
Taxes refundable to customers (d)		7,802	9,020
Accumulated provision for rate refunds		191	4,365
Other (h)		2,369	1,058
Total regulatory liabilities		129,169	121,301
Net deferred income tax assets (liabilities)**		6,797	(6,229)
Net regulatory position		\$ (14,042)	\$ 8,328

* Estimated recovery period for regulatory assets currently being recovered in rates charged to customers.

** Represents deferred income taxes related to regulatory assets and liabilities. The deferred income tax assets are not earning a rate of return.

- (a) Included in other regulatory assets on the Comparative Balance Sheet.
- (b) Included in prepayments on the Comparative Balance Sheet.
- (c) Included in accumulated provision for depreciation, amortization and depletion and asset retirement obligations on the Comparative Balance Sheet.
- (d) Included in other regulatory liabilities on the Comparative Balance Sheet.
- (e) Included in unrecovered plant and regulatory study costs on the Comparative Balance Sheet.
- (f) Recovered as expense is incurred.
- (g) Included in miscellaneous deferred debits on the Comparative Balance Sheet.
- (h) Included in miscellaneous deferred debits and other regulatory assets on the Comparative Balance Sheet.

The regulatory assets are expected to be recovered in rates charged to customers. A portion of the Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates. Excluding deferred income taxes, as of December 31, 2013 and 2012, approximately \$92.8 million and \$122.6 million respectively, of regulatory assets were not earning a rate of return.

If, for any reason, the Company's regulated business ceases to meet the criteria for application of regulatory accounting for all or part of their operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statement of income as an extraordinary item in the period in which the discontinuance of regulatory accounting occurs.

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Note 4 - Fair Value Measurements

The Company measures its investments in certain fixed-income and equity securities at fair value with changes in fair value recognized in income. The Company anticipates using these investments, which consist of an insurance contract, to satisfy its obligations under its unfunded, nonqualified benefit plan for executive officers and certain key management employees, and invests in these fixed-income and equity securities for the purpose of earning investment returns and capital appreciation. These investments, which totaled \$41.6 million and \$32.6 million as of December 31, 2013 and 2012, respectively, are classified as Other Investments on the Comparative Balance Sheet. The net unrealized gains on these investments for the years ended December 31, 2013 and 2012, were \$9.0 million and \$3.5 million, respectively. The change in fair value, which is considered part of the cost of the plan, is classified in Other Income and Deductions as Life Insurance on the Statement of Income.

The fair value of the Company's money market funds approximates cost.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's assets and liabilities measured on a recurring basis are determined using the market approach.

The Company's Level 2 money market funds consist of investments in short-term unsecured promissory notes and the value is based on comparable market transactions taking into consideration the credit quality of the issuer.

The estimated fair value of the Company's Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2013 and 2012, there were no transfers between Levels 1 and 2.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The Company's assets and liabilities measured at fair value on a recurring basis were as follows:

	Fair Value Measurements at December 31, 2013, Using				Balance at December 31, 2013
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(In thousands)					
Assets:					
Money market funds	\$ —	\$ 1,110	\$ —	\$ —	\$ 1,110
Insurance contract*	—	41,564	—	—	41,564
Total assets measured at fair value	\$ —	\$ 42,674	\$ —	\$ —	\$ 42,674

* The insurance contract invests approximately 29 percent in common stock of mid-cap companies, 28 percent in common stock of small-cap companies, 28 percent in common stock of large-cap companies and 15 percent in fixed-income investments.

	Fair Value Measurements at December 31, 2012, Using				Balance at December 31, 2012
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(In thousands)					
Assets:					
Money market funds	\$ —	\$ 620	\$ —	\$ —	\$ 620
Insurance contract*	—	32,586	—	—	32,586
Total assets measured at fair value	\$ —	\$ 33,206	\$ —	\$ —	\$ 33,206

* The insurance contract invests approximately 28 percent in common stock of mid-cap companies, 28 percent in common stock of small-cap companies, 29 percent in common stock of large-cap companies and 15 percent in fixed-income investments.

The Company's long-term debt is not measured at fair value on the Comparative Balance Sheet and the fair value is being provided for disclosure purposes only. The fair value was based on discounted future cash flows using current market interest rates. The estimated fair value of the Company's Level 2 long-term debt at December 31 was as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
Long-term debt	\$ 434,706	\$ 469,787	\$ 356,867	\$ 411,210

The carrying amounts of the Company's remaining financial instruments included in current assets and current liabilities approximate their fair values.

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Note 5 - Debt

Certain debt instruments of the Company, including those discussed later, contain restrictive covenants and provisions. In order to borrow under the respective credit agreements, the Company must be in compliance with the applicable covenants and certain other conditions. In the event the Company does not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued.

The following table summarizes the outstanding revolving credit facilities of the Company:

Company	Facility	Facility Limit	Amount	Amount	Letters of	Expiration Date
			Outstanding at December 31, 2013	Outstanding at December 31, 2012	Credit at December 31, 2013	
(Dollars in millions)						
MDU Resources Group, Inc.	Commercial paper/Revolving credit agreement (a)	\$ 125.0	\$ 78.9	(b) \$ 76.0	(b) \$ -	10/4/17

(a) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of \$150 million). There were no amounts outstanding under the credit agreement.

(b) Amount outstanding under commercial paper program included in other long-term debt on the Comparative Balance Sheet.

The Company's commercial paper program is supported by a revolving credit agreement. While the amount of commercial paper outstanding does not reduce available capacity under the revolving credit agreement, the Company does not issue commercial paper in an aggregate amount exceeding the available capacity under its credit agreement.

The following includes information related to the preceding table.

Long-term debt

MDU Resources Group, Inc. The Company's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings.

The credit agreement contains customary covenants and provisions, including covenants of the Company not to permit, as of the end of any fiscal quarter, (A) the ratio of funded debt to total capitalization (determined on a consolidated basis) to be greater than 65 percent or (B) the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Other covenants include limitations on the sale of certain assets and on the making of certain loans and investments.

There are no credit facilities that contain cross-default provisions between the Company and any of its subsidiaries.

Long-term Debt Outstanding Long-term debt outstanding at December 31 was as follows:

	2013	2012
	(In thousands)	
Senior Notes at a weighted average rate of 6.24%, due on dates ranging from September 30, 2016 to December 15, 2033	\$ 280,000	\$ 280,000
Credit agreement and other at a weighted average rate of 2.59%, due on dates ranging from January 1, 2017 to April 15, 2044	154,706	76,867
Total long-term debt	\$ 434,706	\$ 356,867

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The amounts of scheduled long-term debt maturities for the five years and thereafter following December 31, 2013, aggregate \$108,000 in 2014; \$109,000 in 2015; \$50.1 million in 2016; \$78.9 million in 2017; \$100.0 million in 2018 and \$205.5 million thereafter.

Note 6 - Asset Retirement Obligations

The Company records obligations related to the decommissioning of certain electric generating facilities, special handling and disposal of hazardous materials at certain electric generating facilities, natural gas distribution facilities and buildings, and certain other obligations.

A reconciliation of the Company's liability for the years ended December 31 was as follows:

	2013	2012
	(In thousands)	
Balance at beginning of year	\$ 6,789	\$ 6,645
Liabilities settled	—	(10)
Revisions in estimates	(17)	(195)
Accretion expense	371	349
Balance at end of year	\$ 7,143	\$ 6,789

The Company believes that any expenses related to asset retirement obligations at the Company's regulated operations will be recovered in rates over time and, accordingly, defers such expenses as regulatory assets.

