

ANNUAL REPORT

STATE OF NORTH DAKOTA

GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2015



MONTANA-DAKOTA
UTILITIES CO.

A Division of MDU Resources Group, Inc.

In the Community to Serve®

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2015 Total Company	2015 North Dakota	ND % (B / A)	2014 North Dakota	Variance (B-D / D)
<u>Operating Revenues:</u>						
1	Residential	\$135,067,200	58,665,366	43.43%	\$72,459,088	-19.04%
2	Firm General	94,159,134	45,104,955	47.90%	54,896,304	-17.84%
3	Small Interruptible	8,090,756	6,176,854	76.34%	8,927,257	-30.81%
4	Large Interruptible	747,263	248,067	33.20%	339,116	-26.85%
5	Transportation	4,225,582	2,096,638	49.62%	2,214,541	-5.32%
6	Other Operating Revenues	5,082,748	3,975,504	78.22%	2,601,547	52.81%
7	Unbilled Revenue	(7,648,926)	(4,656,073)	60.87%	(1,347,094)	245.64%
8	Reserved for Refunds	(794,892)	(947,218)	119.16%	(84,047)	1027.01%
9	Total Operating Revenues	\$238,928,865	\$110,664,093	46.32%	\$140,006,712	-20.96%
<u>Operating Expenses:</u>						
10	Cost of Purchased Gas	\$154,290,967	\$72,479,031	46.98%	\$103,658,144	-30.08%
11	Other Gas Supply Expense	626,280	290,570	46.40%	227,476	27.74%
12	Distribution Expense	18,689,264	8,941,446	47.84%	9,136,737	-2.14%
13	Customer Accounts Expense	6,304,803	2,494,409	39.56%	2,853,586	-12.59%
14	Customer Service & Info. Exp.	545,085	255,989	46.96%	245,147	4.42%
15	Sales Expense	467,455	224,247	47.97%	160,427	39.78%
16	Administration & General Exp.	16,011,685	7,136,557	44.57%	6,751,336	5.71%
17	Depreciation Expense	16,110,654	6,928,475	43.01%	5,868,214	18.07%
18	Taxes Other than Income	7,738,880	1,814,044	23.44%	1,637,627	10.77%
19	Total Operating Expenses	\$220,785,073	\$100,564,768	45.55%	\$130,538,694	-22.96%
20	Net Operating Income					
21	before Income Taxes	\$18,143,792	\$10,099,325	55.66%	\$9,468,018	6.67%
<u>Income Tax Expense:</u>						
22	Investment Tax Credits					
23	Deferred Income Taxes	(\$5,051,536)	(\$2,553,934)	50.56%	\$4,327,599	-159.02%
24	Income Taxes	9,531,198	5,124,074	53.76%	(1,697,193)	-401.91%
25	Total Income Tax Expense	\$4,479,662	\$2,570,140	57.37%	\$2,630,406	-2.29%
26	Net Regulated Earnings	\$13,664,130	\$7,529,185	55.10%	\$6,837,612	10.11%

I. INTRASTATE RETURN ON EQUITY

GAS UTILITY
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ANNUAL REPORT
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Line #	Description	(A)	(B)	(C)	(D)	(E)
		Total Company	2015 North Dakota	ND % (B / A)	2014 North Dakota	Variance (B-D / D)
	<u>Rate Base:</u>					
1	Plant in Service 1/	\$480,307,602	\$227,993,084	47.47%	\$191,926,946	18.79%
2	Less: Accumulated Depreciation 1/	210,708,181	82,577,466	39.19%	77,486,978	6.57%
4	Net Plant in Service	\$269,599,421	\$145,415,618	53.94%	\$114,439,968	27.07%
	<u>Additions:</u>					
5	Materials and Supplies 2/	\$4,251,507	\$2,363,307	55.59%	\$2,477,500	-4.61%
6	Prepayments 2/	480,647	221,558	46.10%	185,342	19.54%
7	Prepaid Demand/Commodity 1/	1,203,212		0.00%		
8	Fuel Stocks 2/	72,172	72,172	100.00%	45,999	56.90%
9	Gas in Underground Storage 1/	3,629,861		0.00%		
10	Other 1/	91,122		0.00%		
11	Unamortized Loss on Debt 1/	1,411,546	687,944	48.74%	659,392	4.33%
12	Gain and Loss on Property 1/	(335,782)	(335,782)	100.00%	(171,495)	95.80%
13	Total Additions	\$10,804,285	\$3,009,199	27.85%	\$3,196,738	-5.87%
	<u>Deductions:</u>					
14	Accum. Deferred Income Taxes 1/	\$50,216,630	\$20,712,493	41.25%	\$17,345,251	19.41%
15	Cust. Advances for Construct. 2/	15,897,664	12,451,719	78.32%	10,131,596	22.90%
16	Total Deductions	\$66,114,294	\$33,164,212	50.16%	\$27,476,847	20.70%
17	Average Rate Base	<u>\$214,289,412</u>	<u>\$115,260,605</u>	53.79%	<u>\$90,159,859</u>	27.84%
18	Rate of Return on Avg. Rate Base	6.376%	6.532%		7.584%	
19	Less: Weighted Cost of Debt	2.494%	2.494%		2.547%	
20	Weighted Cost of Pref. Stock	<u>0.058%</u>	<u>0.058%</u>		<u>0.076%</u>	
21	Weighted Return on Equity	3.824%	3.980%		4.961%	
22	% of Equity to Capital Structure	<u>49.171%</u>	<u>49.171%</u>		<u>51.769%</u>	
23	Return on Equity	<u>7.777%</u>	<u>8.094%</u>		<u>9.583%</u>	

