

ANNUAL REPORT

STATE OF NORTH DAKOTA

ELECTRIC OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016



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)
		2016 Total Company	2016 North Dakota	ND % (B/A)	2015 North Dakota	Variance (B-D/D)
<u>Operating Revenues:</u>						
1	Residential	\$108,966,346	\$72,309,649	66.36%	\$69,834,914	3.54%
2	Small General	29,469,125	11,564,207	39.24%	11,880,349	-2.66%
3	Large General 1/	133,317,914	96,156,217	72.13%	88,902,180	8.16%
4	Lighting Service	3,791,901	2,392,324	63.09%	2,248,236	6.41%
5	Municipal Pumping Service	3,391,111	2,799,955	82.57%	2,598,539	7.75%
6	Sales for Resale	1,026,988	701,442	68.30%	338	207427.22%
7	Margin Sharing Adjustment	(8,067)	0	0.00%	0	0.00%
8	Other Operating Revenues	29,857,772	18,697,794	62.62%	6,363,950	193.81%
9	Unbilled Revenue	12,960,448	12,557,516	96.89%	(387,651)	-3339.39%
10	Reserve for Refunds	(1,611,168)	(1,013,873)	62.93%	(429,018)	136.32%
11	Total Operating Revenues	\$321,162,370	\$216,165,231	67.31%	\$181,011,837	19.42%
<u>Operating Expenses:</u>						
12	Production Expense	\$110,560,122	\$68,635,389	62.08%	\$71,230,878	-3.64%
13	Transmission Expense	34,451,011	24,665,867	71.60%	9,503,434	159.55%
14	Distribution Expense	15,618,922	9,642,408	61.74%	10,256,881	-5.99%
15	Customer Accounts Expense	4,897,460	3,160,921	64.54%	2,624,990	20.42%
16	Customer Service & Info. Exp.	255,516	173,603	67.94%	171,898	0.99%
17	Sales Expense	106,519	65,690	61.67%	114,458	-42.61%
18	Administration & General Exp.	24,873,233	16,062,421	64.58%	14,444,817	11.20%
19	Depreciation Expense	50,003,829	34,884,255	69.76%	25,070,368	39.15%
20	Taxes Other than Income	12,747,568	6,741,197	52.88%	5,807,956	16.07%
21	Total Operating Expenses	\$253,514,180	\$164,031,751	64.70%	\$139,225,680	17.82%
23	Net Operating Income					
24	before Income Taxes	\$67,648,190	\$52,133,480	77.07%	\$41,786,157	24.76%
<u>Income Tax Expense:</u>						
25	Investment Tax Credits					
26	Deferred Income Taxes	\$16,422,489	\$13,193,769	80.34%	\$6,146,059	114.67%
27	Income Taxes	(13,750,827)	(9,355,805)	68.04%	2,489,858	-475.76%
28	Total Income Tax Expense	\$2,671,662	\$3,837,964	143.65%	\$8,635,917	-55.56%
29	Net Regulated Earnings	\$64,976,528	\$48,295,516	74.33%	\$33,150,240	45.69%

1/ The North Dakota contract revenue delta associated with this class is shown below. The contract revenue delta is the difference between the revenue collected under all contract rates and the revenue that would have been collected had these loads been charged the standard rate.

	2016	2015
Large General	\$2,287,256	\$1,318,512

I. INTRASTATE RETURN ON EQUITY

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2016 Total Company	2016 North Dakota	ND % (B/A)	2015 North Dakota	Variance (B-D/D)
	<u>Rate Base:</u>					
1	Plant in Service	\$1,767,111,520	\$1,195,002,532	67.62%	\$1,016,400,756	17.57%
2	Less: Accumulated Depreciation	591,297,381	386,337,398	65.34%	362,807,164	6.49%
3	CWIP AQCS-Big Stone	0	0	0.00%	22,959,955	-100.00%
4	CWIP - FERC juris	24,674,729	0	0.00%	0	0.00%
5	Net Plant in Service	\$1,200,488,868	\$808,665,134	67.36%	\$676,553,547	19.53%
	<u>Additions:</u>					
6	Materials and Supplies 1/	\$14,564,714	\$10,074,632	69.17%	\$11,391,611	-11.56%
7	Fuel Stocks 1/	5,010,743	3,422,524	68.30%	3,491,197	-1.97%
8	Prepayments 1/	983,315	659,846	67.10%	584,007	12.99%
9	Unamortized Loss on Debt	4,366,814	3,000,617	68.71%	3,210,633	-6.54%
10	Decommissioning of Retired Plants	(329,093)	(199,395)	60.59%	(238,621)	-16.44%
11	Total Additions	\$24,596,493	\$16,958,224	68.95%	\$18,438,827	-8.03%
	<u>Deductions:</u>					
12	Accum. Deferred Income Taxes	\$207,958,815	\$141,005,598	67.80%	\$131,736,677	7.04%
13	Accumulated Deferred ITCs	1,696,343	1,696,343	100.00%	2,082,018	-18.52%
14	Cust. Advances for Construct. 1/	4,958,005	2,818,254	56.84%	2,621,573	7.50%
15	Total Deductions	\$214,613,163	\$145,520,195	67.81%	\$136,440,268	6.65%
16	Average Rate Base	<u>\$1,010,472,198</u>	<u>\$680,103,163</u>	67.31%	<u>\$558,552,106</u>	<u>21.76%</u>
17	Rate of Return on Avg. Rate Base	6.430%	7.101%		5.935%	
18	Less: Weighted Cost of Debt	2.396%	2.396%		2.494%	
19	Weighted Cost of Pref. Stock	0.052%	0.052%		0.058%	
20	Weighted Return on Equity	3.982%	4.653%		3.383%	
21	% of Equity to Capital Structure	50.195%	50.195%		49.171%	
22	Return on Equity	<u>7.933%</u>	<u>9.270%</u>		<u>6.880%</u>	