Note 7 - Preferred Stocks

Preferred stocks at December 31 were as follows:

	2013	2012
	(In thousands, except shares and per share amounts)	
Authorized:		
Preferred -		
500,000 shares, cumulative, par value \$100, issuable in series		
Preferred stock A -		
1,000,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Preference -		
500,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Outstanding:		
4.50% Series - 100,000 shares	\$ 10,000	\$ 10,000
4.70% Series - 50,000 shares	5,000	5,000
Total preferred stocks	\$ 15,000	\$ 15,000

For the years 2013 and 2012, dividends declared on the 4.50% Series and 4.70% Series preferred stocks were \$4.50 and \$4.70 per share, respectively. The 4.50% Series and 4.70% Series preferred stocks outstanding are subject to redemption, in whole or in part, at the option of the Company with certain limitations on 30 days notice on any quarterly dividend date at a redemption price, plus accrued dividends, of \$105 per share and \$102 per share, respectively.

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In the event of a voluntary or involuntary liquidation, all preferred stock series holders are entitled to \$100 per share, plus accrued dividends.

The affirmative vote of two-thirds of a series of the Company's outstanding preferred stock is necessary for amendments to the Company's charter or bylaws that adversely affect that series; creation of or increase in the amount of authorized stock ranking senior to that series (or an affirmative majority vote where the authorization relates to a new class of stock that ranks on parity with such series); a voluntary liquidation or sale of substantially all of the Company's assets; a merger or consolidation, with certain exceptions; or the partial retirement of that series of preferred stock when all dividends on that series of preferred stock have not been paid. The consent of the holders of a particular series is not required for such corporate actions if the equivalent vote of all outstanding series of preferred stock voting together has consented to the given action and no particular series is affected differently than any other series.

Subject to the foregoing, the holders of common stock exclusively possess all voting power. However, if cumulative dividends on preferred stock are in arrears, in whole or in part, for one year, the holders of preferred stock would obtain the right to one vote per share until all dividends in arrears have been paid and current dividends have been declared and set aside.

Note 8 - Common Stock

For the years 2013 and 2012, dividends declared on common stock were \$.6950 and \$.6750 per common share, respectively.

The Company's Stock Purchase Plan provides interested investors the opportunity to make optional cash investments and to reinvest all or a percentage of their cash dividends in shares of the Company's common stock. The K-Plan is partially funded with the Company's common stock. From January 2012 through December 2013, purchases of shares of common stock on the open market were used to fund the Stock Purchase Plan and K-Plan. At December 31, 2013, there were 15.6 million shares of common stock reserved for original issuance under the Stock Purchase Plan and K-Plan.

The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on common stock. The declaration and payment of dividends is at the sole discretion of the board of directors, subject to limitations imposed by the Company's credit agreements, federal and state laws, and applicable regulatory limitations. In addition, the Company and Centennial are generally restricted to paying dividends out of capital accounts or net assets. The following discusses the most restrictive limitations.

Pursuant to a covenant under a credit agreement, Centennial may only make distributions to the Company in an amount up to 100 percent of Centennial's consolidated net income after taxes, excluding noncash write-downs, for the immediately preceding fiscal year. Intermountain and Cascade have regulatory limitations on the amount of dividends each can pay. Based on these limitations, approximately \$2.1 billion of the net assets of the Company's subsidiaries were restricted from being used to transfer funds to the Company at December 31, 2013. In addition, the Company's credit agreement also contains restrictions on dividend payments. The most restrictive limitation requires the Company not to permit the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Based on this limitation, approximately \$219 million of the Company's (excluding its subsidiaries) net assets, which represents common stockholders' equity including retained earnings, would be restricted from use for dividend payments at December 31, 2013. In addition, state regulatory commissions may require the Company to maintain certain capitalization ratios. These requirements are not expected to affect the Company's ability to pay dividends in the near term.

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Note 9 - Stock-Based Compensation

The Company has several stock-based compensation plans under which it is currently authorized to grant restricted stock and stock. As of December 31, 2013, there are 6.2 million remaining shares available to grant under these plans. The Company generally issues new shares of common stock to satisfy restricted stock, stock and performance share awards.

Total stock-based compensation expense (after tax), excluding the amount recognized by the Company's subsidiaries, was \$629,000 and \$548,000 in 2013 and 2012, respectively.

As of December 31, 2013, total remaining unrecognized compensation expense, excluding the amount to be recognized by the Company's subsidiaries, related to stock-based compensation was approximately \$1.2 million (before income taxes) which will be amortized over a weighted average period of 1.7 years.

Stock options

The Company had granted stock options to directors, key employees and employees. The Company has not granted stock options since 2003 and as of December 31, 2013 and 2012, there were no stock options outstanding.

The Company received cash of \$88,000 from the exercise of stock options for the year ended December 31, 2012. The aggregate intrinsic value of options exercised during the year ended December 31, 2012, was \$60,000.

Stock awards

Nonemployee directors may receive shares of common stock instead of cash in payment for directors' fees under the nonemployee director stock compensation plan. There were 36,713 shares with a fair value of \$1.1 million and 53,888 shares with a fair value of \$1.1 million issued under this plan during the years ended December 31, 2013 and 2012, respectively.

A key employee of a subsidiary of the Company received an award of 43,103 shares of common stock under a long-term incentive plan with a fair value of \$930,000 during the year ended December 31, 2012.

Performance share awards

Since 2003, key employees of the Company and its subsidiaries have been awarded performance share awards each year. Entitlement to performance shares is based on the Company's total shareholder return over designated performance periods as measured against a selected peer group.

Target grants of performance shares outstanding at December 31, 2013, were as follows:

Grant Date	Performance Period	Target Grant of Shares
February 2011	2011-2013	254,514
February 2012	2012-2014	251,196
March 2013	2013-2015	244,281

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Participants may earn from zero to 200 percent of the target grant of shares based on the Company's total shareholder return relative to that of the selected peer group. Compensation expense is based on the grant-date fair value as determined by Monte Carlo simulation. The blended volatility term structure ranges are comprised of 50 percent historical volatility and 50 percent implied volatility. Risk-free interest rates were based on U.S. Treasury security rates in effect as of the grant date. Assumptions used for grants of performance shares issued in 2013 and 2012 were:

	2013		2012	
Grant-date fair value		\$ 29.01		\$ 17.18
Blended volatility range	16.10% - 19.39%		24.29% - 25.81%	
Risk-free interest rate range	.09% - .40%		.10% - .35%	
Discounted dividends per share		\$ 2.12		\$ 1.19

There were no performance shares that vested in 2013 or 2012.

A summary of the status of the performance share awards for the year ended December 31, 2013, was as follows:

	Number of Shares	Weighted Average Grant- Date Fair Value
Nonvested at beginning of period	786,136	\$ 18.17
Granted	264,614	29.01
Vested	—	—
Forfeited	(300,759)	18.20
Nonvested at end of period	749,991	\$ 21.99

Note 10 - Income Taxes

Income before income taxes for the years ended December 31, 2013 and 2012, respectively was \$61,704 and \$53,891.

Income tax expense (benefit) for the years ended December 31 was as follows:

	2013		2012	
	(In thousands)			
Current:				
Federal*	\$	(12,057)	\$	(15,719)
State		(690)		(2,476)
Deferred:				
Income taxes:				
Federal		24,572		27,118
State		1,801		2,988
Investment tax credit - net		(47)		(57)
Total income tax expense	\$	13,579	\$	11,854

* There was no change in uncertain tax benefits for the years ended December 31, 2013 and 2012.

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Components of deferred tax assets and deferred tax liabilities at December 31 were as follows:

	2013	2012
	(In thousands)	
Deferred tax assets:		
Accrued pension costs	\$ 26,146	\$ 41,955
Compensation-related	12,675	9,009
Legal and environmental contingencies	515	407
Other	10,575	13,803
Total deferred tax assets	49,911	65,174
Deferred tax liabilities:		
Depreciation and basis differences on property, plant and equipment	256,026	226,833
Other	3,125	1,196
Total deferred tax liabilities	259,151	228,029
Net regulatory matters deferred tax asset (liability)	6,797	(6,229)
Net deferred income tax liability	\$ (202,443)	\$ (169,084)

As of December 31, 2013 and 2012, no valuation allowance has been recorded associated with the previously identified deferred tax assets.