1/ Beginning and ending year average.

2/ Thirteen month average.

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

Line #	Description	(A) 2015 Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$505,461	41.845%	5.789%	2.422%
2	Short Term Debt 2/	93,216	7.717%	0.937%	0.072%
3	Preferred Equity	15,308	1.267%	4.581%	0.058%
4	Common Equity	<u>593,956</u>	<u>49.171%</u>	3/	<u>3/</u>
5	Total	<u>\$1,207,941</u>	<u>100.000%</u>		<u>3/</u>

1/ Includes additional other long term debt.
 2/ Reflects monthly average short term debt.
 3/ Return on equity is calculated in Section I, page 2 of 2

II. CAPITAL STRUCTURE - TOTAL UTILITY

MONTANA-DAKOTA UTILITIES CO.
LONG-TERM DEBT CAPITAL
DECEMBER 31, 2015

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
Unsecured Long Term Debt									
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	362,431	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	291,263	0.485%	0	0.000%
4.34% - Senior Note	7/15/2014	7/15/2026	4.340%	40,000,000	40,000,000	197,042	0.493%	0	0.000%
3.78% - Senior Note	10/29/2015	10/30/2025	3.780%	87,000,000	87,000,000	465,946	0.536%	0	0.000%
4.87% - Senior Note	10/29/2015	10/30/2045	4.870%	11,000,000	11,000,000	58,886	0.535%	0	0.000%
4.03% - Senior Note	12/10/2015	12/10/2030	4.030%	52,000,000	52,000,000	278,523	0.536%	0	0.000%
Total Long-Term Debt Capital				<u>\$580,000,000</u>	<u>\$580,000,000</u>	<u>\$2,998,411</u>		<u>\$11,566,583</u>	
Unsecured Long Term Debt									
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	99,637,569	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	59,708,737	99.515%	4.346%	60,000,000	2,607,600				
4.34% - Senior Note	39,802,958	99.507%	4.440%	40,000,000	1,776,800				
3.78% - Senior Note	86,534,054	99.464%	3.883%	87,000,000	3,378,210				
4.87% - Senior Note	10,941,114	99.465%	4.964%	11,000,000	546,040				
4.03% - Senior Note	51,721,477	99.464%	4.120%	52,000,000	2,142,400				
Total Long-Term Debt Capital	<u>\$565,435,006</u>			<u>\$580,000,000</u>	<u>\$32,222,050</u>	<u>5.556%</u>			

1/ Yield to maturity based upon the life, net proceeds, semiannual compounding of stated interest rate.

III. AFFILIATED TRANSACTIONS

MONTANA-DAKOTA UTILITIES CO.
ANNUAL REPORT
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
MAJOR TRANSACTIONS 2015

Line #	Affiliate's Name	General Description of Service Rendered and/or Supplied	Revenue or (Expense)	
			Total Company	Allocated to North Dakota
1	Knife River Corporation	Electric Sales	\$93,832	\$93,832
2		Natural Gas Sales	\$237,407	\$236,989
3	WBI Energy	Electric Sales	\$326,864	\$100,011
4		Natural Gas Pipeline Services	(\$49,161,467)	(\$21,730,409)
5		Natural Gas Sales	\$29,589	\$3,914
6	FutureSource	Electric Sales	\$159,565	\$159,565
7		Natural Gas Sales	\$14,008	\$14,008
8	Fidelity Exploration & Production Company	Electric Sales	\$5,672	\$0
9		Natural Gas Sales	\$622	\$0
10	Dakota Prairie Refining	Natural Gas Sales	\$1,605	\$1,605
11	JTL Group	Natural Gas Sales	\$27,483	\$0
12	Total Corrosion Solution	Electric Sales	\$678	\$678
13		Natural Gas Sales	\$2,609	\$623
14	Whiting Petroleum	Electric Sales	\$63,274	\$51,413
15		Natural Gas Sales	\$6,524	\$6,134
16	Rocky Mountain Contractor	Electric Sales	\$582	\$582
17		Natural Gas Sales	\$1,880	\$0
Total			<u>(\$48,189,273)</u>	<u>(\$21,061,055)</u>