1/ Thirteen month average.

II. AVERAGE CAPITAL STRUCTURE - TOTAL UTILITY

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

Line #	Description	(A) 2016 Average Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$575,451	42.587%	5.447%	2.320%
2	Short Term Debt 2/	82,230	6.085%	1.249%	0.076%
3	Preferred Equity	15,309	1.133%	4.581%	0.052%
4	Common Equity	<u>678,262</u>	<u>50.195%</u>	3/	<u>3/</u>
5	Total	<u>\$1,351,252</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, 2016

Description	Date of Issuance	Date of Maturity	Interest Rate	Principal Amount of Issue	Gross Proceeds	Underwriters' Commission		Loss on Reacquirement Redemption and Issuance Expense	
						Amount	% Gross Proceeds	Amount	% Gross Proceeds
Unsecured Long Term Debt									
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	471,997	0.543%	0	0.000%
4.87% - Senior Note	10/29/2015	10/30/2045	4.870%	11,000,000	11,000,000	59,461	0.541%	0	0.000%
4.03% - Senior Note	12/10/2015	12/10/2030	4.030%	52,000,000	52,000,000	286,355	0.551%	0	0.000%
4.15% - Senior Note	11/21/2016	11/21/1946	4.150%	40,000,000	40,000,000	66,042	0.165%	0	0.000%
Total Long-Term Debt Capital				<u>\$570,000,000</u>	<u>\$570,000,000</u>	<u>\$2,942,295</u>		<u>\$10,532,009</u>	

Description	Net Proceeds		Cost of Money 1/	Principal Outstanding	Annual Cost	Embedded Cost
	Amount	Per Unit				
Unsecured Long Term Debt						
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	86,528,003	99.457%	3.883%	87,000,000	3,378,210	
4.87% - Senior Note	10,940,539	99.459%	4.964%	11,000,000	546,040	
4.03% - Senior Note	51,713,645	99.449%	4.122%	52,000,000	2,143,440	
4.15% - Senior Note	39,933,958	99.835%	4.203%	40,000,000	1,681,200	
Total Long-Term Debt Capital	<u>\$556,525,696</u>			<u>\$570,000,000</u>	<u>\$30,331,290</u>	<u>5.321%</u>

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

**MONTANA-DAKOTA UTILITIES CO.
ANNUAL REPORT
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
MAJOR TRANSACTIONS 2016**

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	\$207,059	\$207,059
2		Natural Gas Sales	138,094	137,291
3	WBI Energy	Electric Sales	354,935	103,436
4		Natural Gas Pipeline Services	(49,436,254)	(21,408,743)
5		Natural Gas Sales	23,087	3,208
6	FutureSource	Electric Sales	173,418	173,418
7		Natural Gas Sales	10,808	10,808
8	JTL Group	Natural Gas Sales	20,438	0
9	Total Corrosion Solution	Electric Sales	639	639
10		Natural Gas Sales	2,166	503
11	Whiting Petroleum	Electric Sales	41,707	40,869
12		Natural Gas Sales	5,129	4,807
13	Rocky Mountain Contractor	Natural Gas Sales	3,144	0
	Total		<u>(\$48,455,630)</u>	<u>(\$20,726,705)</u>