The following table reconciles the change in the net deferred income tax liability from December 31, 2012, to December 31, 2013, to deferred income tax expense:

	2013
	(In thousands)
Change in net deferred income tax liability from the preceding table	\$ 33,359
Deferred taxes associated with other comprehensive loss	(304)
Other	(6,729)
Deferred income tax expense for the period	\$ 26,326

Total income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income (loss) before taxes. The reasons for this difference were as follows:

Years ended December 31,	2013		2012	
	Amount	%	Amount	%
	(Dollars in thousands)			
Computed tax at federal statutory rate	\$ 21,596	35.0	\$ 18,862	35.0
Increases (reductions) resulting from:				
Nonqualified benefit plan	(3,504)	(5.7)	(1,460)	(2.7)
Federal renewable energy credit	(3,404)	(5.5)	(3,401)	(6.3)
AFUDC equity	(1,075)	(1.7)	(1,084)	(2.0)
Deductible K-Plan dividends	(866)	(1.4)	(1,529)	(2.8)
Amortization and deferral of investment tax credit	(47)	(0.1)	(57)	(0.1)
State income taxes, net of federal income tax benefit (expense)	1,491	2.4	1,449	2.7
Other	(612)	(1.0)	(926)	(1.8)
Total income tax expense (benefit)	\$ 13,579	22.0	\$ 11,854	22.0

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The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years ending prior to 2007. The 2007 through 2009 tax years are currently under audit.

The amount of the unrecognized tax benefits (excluding interest) for the years ended December 31, 2013 and 2012 remained unchanged at \$95,000.

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$116,000, including approximately \$21,000 for the payment of interest and penalties at December 31, 2013 and December 31, 2012, respectively.

It is likely that substantially all of the unrecognized tax benefits, as well as interest, at December 31, 2013, will be settled in the next twelve months due to the anticipated settlement of federal and state audits.

For the years ended December 31, 2013 and 2012, the Company recognized approximately \$8,000 and \$4,000, respectively, in interest expense. Penalties were not material in 2013 and 2012. The Company recognized interest income of approximately \$102,000 and \$60,000 for the years ended December 31, 2013 and 2012, respectively. The Company had accrued assets of approximately \$526,000 and \$267,000 at December 31, 2013 and 2012, respectively, for the receipt of interest income.

In September 2013, the Internal Revenue Service released final regulations relating to the capitalization of tangible personal property which are effective for tax years beginning on or after January 1, 2014. The Company does not expect these new regulations to have a material effect on its results of operations, financial position or cash flows.

Note 11 - Employee Benefit Plans

Pension and other postretirement benefit plans

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. The Company uses a measurement date of December 31 for all of its pension and postretirement benefit plans. Other postretirement plans presented here include certain of the Company's subsidiaries.

Defined pension plan benefits to all nonunion and certain union employees hired after December 31, 2005, were discontinued. In 2010, all benefit and service accruals for nonunion and certain union plans were frozen. Effective June 30, 2011, all benefit and service accruals for an additional union plan were frozen. These employees will be eligible to receive additional defined contribution plan benefits.

Effective January 1, 2010, eligibility to receive retiree medical benefits was modified at certain of the Company's businesses. Employees who attain age 55 with 10 years of continuous service by December 31, 2010, will be provided the current retiree medical insurance benefits or can elect the new benefit, if desired, regardless of when they retire. All other current employees must meet the new eligibility criteria of age 60 and 10 years of continuous service at the time they retire. These employees will be eligible for a specified company funded Retiree Reimbursement Account. Employees hired after December 31, 2009, will not be eligible for retiree medical benefits.

In 2012, the Company modified health care coverage for certain retirees. Effective January 1, 2013, post-65 coverage is replaced by a fixed-dollar subsidy for retirees and spouses to be used to purchase individual insurance through an exchange.

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Changes in benefit obligation and plan assets for the years ended December 31, 2013 and 2012, and amounts recognized in the Comparative Balance Sheet at December 31, 2013 and 2012, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 262,910	\$ 249,823	\$ 49,593	\$ 57,161
Service cost	—	—	906	881
Interest cost	9,240	10,127	1,700	2,080
Plan participants' contributions	—	—	830	1,767
Amendments	—	—	—	(9,227)
Actuarial (gain) loss	(24,667)	18,532	(5,998)	1,276
Benefits paid	(17,204)	(15,572)	(3,825)	(4,345)
Benefit obligation at end of year	230,279	262,910	43,206	49,593
Change in net plan assets:				
Fair value of plan assets at beginning of year	177,801	161,284	43,411	38,975
Actual gain on plan assets	20,324	20,050	7,944	3,696
Employer contribution	10,014	12,039	301	3,318
Plan participants' contributions	—	—	830	1,767
Benefits paid	(17,204)	(15,572)	(3,825)	(4,345)
Fair value of net plan assets at end of year	190,935	177,801	48,661	43,411
Funded status – (under) over	\$ (39,344)	\$ (85,109)	\$ 5,455	\$ (6,182)
Amounts recognized in the Comparative Balance Sheet at December 31:				
Other deferred debits (credits)	\$ (39,344)	\$ (85,109)	\$ 5,455	\$ (6,182)
Net amount recognized	\$ (39,344)	\$ (85,109)	\$ 5,455	\$ (6,182)
Amounts recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities) consist of:				
Actuarial loss	\$ 74,036	\$ 111,617	\$ 6,776	\$ 19,133
Prior service credit	—	—	(12,132)	(13,108)
Total	\$ 74,036	\$ 111,617	\$ (5,356)	\$ 6,025

Employer contributions and benefits paid in the preceding table include only those amounts contributed directly to, or paid directly from, plan assets. The above table includes amounts related to regulated operations, which are recorded as regulatory assets (liabilities) and are expected to be reflected in rates charged to customers over time. For more information on regulatory assets (liabilities), see Note 3.

Unrecognized pension actuarial losses in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized on a straight-line basis over the expected average remaining service lives of active participants for non-frozen plans and over the average life expectancy of plan participants for frozen plans. The market-related value of assets is determined using a five-year average of assets. Unrecognized postretirement net transition obligation was amortized over a 20-year period ending 2012.

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The pension plans all have accumulated benefit obligations in excess of plan assets. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans at December 31 were as follows:

	2013	2012
	(In thousands)	
Projected benefit obligation	\$ 230,279	\$ 262,910
Accumulated benefit obligation	\$ 230,279	\$ 262,910
Fair value of plan assets	\$ 190,935	\$ 177,801

Components of net periodic benefit cost for the Company's pension and other postretirement benefit plans for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(In thousands)			
Components of net periodic benefit cost (credit):				
Service cost	\$ —	\$ —	\$ 906	\$ 881
Interest cost	9,240	10,127	1,700	2,079
Expected return on assets	(11,438)	(13,668)	(2,546)	(2,895)
Amortization of prior service credit	—	—	(976)	(580)
Recognized net actuarial loss	4,028	2,801	961	613
Amortization of net transition obligation	—	—	—	3,284
Net periodic benefit cost (credit)	1,830	(740)	45	3,382
Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive (income) loss:				
Net (gain) loss	(33,553)	12,149	(11,396)	475
Prior service credit	—	—	—	(9,227)
Amortization of actuarial loss	(4,028)	(2,801)	(961)	(613)
Amortization of prior service credit	—	—	976	580
Amortization of net transition obligation	—	—	—	(3,284)
Total recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities)	(37,581)	9,348	(11,381)	(12,069)
Total recognized in net periodic benefit cost and accumulated other comprehensive (income) loss/regulatory assets (liabilities)	\$ (35,751)	\$ 8,608	\$ (11,336)	\$ (8,687)

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss or regulatory asset (liability), as applicable, into net periodic benefit cost in 2014 is \$2.7 million. The estimated net loss and prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive loss or regulatory asset (liability), as applicable, into net periodic benefit cost in 2014 are \$686,000 and \$1.2 million, respectively. Prior service cost is amortized on a straight line basis over the average remaining service period of active participants.