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

Line #	Description	2015	2014	2013	2012	2011
	<u>Customer Related</u>					
1	Year End Customers - Residential	93,295	91,288	88,372	85,638	81,854
2	- Firm General	14,487	14,031	13,522	13,031	12,461
3	- Small Interruptible	168	179	164	129	87
4	- Large Interruptible	1	1	1	1	0
5	- Other - Transportation 1/	78	80	79	79	88
6	- Total	108,029	105,579	102,138	98,878	94,490
7	Dk Sold - Residential	7,757,907	9,280,391	8,514,963	6,762,592	8,111,226
8	- Firm General	6,897,228	7,920,494	7,041,584	5,458,987	6,228,618
9	- Small Interruptible	1,243,285	1,608,358	1,418,415	1,216,105	1,289,836
10	- Large Interruptible	47,386	59,521	44,053	24,626	3,360
11	- Other - Transportation	5,482,942	6,380,462	6,228,357	6,084,714	6,125,001
12	- Total	21,428,748	25,249,226	23,247,372	19,547,024	21,758,041

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

NORTH DAKOTA COST OF SERVICE STUDY

GAS OPERATIONS

2015

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2015

	Total Company	North Dakota	Others
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$135,067,200	\$58,665,366	\$76,401,834
Firm General	94,159,134	45,104,955	49,054,179
Small Interruptible	8,090,756	6,176,854	1,913,902
Large Interruptible	747,263	248,067	499,196
Unbilled Revenue	(7,629,133)	(4,656,632)	(2,972,501)
Reserved for Refunds	(794,892)	(947,218)	152,326
Total Sales Revenues	<u>229,640,328</u>	<u>104,591,392</u>	<u>125,048,936</u>
Transportation Revenues			
Small Interruptible	1,490,353	734,918	755,435
Large Interruptible	2,735,229	1,361,720	1,373,509
Unbilled Revenue	(19,793)	559	(20,352)
Total Transportation Revenues	<u>4,205,789</u>	<u>2,097,197</u>	<u>2,108,592</u>
Other Operating Revenues	<u>5,082,748</u>	<u>3,975,504</u>	<u>1,107,244</u>
Total Operating Revenues	<u>\$238,928,865</u>	<u>\$110,664,093</u>	<u>\$128,264,772</u>
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Purchased Gas	\$154,290,967	\$72,479,031	\$81,811,936
Other Gas Supply	626,280	290,570	335,710
Distribution	18,689,264	8,941,446	9,747,818
Customer Accounts	6,304,803	2,494,409	3,810,394
Customer Service & Information	545,085	255,989	289,096
Sales	467,455	224,247	243,208
Administrative & General	16,011,685	7,136,557	8,875,128
Total O&M Expenses	<u>196,935,539</u>	<u>91,822,249</u>	<u>105,113,290</u>
Depreciation			
Distribution	12,660,858	5,422,986	7,237,872
General	667,580	200,734	466,846
Common	866,210	442,716	423,494
Amort. of Intangible Plant - General	104,330	104,330	0
Amort. of Intangible Plant - Common	1,811,676	757,709	1,053,967
Total Depreciation Expense	<u>16,110,654</u>	<u>6,928,475</u>	<u>9,182,179</u>

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2015

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<u>Operating Expenses Con't.</u>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Distribution	\$4,697,767	\$913,732	\$3,784,035
General	251,096	57,095	194,001
Common	464,429	93,093	371,336
Intangible	15,407	14,723	684
Total Ad Valorem Taxes	<u>5,428,699</u>	<u>1,078,643</u>	<u>4,350,056</u>
Other Taxes	<u>2,310,181</u>	<u>735,401</u>	<u>1,574,780</u>
Total Taxes Other Than Income Taxes	<u>7,738,880</u>	<u>1,814,044</u>	<u>5,924,836</u>
Current Income Taxes	9,531,198	5,124,074	4,407,124
Deferred Income Taxes	<u>(5,051,536)</u>	<u>(2,553,934)</u>	<u>(2,497,602)</u>
Total Operating Expenses	<u>\$225,264,735</u>	<u>\$103,134,908</u>	<u>\$122,129,827</u>
Operating Income	<u><u>\$13,664,130</u></u>	<u><u>\$7,529,185</u></u>	<u><u>\$6,134,945</u></u>
Year End Rate Base	<u><u>\$226,107,433</u></u>	<u><u>\$123,372,322</u></u>	<u><u>\$102,735,111</u></u>
Rate of Return	<u><u>6.04%</u></u>	<u><u>6.10%</u></u>	<u><u>5.97%</u></u>