IV. MISCELLANEOUS

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

Line #	Description	2016	2015	2014	2013	2012
	<u>Customer Related</u>					
1	Year End Customers - Residential	77,976	77,785	74,802	71,672	68,784
2	- Small General	10,117	10,239	10,009	9,920	9,617
3	- Large General	3,986	3,716	3,569	3,190	3,401
4	- Lighting Service	612	581	542	528	1,107
5	- Municipal Pumping	288	284	285	283	298
6	- Cogeneration	1	1	1	1	1
7	- Total	92,980	92,606	89,208	85,594	83,208
8	Kwh's Sold - Residential	729,866,228	767,763,203	793,873,301	755,858,180	683,930,294
9	- Small General	104,713,396	116,440,816	134,717,839	133,155,398	117,302,170
10	- Large General	1,133,776,232	1,123,516,392	1,078,424,893	968,294,472	912,191,503
11	- Lighting Service	27,142,929	27,197,934	26,777,009	26,441,018	26,628,516
12	- Municipal Pumping	38,408,874	39,061,646	38,007,305	35,069,041	34,499,525
13	- Cogeneration	40,882	44,955	47,853	50,772	41,048
14	- Total	2,033,948,541	2,074,024,946	2,071,848,200	1,918,868,881	1,774,593,056
15	IEEE Standards SAIFI 1/	0.559	1.240	0.317	0.590	1.077
16	SAIDI 1/	57.67	124.35	55.40	153.88	115.84

1/ Reflects North Dakota SAIFI and SAIDI.

NORTH DAKOTA COST OF SERVICE STUDY

ELECTRIC OPERATIONS

2016

MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
ELECTRIC UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2016

	Total Company	North Dakota	Others
<u>Operating Revenues</u>			
Sales Revenues			
Residential	\$108,966,346	\$72,309,649	\$36,656,697
Small General	29,469,125	11,564,207	17,904,918
Large General	133,317,914	96,156,217	37,161,697
Lighting Service	3,791,901	2,392,324	1,399,577
Municipal Pumping Service	3,391,111	2,799,955	591,156
Sales for Resale	1,026,988	701,442	325,546
Margin Sharing Adjustment	(8,067)	0	(8,067)
Unbilled Revenue	12,960,448	12,557,516	402,932
Reserve for Refunds	(1,611,168)	(1,013,873)	(597,295)
Total Sales Revenues	<u>291,304,598</u>	<u>197,467,437</u>	<u>93,837,161</u>
Other Operating Revenues	29,857,772	18,697,794	11,159,978
Total Operating Revenues	<u>\$321,162,370</u>	<u>\$216,165,231</u>	<u>\$104,997,139</u>
<u>Operating Expenses</u>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	\$75,511,647	\$45,732,340	\$29,779,307
Production	35,048,475	22,903,049	12,145,426
Transmission	34,451,011	24,665,867	9,785,144
Distribution	15,618,922	9,642,408	5,976,514
Customer Accounts	4,897,460	3,160,921	1,736,539
Customer Service & Information	255,516	173,603	81,913
Sales	106,519	65,690	40,829
Administrative & General	24,873,233	16,062,421	8,810,812
Total O&M Expenses	<u>190,762,783</u>	<u>122,406,299</u>	<u>68,356,484</u>
Depreciation			
Production	30,138,557	21,035,796	9,102,761
Transmission	5,061,568	3,931,370	1,130,198
Distribution	10,669,530	7,158,660	3,510,870
General	444,047	307,081	136,966
Common	1,614,324	1,206,675	407,649
Amort. of Intangible Plant - General	322,085	217,474	104,611
Amort. of Intangible Plant - Common	1,350,796	894,564	456,232
Amort. of Retired Power Plants	(51,884)	(39,226)	(12,658)
Amort. of Unrecovered Plant - Electric	454,806	171,861	282,945
Total Depreciation Expense	<u>50,003,829</u>	<u>34,884,255</u>	<u>15,119,574</u>

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
ELECTRIC UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2016**

	<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			
Production	\$2,586,917	\$1,800,698	\$786,219
Transmission	1,527,102	852,413	674,689
Distribution	3,456,845	1,039,906	2,416,939
General	231,278	117,387	113,891
General Intangible	15,735	10,612	5,123
Common	239,901	112,803	127,098
Common Intangible	140,745	95,238	45,507
Total Ad Valorem Taxes	<u>8,198,523</u>	<u>4,029,057</u>	<u>4,169,466</u>
Other Taxes	<u>4,549,045</u>	<u>2,712,140</u>	<u>1,836,905</u>
Total Taxes Other Than Income Taxes	<u>12,747,568</u>	<u>6,741,197</u>	<u>6,006,371</u>
Current Income Taxes	(13,750,827)	(9,355,805)	(4,395,022)
Deferred Income Taxes	<u>16,422,489</u>	<u>13,193,769</u>	<u>3,228,720</u>
Total Operating Expenses	<u>\$256,185,842</u>	<u>\$167,869,715</u>	<u>\$88,316,127</u>
Operating Income	<u><u>\$64,976,528</u></u>	<u><u>\$48,295,516</u></u>	<u><u>\$16,681,012</u></u>
Year End Rate Base	<u><u>\$1,038,799,197</u></u>	<u><u>\$683,867,740</u></u>	<u><u>\$354,931,457</u></u>
Rate of Return	<u><u>6.25%</u></u>	<u><u>7.06%</u></u>	<u><u>4.70%</u></u>