Weighted average assumptions used to determine benefit obligations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	4.50 %	3.63 %	4.49 %	3.65 %
Expected return on plan assets	7.00 %	7.00 %	6.00 %	6.00 %

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Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	3.62 %	4.18%	3.65%	4.12%
Expected return on plan assets	7.00 %	7.75%	6.00%	6.75%

The expected rate of return on pension plan assets is based on the targeted asset allocation range of 60 percent to 70 percent equity securities and 30 percent to 40 percent fixed-income securities and the expected rate of return from these asset categories. The expected rate of return on other postretirement plan assets is based on the targeted asset allocation range of 65 percent to 75 percent equity securities and 25 percent to 35 percent fixed-income securities and the expected rate of return from these asset categories. The expected return on plan assets for other postretirement benefits reflects insurance-related investment costs.

Health care rate assumptions for the Company's other postretirement benefit plans as of December 31 were as follows:

	2013	2012
Health care trend rate assumed for next year	6.0%	6.0%
Health care cost trend rate - ultimate	6.0%	6.0%
Year in which ultimate trend rate achieved	1999	1999

The Company's other postretirement benefit plans include health care and life insurance benefits for certain retirees. The plans underlying these benefits may require contributions by the retiree depending on such retiree's age and years of service at retirement or the date of retirement. The accounting for the health care plans anticipates future cost-sharing changes that are consistent with the Company's expressed intent to generally increase retiree contributions each year by the excess of the expected health care cost trend rate over six percent.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2013:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(In thousands)	
Effect on total of service and interest cost components	\$ 33	\$ (30)
Effect on postretirement benefit obligation	\$ 947	\$ (853)

The Company's pension assets are managed by 16 outside investment managers. The Company's other postretirement assets are managed by one outside investment manager. The Company's investment policy with respect to pension and other postretirement assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses. The Company's policy guidelines allow for investment of funds in cash equivalents, fixed-income securities and equity securities. The guidelines prohibit investment in commodities and futures contracts, equity private placement, employer securities, leveraged or derivative securities, options, direct real estate investments, precious metals, venture capital and limited partnerships. The

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guidelines also prohibit short selling and margin transactions. The Company's practice is to periodically review and rebalance asset categories based on its targeted asset allocation percentage policy.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's pension plans' assets are determined using the market approach.

The carrying value of the pension plans' Level 1 and Level 2 cash equivalents approximates fair value and is determined using observable inputs in active markets or the net asset value of shares held at year end, which is determined using other observable inputs including pricing from outside sources. Units of this fund can be redeemed on a daily basis at their net asset value and have no redemption restrictions. The assets are invested in high quality, short-term instruments of domestic and foreign issuers.

The estimated fair value of the pension plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the pension plans' Level 1 and Level 2 collective and mutual funds are based on the net asset value of shares held at year end, based on either published market quotations on active markets or other known sources including pricing from outside sources.

The estimated fair value of the pension plans' Level 2 corporate and municipal bonds is determined using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, future cash flows and other reference data.

The estimated fair value of the pension plans' Level 1 U.S. Treasury securities are valued based on quoted prices on an active market.

The estimated fair value of the pension plans' Level 2 U.S. Treasury securities are valued mainly using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, to be announced prices, future cash flows and other reference data. Some of these securities are valued using pricing from outside sources.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2013 and 2012, there were no transfers between Levels 1 and 2.

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The fair value of the Company's pension plans' assets (excluding cash) by class were as follows:

	Fair Value Measurements at December 31, 2013, Using			Balance at December 31, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Assets:				
Cash equivalents	\$ 1,454	\$ 5,364	\$ —	\$ 6,818
Equity securities:				
U.S. companies	35,696	—	—	35,696
International companies	22,488	—	—	22,488
Collective and mutual funds *	66,296	24,225	—	90,521
Corporate bonds	—	24,360	—	24,360
Municipal bonds	—	4,311	—	4,311
U.S. Treasury securities	4,269	2,472	—	6,741
Total assets measured at fair value	\$ 130,203	\$ 60,732	\$ —	\$ 190,935

*Collective and mutual funds invest approximately 11 percent in common stock of mid-cap U.S. companies, 34 percent in common stock of large-cap U.S. companies, 11 percent in U.S. Treasuries, 27 percent in corporate bonds and 17 percent in other investments.

The fair value of the Company's pension plans' assets by class were as follows:

	Fair Value Measurements at December 31, 2012, Using			Balance at December 31, 2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Assets:				
Cash equivalents	\$ 1,234	\$ 6,015	\$ —	\$ 7,249
Equity securities:				
U.S. companies	50,019	—	—	50,019
International companies	22,898	—	—	22,898
Collective and mutual funds *	47,608	11,539	—	59,147
Corporate bonds	—	25,942	—	25,942
Municipal bonds	—	5,349	—	5,349
U.S. Treasury securities	4,589	2,608	—	7,197
Total assets measured at fair value	\$ 126,348	\$ 51,453	\$ —	\$ 177,801

*Collective and mutual funds invest approximately 12 percent in common stock of mid-cap U.S. companies, 26 percent in common stock of large-cap U.S. companies, 13 percent in U.S. Treasuries, 41 percent in corporate bonds and 8 percent in other investments.

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The following table sets forth a summary of changes in the fair value of the pension plans' Level 3 assets for the year ended December 31, 2012:

Fair Value Measurements Using Significant Unobservable Inputs
(Level 3)

	Collateral Held on		Total
	Corporate Bonds	Loaned Securities	
	(In thousands)		
Balance at beginning of year	\$ 168	\$ —	168
Total realized/unrealized losses	(29)	—	(29)
Purchases, issuances and settlements (net)	(139)	—	(139)
Balance at end of year	\$ —	\$ —	—

The estimated fair values of the Company's other postretirement benefit plans' assets are determined using the market approach.

The estimated fair value of the other postretirement benefit plans' Level 1 and Level 2 cash equivalents is valued at the net asset value of shares held at year end, based on published market quotations on active markets, or using other known sources including pricing from outside sources. Units of this fund can be redeemed on a daily basis at their net asset value and have no redemption restrictions. The assets are invested in high-quality, short-term money market instruments that consist of municipal obligations.

The estimated fair value of the other postretirement benefit plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the other postretirement benefit plans' Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2013 and 2012, there were no transfers between Levels 1 and 2.

Name of Respondent MDU Resources Group, Inc.	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report 2013/Q4
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NOTES TO FINANCIAL STATEMENTS (Continued)

The fair value of the Company's other postretirement benefit plans' assets (excluding cash) by asset class were as follows:

	Fair Value Measurements at December 31, 2013, Using			Balance at December 31, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Cash equivalents	\$ 444	\$ 756	\$ —	\$ 1,200
Equity securities:				
U.S. companies	1,060	—	—	1,060
Insurance contract*	—	46,401	—	46,401
Total assets measured at fair value	\$ 1,504	\$ 47,157	\$ —	\$ 48,661

* The insurance contract invests approximately 55 percent in common stock of large-cap U.S. companies, 12 percent in U.S. Treasuries, 8 percent in mortgage-backed securities, 8 percent in common stock of mid-cap U.S. companies, 9 percent in corporate bonds, and 8 percent in other investments.

The fair value of the Company's other postretirement benefit plans' assets by asset class were as follows:

	Fair Value Measurements at December 31, 2012, Using			Balance at December 31, 2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Cash equivalents	\$ 600	\$ 1,163	\$ —	\$ 1,763
Equity securities:				
U.S. companies	660	—	—	660
Insurance contract*	—	40,988	—	40,988
Total assets measured at fair value	\$ 1,260	\$ 42,151	\$ —	\$ 43,411

* The insurance contract invests approximately 51 percent in common stock of large-cap U.S. companies, 15 percent in U.S. Treasuries, 10 percent in mortgage-backed securities, 11 percent in corporate bonds, and 13 percent in other investments.