MONTANA-DAKOTA UTILITIES CO.
YEAR END RATE BASE
GAS UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2015

	Total Company	North Dakota	Others
<u>Plant in Service</u>			
Gas Plant in Service			
Distribution	396,291,173	195,869,570	200,421,603
General	35,155,510	11,861,870	23,293,640
Intangible Plant - General	6,285,895	5,143,658	1,142,237
Common	30,343,027	14,745,681	15,597,346
Intangible Plant - Common	30,525,275	12,887,077	17,638,198
Acquisition Adjustment	97,266	97,266	0
Total Gas Plant in Service	<u>498,698,146</u>	<u>240,605,122</u>	<u>258,093,024</u>
Accumulated Reserve for Depreciation			
Distribution	182,893,382	71,240,668	111,652,714
General	13,392,974	4,544,664	8,848,310
Intangible Plant - General	1,022,294	767,952	254,342
Common	9,991,663	4,767,795	5,223,868
Intangible Plant - Common	10,084,189	4,504,885	5,579,304
Acquisition Adjustment	63,669	63,669	0
Total Accum. Reserve for Depreciation	<u>217,448,171</u>	<u>85,889,633</u>	<u>131,558,538</u>
Total Gas Plant in Service	\$281,249,975	\$154,715,489	\$126,534,486
<u>Additions</u>			
Materials and Supplies	3,771,092	2,008,664	1,762,428
Fuel Stocks	160,816	160,816	0
Prepayments	113,235	51,764	61,471
Prepaid Demand/Commodity	1,112,636	0	1,112,636
Gas in Underground Storage	3,853,449	0	3,853,449
Other	108,383	0	108,383
Unamortized Loss on Debt	1,352,834	717,768	635,066
Gain or Loss on Property	(325,425)	(325,425)	0
Total Additions	<u>10,147,020</u>	<u>2,613,587</u>	<u>7,533,433</u>
Total Before Deductions	\$291,396,995	\$157,329,076	\$134,067,919
<u>Deductions</u>			
Accumulated Deferred Income Taxes	49,092,914	21,037,544	28,055,370
Customer Advances	16,196,648	12,919,210	3,277,438
Total Deductions	<u>65,289,562</u>	<u>33,956,754</u>	<u>31,332,808</u>
Year End Rate Base	<u><u>\$226,107,433</u></u>	<u><u>\$123,372,322</u></u>	<u><u>\$102,735,111</u></u>

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

2015

INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the accompanying schedules of the Cost of Gas Adjustment Factors and Fuel Cost Adjustment Factors (collectively, "the Schedules") of Montana-Dakota Utilities Co. (the "Company"), a wholly-owned subsidiary of MDU Resources Group Inc., for the period from January 1, 2015 through December 31, 2015. These Schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these Schedules based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Schedules and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, such Schedules present, in all material respects, the cost of gas adjustment factors and fuel clause adjustment factors of the Company for the period from January 1, 2015 to December 31, 2015, as calculated in accordance with the criteria established by the North Dakota Public Service Commission (the "Commission") and based upon Chapters 69-09-01-30 and 69-09-02-39 of the North Dakota Administrative Code (the "Code") and Cost of Gas Rate 88 and Fuel Clause Rate 58 (the "Tariffs") filed by the Company with the Commission.

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

Deloitte & Touche LLP

April 7, 2016

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2015 COST OF GAS ADJUSTMENT FACTORS

Effective for the Month of:

	Adjustments per dekatherm		
	Residential and General Service	Small and Large Interruptible	Air Force Interruptible
January	\$ 0.349	\$ 0.362	\$ 0.361
February	(0.626)	(0.613)	(0.610)
March	(0.385)	(0.351)	(0.350)
April	(0.176)	(0.174)	(0.173)
May	(0.499)	(0.488)	(0.486)
June	(0.091)	(0.082)	(0.081)
July	0.320	0.304	0.302
August (1)	N/A	N/A	N/A
September (1)	N/A	N/A	N/A
October	(0.665)	(0.507)	(0.562)
November (1)	N/A	N/A	N/A
December	(0.347)	(0.341)	(0.340)

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

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2015 FUEL COST ADJUSTMENT FACTORS

Effective for the Month of:

	Fuel Cost Adjustments per Kilowatt Hour	
	Primary	Secondary
	(1)	(1)
January	0.00334	0.00483
February	0.00337	0.00436
March	0.00350	0.00425
April	0.00552	0.00635
May	0.00305	0.00370
June	0.00143	0.00236
July	0.00148	0.00268
August	0.00080	0.00195
September	0.00349	0.00465
October	0.00537	0.00635
November	0.00471	0.00539
December	0.00432	0.00502

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