MONTANA-DAKOTA UTILITIES CO.
YEAR END RATE BASE
ELECTRIC UTILITY
TWELVE MONTHS ENDED DECEMBER 31, 2016

	Total Company	North Dakota	Others
<u>Plant in Service</u>			
Electric Plant in Service			
Steam Production	\$550,700,446	\$346,508,330	\$204,192,116
Other Production	458,041,647	320,343,156	137,698,491
Total Production	1,008,742,093	666,851,486	341,890,607
Transmission	284,047,089	211,192,628	72,854,461
Distribution	398,342,585	263,678,127	134,664,458
General	29,202,518	18,133,440	11,069,078
Common	45,436,460	32,671,227	12,765,233
Intangible Plant - General	3,734,605	2,528,753	1,205,852
Intangible Plant - Common	24,732,829	16,448,832	8,283,997
Acquisition Adjustment	10,387,642	7,465,675	2,921,967
CWIP - FERC juris	49,349,457		49,349,457
Total Electric Plant in Service	1,853,975,278	1,218,970,168	635,005,110
Accumulated Reserve for Depreciation			
Steam Production	246,353,602	165,566,314	80,787,288
Other Production	71,128,121	47,919,661	23,208,460
Total Production	317,481,723	213,485,975	103,995,748
Transmission	102,052,237	68,638,546	33,413,691
Distribution	144,609,703	82,954,463	61,655,240
General	9,919,828	6,210,104	3,709,724
Common	16,659,552	10,969,754	5,689,798
Intangible Plant - General	2,056,608	1,386,099	670,509
Intangible Plant - Common	12,679,633	8,513,568	4,166,065
Acquisition Adjustment	10,387,642	7,465,675	2,921,967
Total Accum. Reserve for Depreciation	615,846,926	399,624,184	216,222,742
Net Electric Plant in Service	\$1,238,128,352	\$819,345,984	\$418,782,368
<u>Additions</u>			
Materials and Supplies	13,422,242	9,230,921	4,191,321
Fuel Stocks	4,414,901	3,015,417	1,399,484
Prepayments	274,701	184,473	90,228
Unamortized Loss on Debt	4,203,310	2,913,664	1,289,646
Decommissioning of Retired Plants	(303,151)	(179,782)	(123,369)
Other	171,560		171,560
Total Additions	22,183,563	15,164,693	7,018,870
Total Before Deductions	\$1,260,311,915	\$834,510,677	\$425,801,238
<u>Deductions</u>			
Accumulated Deferred Income Taxes	214,858,067	146,135,387	68,722,680
Accumulated Investment Tax Credits	1,640,384	1,640,384	0
Customer Advances	5,014,267	2,867,166	2,147,101
Total Deductions	221,512,718	150,642,937	70,869,781
Year End Rate Base	\$1,038,799,197	\$683,867,740	\$354,931,457

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS
2016**



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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, 2016 through December 31, 2016. 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, 2016 to December 31, 2016, 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, 2017

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2016 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	0.154	0.180	0.179
February	(0.223)	(0.220)	(0.219)
March ⁽¹⁾	N/A	N/A	N/A
April	(0.393)	(0.394)	(0.392)
May	(0.262)	(0.263)	(0.262)
June	0.120	0.117	0.117
July ⁽¹⁾	N/A	N/A	N/A
August	0.751	0.751	0.747
September	(0.170)	(0.172)	(0.170)
October	0.286	(0.033)	(0.046)
November ⁽¹⁾	N/A	N/A	N/A
December	0.167	0.183	0.182

⁽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 2016 FUEL COST ADJUSTMENT FACTORS

Effective for the Month of	Fuel Cost Adjustments per Kilowatt Hour	
	Primary (1)	Secondary (1)
January	0.00410	0.00485
February	0.00344	0.00411
March	0.00345	0.00403
April	0.00154	0.00174
May	(0.00169)	(0.00158)
June	(0.00319)	(0.00304)
July	(0.00380)	(0.00353)
August	(0.00310)	(0.00275)
September	0.00005	0.00054
October	0.00117	0.00163
November	0.00144	0.00192
December	0.00282	0.00337

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