The Company expects to contribute approximately \$19.1 million to its defined benefit pension plans in 2014. The Company does not expect to contribute to its postretirement benefit plans in 2014.

Name of Respondent MDU Resources Group, Inc.	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report 2013/Q4
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NOTES TO FINANCIAL STATEMENTS (Continued)

The following benefit payments, which reflect future service, as appropriate, and expected Medicare Part D subsidies are as follows:

Years	Pension Benefits	Other Postretirement Benefits	Expected Medicare Part D Subsidy
	(In thousands)		
2014	\$ 13,794	\$ 3,017	\$ 184
2015	13,972	2,984	178
2016	14,132	2,950	171
2017	14,328	2,944	163
2018	14,513	2,927	155
2019 - 2023	75,584	13,769	638

Nonqualified benefit plans

In addition to the qualified plan defined pension benefits reflected in the table at the beginning of this note, the Company also has unfunded, nonqualified benefit plans for executive officers and certain key management employees that generally provide for defined benefit payments at age 65 following the employee's retirement or to their beneficiaries upon death for a 15-year period. The Company's net periodic benefit cost for these plans was \$4.1 million and \$4.6 million in 2013 and 2012, respectively. The total projected benefit obligation for these plans was \$61.9 million and \$64.7 million at December 31, 2013 and 2012, respectively. The accumulated benefit obligation for these plans was \$57.2 million and \$61.1 million at December 31, 2013 and 2012, respectively. A weighted average discount rate of 4.32 percent and 3.45 percent at December 31, 2013 and 2012, respectively, and a rate of compensation increase of 4.00 percent and 3.00 percent at December 31, 2013 and 2012, respectively, were used to determine benefit obligations. A discount rate of 3.45 percent and 4.00 percent at December 31, 2013 and 2012, respectively, and a rate of compensation increase of 3.00 percent and 4.00 percent at December 31, 2013 and 2012, respectively, were used to determine net periodic benefit cost.

The amount of benefit payments for the unfunded, nonqualified benefit plans are expected to aggregate \$3.1 million in 2014; \$3.8 million in 2015; \$3.7 million in 2016; \$3.8 million in 2017, \$4.0 million in 2018 and \$21.6 million for the years 2019 through 2023.

In 2012, the Company established a nonqualified defined contribution plan for certain key management employees. Costs incurred under this plan for 2013 and 2012 were \$36,000 and \$17,000, respectively.

The Company had investments of \$60.4 million and \$51.9 million at December 31, 2013 and 2012, respectively, consisting of equity securities of \$35.6 million and \$25.6 million, respectively, life insurance carried on plan participants (payable upon the employee's death) of \$17.8 million and \$18.7 million, respectively, and other investments of \$7.0 million and \$5.2 million, respectively. The Company anticipates using these investments to satisfy obligations under these plans.

Defined contribution plans

The Company sponsors various defined contribution plans for eligible employees, and costs incurred under these plans were \$11.1 million in 2013 and \$10.0 million in 2012.

Note 12 - Jointly Owned Facilities

The financial statements include the Company's ownership interests in the assets, liabilities and expenses of the Big Stone Station, Coyote Station and Wygen III. Each owner of the stations is responsible for financing its investment in the jointly owned facilities.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The Company's share of the station's operating expenses was reflected in the appropriate categories of operating expenses (fuel, operation and maintenance, and taxes, other than income) in the Statement of Income.

At December 31, the Company's share of the cost of utility plant in service and related accumulated depreciation for the stations was as follows:

	2013	2012
	(In thousands)	
Big Stone Station:		
Utility plant in service	\$ 63,890	\$ 63,146
Less accumulated depreciation	41,323	40,859
	\$ 22,567	\$ 22,287
Coyote Station:		
Utility plant in service	\$ 138,261	\$ 135,073
Less accumulated depreciation	89,528	87,524
	\$ 48,733	\$ 47,549
Wygen III:		
Utility plant in service	\$ 64,332	\$ 63,462
Less accumulated depreciation	4,639	3,368
	\$ 59,693	\$ 60,094

Note 13 - Regulatory Matters and Revenues Subject to Refund

On September 26, 2012, Montana-Dakota filed an application with the MTPSC for a natural gas rate increase. Montana-Dakota requested a total increase of \$3.5 million annually or approximately 5.9 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities, an operations building, automated meter reading and a new customer billing system. Montana-Dakota requested an interim increase, subject to refund, of \$1.7 million or approximately 2.9 percent. On April 12, 2013, the MTPSC issued an interim order authorizing an interim increase of \$850,000 annually to be effective with service rendered on or after April 15, 2013, subject to refund. A hearing was held August 5-6, 2013. On December 5, 2013, Montana-Dakota and the Montana Consumer Counsel filed a stipulation with the MTPSC with an increase of \$1.5 million annually. On December 12, 2013, the MTPSC approved the stipulation to be effective with service rendered on or after December 15, 2013.

On February 11, 2013, Montana-Dakota filed an application with the NDPSC for approval of an environmental cost recovery rider for recovery of Montana-Dakota's share of the costs resulting from the environmental retrofit required to be installed at the Big Stone Station. The costs proposed to be recovered are associated with the ongoing construction costs for the installation of the BART air-quality control system. On February 27, 2013, the NDPSC suspended the filing pending further review. On May 31, 2013, Montana-Dakota filed revisions to its filing to reflect revised budget amounts. A hearing was held on September 16, 2013. On December 18, 2013, the NDPSC approved the environmental cost recovery rider tariff and adjustment.

On September 18, 2013, Montana-Dakota filed an application with the NDPSC for a natural gas rate increase. Montana-Dakota requested a total increase of \$6.8 million annually or approximately 6.4 percent above current rates. The requested increase includes the cost associated with the increased investment in facilities, including ongoing investment in

Name of Respondent MDU Resources Group, Inc.	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report 2013/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

new and replacement distribution facilities, an operations building, automated meter reading and a new customer billing system. Montana-Dakota requested an interim increase, subject to refund, of \$4.5 million or approximately 4.2 percent. On October 9, 2013, the NDPSC approved the interim increase to be effective with service rendered on or after November 17, 2013. On October 23, 2013, Montana-Dakota and the NDPSC Advocacy Staff filed a settlement agreement that resolved the revenue requirement portion of the application and reflected a natural gas rate increase of \$4.3 million annually or approximately 4.0 percent, and agreed that Montana-Dakota will only implement \$4.3 million of interim rate relief. The NDPSC held an informal hearing on the settlement on November 13, 2013. Montana-Dakota implemented the interim rate increase of \$4.3 million effective with service rendered on or after November 17, 2013. On December 30, 2013, the NDPSC approved the settlement on the revenue requirement. A hearing on the rate design portion of the case was held February 5, 2014, and approved on April 9, 2014.

On February 27, 2014, Montana-Dakota filed an application with the NDPSC for approval of an electric generation resource recovery rider for recovery of Montana-Dakota's investment in the Heskett III generator, located near Mandan, ND. Montana-Dakota requested recovery of \$7.4 million annually or approximately 4.6 percent above current rates. The NDPSC had previously approved an advance determination of prudence and issued a certificate of public convenience and necessity for Heskett III on April 11, 2012. On March 12, 2014, the NDPSC suspended the filing pending further review.

Note 14 - Commitments and Contingencies
Claims and Litigation

The Company is party to claims and lawsuits arising out of its business. The Company accrues a liability for those contingencies when the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is probable or reasonably possible and which are material, the Company discloses the nature of the contingency and, in some circumstances, an estimate of the possible loss. The Company had accrued liabilities of \$1.4 million and \$1.1 million for contingencies related to litigation as of December 31, 2013 and 2012, respectively.

Operating leases

The Company leases certain equipment, facilities and land under operating lease agreements. The amounts of annual minimum lease payments due under these leases as of December 31, 2013, were \$4.2 million in 2014, \$2.8 million in 2015, \$2.7 million in 2016, \$2.5 million in 2017, \$1.4 million in 2018 and \$19.6 million thereafter. Rent expense was \$3.3 million and \$2.8 million for the years ended December 31, 2013 and 2012, respectively.

Purchase commitments

The Company has entered into various commitments, largely natural gas and coal supply, purchased power, and natural gas transportation and storage contracts, some of which are subject to variability in volume and price. These commitments range from one to 11 years. The commitments under these contracts as of December 31, 2013, were \$172.0 million in 2014, \$76.8 million in 2015, \$51.9 million in 2016, \$17.1 million in 2017, \$6.9 million in 2018 and \$17.4 million thereafter. These commitments were not reflected in the Company's financial statements. Amounts purchased under various commitments for the years ended December 31, 2013 and 2012, were \$305.9 million and \$241.5 million, respectively.

Name of Respondent MDU Resources Group, Inc.	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 12/31/2013	Year/Period of Report 2013/Q4
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NOTES TO FINANCIAL STATEMENTS (Continued)

Note 15 - Subsequent Event

On January 28, 2014, the Company entered into a note purchase agreement. The Company contracted to issue \$50.0 million and \$100.0 million of Senior Notes under the agreement on April 15, 2014 and July 15, 2014, respectively, with due dates ranging from July 2024 to April 2044 at a weighted average interest rate of 4.6 percent.

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MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
TWELVE MONTHS ENDING DECEMBER 31, 2013

Operating Income

Electric Utility

Operating Revenues	\$255,395,710
Operating Expenses:	
Operation Expenses	139,938,907
Maintenance Expenses	20,782,627
Depreciation Expenses	32,586,492
Taxes Other Than Income Taxes	10,159,529
Income Taxes:	
Federal Taxes on Income	(8,188,163)
State Taxes on Income	(223,021)
Deferred Income Taxes	19,604,645
Total Electric Expenses	<u>214,661,016</u>
Net Electric Operation	\$40,734,694

Gas Utility

Operating Revenues	\$282,180,696
Operating Expenses:	
Operation Expenses	242,309,064
Maintenance Expenses	4,623,749
Depreciation Expenses	13,907,989
Taxes Other Than Income Taxes	7,775,258
Income Taxes:	
Federal Taxes on Income	(2,270,407)
State Taxes on Income	(231,425)
Deferred Income Taxes	5,537,582
Total Gas Expenses	<u>271,651,810</u>
Net Gas Operation	\$10,528,886

Net Utility Operating Income \$51,263,580

Revenues from Merchandising, Jobbing and Contract Work	\$6,363,713
(Less) Costs and Exp. Of Merch., Jobbing and Contract Work	1,793,254
Revenues from Nonutility Operations	3,469,323
(Less) Expense from Nonutility Operations	2,122,588
Equity in Earnings of Subsidiary Companies	230,807,415
Interest and Dividend Income	1,848,997
Allowance for Other Funds Used During Construction	3,071,017
Miscellaneous Nonoperating Income	211,336
Gain on Disposition of Property	0
Total Other Income	<u>241,855,959</u>

Loss on Disposition of Property	0
Miscellaneous Income Deductions	(2,553,248)
Total Other Income Deductions	<u>(2,553,248)</u>

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
TWELVE MONTHS ENDING DECEMBER 31, 2013

Case No. PU-15-____
Statement B
Page 2 of 4

Taxes other than Income Taxes	3,919
Income Taxes - Federal	(1,598,864)
Income Taxes - State	(235,475)
Provision for Deferred Income Taxes	1,230,877
Investment Tax Credits	46,505
Total Taxes on Other Income and Deductions	<u>(646,048)</u>
 Net Other Income and Deductions	 \$245,055,255
 Interest On Long-Term Debt	 18,140,295
Amortization of Debt Discount and Expense	189,843
Amortization of Loss on Reacquired Debt	719,510
Other Interest Expense	273,566
(Less) Allow for Borrowed Funds Used during Const.	<u>1,936,973</u>
Net Interest Charges	17,386,241
 Net Income	 <u><u>\$278,932,594</u></u>

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
NINE MONTHS ENDING SEPTEMBER 30, 2014

Operating Income

Electric Utility

Operating Revenues	\$205,727,354
Operating Expenses:	
Operation Expenses	112,209,180
Maintenance Expenses	14,926,747
Depreciation Expenses	25,666,009
Taxes Other Than Income Taxes	8,279,439
Income Taxes:	
Federal Taxes on Income	57,160
State Taxes on Income	371,034
Deferred Income Taxes	9,653,320
Total Electric Expenses	<u>171,162,889</u>
Net Electric Operation	\$34,564,465

Gas Utility

Operating Revenues	\$238,579,544
Operating Expenses:	
Operation Expenses	205,713,638
Maintenance Expenses	3,863,440
Depreciation Expenses	11,879,272
Taxes Other Than Income Taxes	6,021,624
Income Taxes:	
Federal Taxes on Income	(365,376)
State Taxes on Income	(258,747)
Deferred Income Taxes	3,182,084
Total Gas Expenses	<u>230,035,935</u>
Net Gas Operation	\$8,543,609

Net Utility Operating Income \$43,108,074

Revenues from Merchandising, Jobbing and Contract Work	\$613,106
(Less) Costs and Exp. Of Merch., Jobbing and Contract Work	466,490
Revenues from Nonutility Operations	2,797,739
(Less) Expense from Nonutility Operations	1,899,689
Equity in Earnings of Subsidiary Companies	179,197,837
Interest and Dividend Income	1,632,362
Allowance for Other Funds Used During Construction	3,349,271
Miscellaneous Nonoperating Income	23,517
Gain on Disposition of Property	1,213,126
Total Other Income	<u>186,460,779</u>

Loss on Disposition of Property	6,747
Miscellaneous Income Deductions	841,519
Total Other Income Deductions	<u>848,266</u>

MDU RESOURCES GROUP, INC.
NONCONSOLIDATED INCOME STATEMENT
NINE MONTHS ENDING SEPTEMBER 30, 2014

Taxes other than Income Taxes	218,112
Income Taxes - Federal	132,823
Income Taxes - State	(1,019,941)
Provision for Deferred Income Taxes	(370,956)
Investment Tax Credits	<u>(890,237)</u>
Total Taxes on Other Income and Deductions	(149,725)
Net Other Income and Deductions	\$185,762,238
Interest On Long-Term Debt	15,742,661
Amortization of Debt Discount and Expense	171,084
Amortization of Loss on Reacquired Debt	539,633
Other Interest Expense	190,172
(Less) Allow for Borrowed Funds Used during Const.	<u>1,750,937</u>
Net Interest Charges	14,892,613
Net Income	<u><u>\$213,977,699</u></u>

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY CAPITAL STRUCTURE**

	<u>Balance</u>	<u>Ratio</u>	<u>Cost</u>	<u>Required Return</u>
<u>2013</u>				
Long Term Debt	\$317,977,362	39.834%	6.149%	2.449%
Short Term Debt 1/	61,279,880	7.677%	0.788%	0.060%
Preferred Stock	15,347,350	1.923%	4.583%	0.088%
Common Equity	403,645,109	50.566%	10.000%	5.057%
Total	<u>\$798,249,701</u>	<u>100.000%</u>		<u>7.654%</u>
<u>2014</u>				
Long Term Debt	\$392,969,139	42.556%	5.870%	2.498%
Short Term Debt 1/	37,099,969	4.017%	1.213%	0.049%
Preferred Stock	15,308,600	1.658%	4.581%	0.076%
Common Equity	478,046,673	51.769%	10.000%	5.177%
Total	<u>\$923,424,381</u>	<u>100.000%</u>		<u>7.800%</u>
<u>Projected 2015</u>				
Long Term Debt	\$505,460,413	41.135%	5.949%	2.447%
Short Term Debt 1/	99,623,527	8.108%	1.631%	0.132%
Preferred Stock	15,258,600	1.242%	4.579%	0.057%
Common Equity	608,435,332	49.515%	10.000%	4.952%
Total	<u>\$1,228,777,872</u>	<u>100.000%</u>		<u>7.588%</u>

1/ Reflects average monthly balance.

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE LONG-TERM DEBT**

	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Adjusted Embedded Cost</u>
First Mortgage Bonds			
Balance at 12/31/2012	\$280,481,352	\$19,201,850	6.846%
Balance at 12/31/2013	\$355,000,000	\$19,834,125	5.587%
Minot Air Force Base Payable	473,372	28,402	6.000%
Amortization of Gain/Loss		43,469	1/
Total @ 12/31/2013	<u>\$355,473,372</u>	<u>\$19,905,996</u>	<u>5.600%</u>
Average @ 12/31/2013	<u>\$317,977,362</u>	<u>\$19,553,923</u>	<u>6.149%</u>
Balance at 12/31/2014	\$430,000,000	\$26,154,600	6.082%
Minot Air Force Base Payable	464,906	27,894	6.000%
Amortization of Gain/Loss		43,469	1/
Total @ 12/31/2014	<u>\$430,464,906</u>	<u>\$26,225,963</u>	<u>6.092%</u>
Average @ 12/31/2014	<u>\$392,969,139</u>	<u>\$23,065,980</u>	<u>5.870%</u>
Balance at 12/31/2015	580,000,000	33,840,600	5.835%
Minot Air Force Base Payable	455,919	27,355	6.000%
Amortization of Gain/Loss		43,469	1/
Total @ 12/31/15	<u>\$580,455,919</u>	<u>\$33,911,424</u>	<u>5.842%</u>
Average @ 12/31/2015	<u>\$505,460,413</u>	<u>\$30,068,694</u>	<u>5.949%</u>

1/ Page 5.

**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>First Mortgage Bonds:</u>									
Secured Medium-term Notes, Series A:									
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	0.000%	0	0.000%
Total Long-Term Debt Capital				\$355,000,000	\$355,000,000	\$1,087,981		\$11,847,253	

Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost
	Amount	Per Unit				
<u>First Mortgage Bonds:</u>						
Secured Medium-term Notes, Series A:						
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%	6.210%	30,000,000	1,863,000	
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	100.000%	0.938%	75,000,000	703,125	
Total Long-Term Debt Capital	\$342,064,766			\$355,000,000	\$19,834,125	5.587%

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.
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2014**

<u>Description</u>	<u>Date of Issuance</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount of Issue</u>	<u>Gross Proceeds</u>	<u>Underwriters' Commission</u>		<u>Loss on Reacquisition and Issuance Expense</u>	
						<u>Amount</u>	<u>% Gross Proceeds</u>	<u>Amount</u>	<u>% Gross Proceeds</u>
First Mortgage Bonds:									
Secured Medium-term Notes, Series A:									
6.61% - Senior Note	9/1/2009	9/30/2016	6.610%	\$25,000,000	\$25,000,000	\$68,308	0.273%	\$517,287	2.069%
6.66% - Senior Note	10/1/2009	9/30/2016	6.660%	25,000,000	25,000,000	68,308	0.273%	517,287	2.069%
5.98% - Senior Note	12/15/2003	12/15/1933	5.980%	30,000,000	30,000,000	624,465	2.082%	0	0.000%
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%
5.18% - Senior Note	4/15/2014	4/15/2044	5.180%	50,000,000	50,000,000	239,178	0.478%	0	0.000%
4.24% - Senior Note	7/15/2014	7/15/2024	4.240%	60,000,000	60,000,000	289,913	0.483%	0	0.000%
4.34% - Senior Note	7/15/2014	7/15/2026	4.340%	40,000,000	40,000,000	195,691	0.489%	0	0.000%
Total Long-Term Debt Capital				\$430,000,000	\$430,000,000	\$2,192,356		\$11,566,583	

<u>Description</u>	<u>Net Proceeds</u>		<u>Cost of Money 1/</u>	<u>Principal Outstanding</u>	<u>Annual Cost</u>	<u>Embedded Cost</u>
	<u>Amount</u>	<u>Per Unit</u>				
First Mortgage Bonds:						
Secured Medium-term Notes, Series A:						
6.61% - Senior Note	\$24,414,405	97.658%	7.120%	\$25,000,000	1,780,000	
6.66% - Senior Note	24,414,405	97.658%	7.172%	25,000,000	1,793,000	
5.98% - Senior Note	29,375,535	97.918%	6.210%	30,000,000	1,863,000	
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	
5.18% - Senior Note	49,760,822	99.522%	5.280%	50,000,000	2,640,000	
4.24% - Senior Note	59,710,087	99.517%	4.346%	60,000,000	2,607,600	
4.34% - Senior Note	39,804,309	99.511%	4.440%	40,000,000	1,776,000	
Total Long-Term Debt Capital	\$416,241,061			\$430,000,000	\$26,154,600	6.082%

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.
LONG-TERM DEBT CAPITAL
PROJECTED DECEMBER 31, 2015**

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquisition and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
First Mortgage Bonds:									
Secured Medium-term Notes, Series A:									
6.61% - Senior Note	9/1/2009	9/30/2016	6.610%	\$25,000,000	\$25,000,000	\$68,308	0.273%	\$517,287	2.069%
6.66% - Senior Note	10/1/2009	9/30/2016	6.660%	25,000,000	25,000,000	68,308	0.273%	517,287	2.069%
5.98% - Senior Note	12/15/2003	12/15/2033	5.980%	30,000,000	30,000,000	624,465	2.082%	0	0.000%
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%
5.18% - Senior Note	4/15/2014	4/15/2044	5.180%	50,000,000	50,000,000	239,178	0.478%	0	0.000%
4.24% - Senior Note	7/15/2014	7/15/2024	4.240%	60,000,000	60,000,000	289,913	0.483%	0	0.000%
4.34% - Senior Note	7/15/2014	7/15/2026	4.340%	40,000,000	40,000,000	195,691	0.489%	0	0.000%
5.00% - Senior Note	4/15/2015	4/15/2025	5.000%	150,000,000	150,000,000	362,391	0.242%	0	0.000%
Total Long-Term Debt Capital				\$580,000,000	\$580,000,000	\$2,554,747		\$11,566,583	

Description	Net Proceeds		Cost of Money 1/	Principal		Embedded Cost
	Amount	Per Unit		Outstanding	Annual Cost	
First Mortgage Bonds:						
Secured Medium-term Notes, Series A:						
6.61% - Senior Note	\$24,414,405	97.658%	7.120%	\$25,000,000	1,780,000	
6.66% - Senior Note	24,414,405	97.658%	7.172%	25,000,000	1,793,000	
5.98% - Senior Note	29,375,535	97.918%	6.210%	30,000,000	1,863,000	
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	
5.18% - Senior Note	49,760,822	99.522%	5.280%	50,000,000	2,640,000	
4.24% - Senior Note	59,710,087	99.517%	4.346%	60,000,000	2,607,600	
4.34% - Senior Note	39,804,309	99.511%	4.440%	40,000,000	1,776,000	
5.00% - Senior Note	149,637,609	99.758%	5.124%	150,000,000	7,686,000	
Total Long-Term Debt Capital	\$565,878,670			\$580,000,000	\$33,840,600	5.835%

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.
AMORTIZATION OF LOSS ON REACQUIRED DEBT

<u>Acct. 1890 - Unamortized Loss</u>	<u>Amortization</u>
PCN Notes Loss/Unamortized Expense - 2013	\$43,469
PCN Notes Loss/Unamortized Expense - 2014	43,469
PCN Notes Loss/Unamortized Expense - 2015	43,469

MONTANA-DAKOTA UTILITIES CO.
AVERAGE SHORT-TERM DEBT

	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Average Cost</u>
2013			
Average Balance 1/	\$61,279,880	\$228,053	0.372%
Amortization of Fees 2/		<u>254,805</u>	
Total	<u>\$61,279,880</u>	<u>\$482,858</u>	<u>0.788%</u>
2014			
Average Balance 1/	\$37,099,969	\$132,954	0.358%
Amortization of Fees 2/		<u>317,200</u>	
Total	<u>\$37,099,969</u>	<u>\$450,154</u>	<u>1.213%</u>
Projected 2015			
Average Balance 1/	\$99,623,527	\$1,273,144	1.278%
Amortization of Fees 2/		<u>351,826</u>	
Total	<u>\$99,623,527</u>	<u>\$1,624,970</u>	<u>1.631%</u>

1/ Twelve month average balance.
2/ Negotiation and commitment fees.

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE PREFERRED STOCK**

<u>Description</u>	<u>Balance Outstanding</u>	<u>Annual Cost</u>	<u>Adjusted Embedded Cost</u>
Balance at 12/31/2012	\$15,386,100	\$705,405	4.585%
2013 Redemptions:			
5.1% Series	(77,500)	(4,095)	
Balance at 12/31/2013	<u>\$15,308,600</u>	<u>\$701,310</u>	<u>4.581%</u>
Average @ 12/31/2013	<u>\$15,347,350</u>	<u>\$703,358</u>	<u>4.583%</u>
2014 Redemptions:			
5.1% Series	0	0	
Balance at 12/31/2014	<u>\$15,308,600</u>	<u>\$701,310</u>	<u>4.581%</u>
Average @ 12/31/2014	<u>\$15,308,600</u>	<u>\$701,310</u>	<u>4.581%</u>
2015 Redemptions:			
5.1% Series	(100,000)	(5,285)	5.285%
Balance at 12/31/2015	<u>\$15,208,600</u>	<u>\$696,025</u>	<u>4.577%</u>
Average @ 12/31/2015	<u>\$15,258,600</u>	<u>\$698,668</u>	<u>4.579%</u>

**MONTANA-DAKOTA UTILITIES CO.
PREFERRED STOCK CAPITAL
DECEMBER 31, 2013**

<u>Description</u>	<u>Date of Issuance</u>	<u>Call (Redemption) Price</u>	<u>Dividend Rate</u>	<u>Par Value of Issue</u>	<u>Gross Proceeds (000's)</u>	<u>Underwriters' Commission</u>		<u>Issuance Expense</u>	
						<u>Amount</u>	<u>% Gross Proceeds</u>	<u>Amount</u>	<u>% Gross Proceeds</u>
4.5% Series	01/01/51	\$105	4.5%	\$100	\$10,000				
4.7% Series	12/07/55	102	4.7%	100	5,000				
5.1% Series	05/23/61	100/102	5.1%	100	5,000	\$25,000	0.50%	\$27,452	0.549%
Total									
				<u>\$15,308,600</u>	<u>\$701,310</u>			<u>4.581%</u>	

<u>Description</u>	<u>Net Proceeds</u>		<u>Cost of Money 1/2/</u>	<u>Principal Outstanding</u>	<u>December 31, 2013 Annual Embedded Cost</u>	<u>Method of Offering</u>
	<u>Amount (000's)</u>	<u>Per Unit</u>				
4.5% Series	\$10,000	100.000%	4.500%	\$10,000,000	\$450,000	Public
4.7% Series	5,000	100.000%	4.700%	5,000,000	235,000	Public
5.1% Series	4,948	98.951%	5.285%	308,600	16,310	Private
Total					<u>\$701,310</u>	<u>4.581%</u>

1/ Yield to maturity based upon the life, net proceeds, and quarterly compounding of the stated dividend rate of each issue.
2/ 4.5% Series and 4.7% Series issue expense fully recovered.

**MONTANA-DAKOTA UTILITIES CO.
PREFERRED STOCK CAPITAL
DECEMBER 31, 2014**

Description	Date of Issuance	Call (Redemption) Price	Dividend Rate	Par Value of Issue	Gross Proceeds (000's)	Underwriters' Commission		Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
4.5% Series	01/01/51	\$105	4.5%	\$100	\$10,000				
4.7% Series	12/07/55	102	4.7%	100	5,000				
5.1% Series	05/23/61	100/102	5.1%	100	5,000	\$25,000	0.50%	\$27,452	0.549%

Description	Net Proceeds		Cost of Money 1/ 2/	Principal Outstanding	December 31, 2014		Method of Offering
	Amount (000's)	Per Unit			Annual Cost	Embedded Cost	
4.5% Series	\$10,000	100.000%	4.500%	\$10,000,000	\$450,000		Public
4.7% Series	5,000	100.000%	4.700%	5,000,000	235,000		Public
5.1% Series	4,948	98.951%	5.285%	308,600	16,310		Private
Total				<u>\$15,308,600</u>	<u>\$701,310</u>	<u>4.581%</u>	

1/ Yield to maturity based upon the life, net proceeds, and quarterly compounding of the stated dividend rate of each issue.
2/ 4.5% Series and 4.7% Series issue expense fully recovered.

**MONTANA-DAKOTA UTILITIES CO.
PREFERRED STOCK CAPITAL
PROJECTED DECEMBER 31, 2015**

<u>Description</u>	<u>Date of Issuance</u>	<u>Call (Redemption) Price</u>	<u>Dividend Rate</u>	<u>Par Value of Issue</u>	<u>Gross Proceeds (000's)</u>	<u>Underwriters' Commission</u>		<u>Issuance Expense</u>	
						<u>Amount</u>	<u>% Gross Proceeds</u>	<u>Amount</u>	<u>% Gross Proceeds</u>
4.5% Series	01/01/51	\$105	4.5%	\$100	\$10,000				
4.7% Series	12/07/55	102	4.7%	100	5,000				
5.1% Series	05/23/61	100/102	5.1%	100	5,000	\$25,000	0.50%	\$27,452	0.549%
Total									
				<u>\$15,208,600</u>	<u>\$696,025</u>	<u>4.577%</u>			

<u>Description</u>	<u>Net Proceeds</u>		<u>Cost of Money 1/2/</u>	<u>Principal Outstanding</u>	<u>December 31, 2015 Annual Embedded Cost</u>	<u>Method of Offering</u>
	<u>Amount (000's)</u>	<u>Per Unit</u>				
4.5% Series	\$10,000	100.0000%	4.500%	\$10,000,000	\$450,000	Public
4.7% Series	5,000	100.0000%	4.700%	5,000,000	235,000	Public
5.1% Series	4,948	98.951%	5.285%	208,600	11,025	Private
Total				<u>\$15,208,600</u>	<u>\$696,025</u>	<u>4.577%</u>

1/ Yield to maturity based upon the life, net proceeds, and quarterly compounding of the stated dividend rate of each issue.
2/ 4.5% Series and 4.7% Series issue expense fully recovered.

**MONTANA-DAKOTA UTILITIES CO.
AVERAGE UTILITY COMMON EQUITY**

<u>Description</u>	<u>Amount</u>
Common Equity - 12/31/2013	<u>\$2,808,164,204</u>
Investment in Subsidiaries	<u>2,380,828,521</u>
Utility Common Equity - 12/31/2013	<u>\$427,335,683</u>
Common Equity - 12/31/2014	<u>\$3,119,680,447</u>
Investment in Subsidiaries	<u>2,590,922,784</u>
Utility Common Equity - 12/31/2014	<u>\$528,757,663</u>
Average @ 12/31/2014	<u>\$478,046,673</u>
Common Equity - 12/31/2015	<u>\$3,275,802,000</u>
Investment in Subsidiaries	<u>2,587,689,000</u>
Utility Common Equity - 12/31/2015	<u>\$688,113,000</u>
Average @ 12/31/2015	<u>\$608,435,332</u>