

December 20, 2011



**Summary:**

**MDU Resources Group Inc.**

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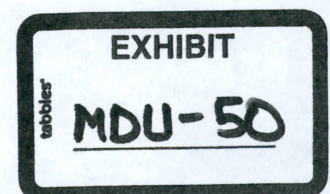
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Rationale

Outlook

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**Exhibit MDU-50 - S and P 2011 Credit Rating for MDU Resources**

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.



## Summary:

# MDU Resources Group Inc.

**Credit Rating:** BBB+/Stable/A-2

## Rationale

The ratings on MDU Resources Group Inc. reflect its mix of unregulated and regulated businesses, dominated by the mostly unregulated Centennial Energy Holdings Inc. (BBB+/Stable/A-2) subsidiary. The ratings benefit from solid financial measures, the relative stability of the utility and pipeline businesses, and the meaningful business and geographic diversity of the company. MDU Resources' business segments include utilities, pipeline, construction materials, and E&P. In Standard & Poor's Ratings Services' view, the weakness in the construction business and uncertain near-term outlook for natural gas prices will continue to weigh on MDU Resources' earnings and cash flows through 2012.

We consider MDU Resources' business risk as "satisfactory" (as defined per our criteria), reflecting the diversity of its business operations; we consider the company's individual segments as weaker because of their limited scope of operations. The business risk profile benefits from the stability of MDU Resources' regulated utilities. Montana-Dakota Utilities Co. (BBB+/Stable/--), Cascade Natural Gas Corp. (BBB+/Stable/--), and Intermountain Gas Co. contributed about 26% of EBITDA for 2010, up from less than 10% in 2007. We believe the company's cash flow benefits from the stability of its pipeline business, which includes both regulated (Williston Basin) and unregulated businesses (Bitter Creek). The pipeline segment has a larger exposure to the regulated part of the business. We estimate the pipeline and utilities together generated about 33% of the company's EBITDA for the nine months ended Sept. 30, 2011.

The business risk profile also incorporates the traditionally significant earnings and cash flow contribution from its largely unregulated Centennial businesses, particularly the Fidelity Exploration & Production Co. and Knife River Corp. units. In 2010, the oil and gas production segment's contribution to the total EBITDA decreased to about 38% from its average of 42% from 2007 through 2009, mainly as a result of the relatively weaker natural gas prices. This trend continued for the nine months ended September 2011. Other businesses within Centennial include pipeline and energy services and construction services.

We consider the company's financial risk profile as "intermediate". This is supported by the relatively steady cash flows from the company's utilities business, as well as its largely stable credit measures. The company's oil and natural gas operations are relatively modest, with year-end 2010 reserves of 646 billion cubic feet equivalent (roughly 70% natural gas, 75% proved developed, and a proved developed reserve life of about 6.9 years). Cash operating costs for the third quarter of 2011--lease operating, production tax, and general and administrative (G&A)--are competitive at \$2.6 per thousand cubic feet equivalent (mcf). Because of the company's negative reserve revisions in 2010, its all-in finding and development (F&D) costs were high at \$5.7 per mcf. The company's 2011 E&P spending budget is about \$300 million, with its main focus toward liquids-rich Bakken assets. The company recently acquired leasehold in the Bakken area, increasing its total holdings at approximately 90,000 net acres. The company has indicated that it will spend about \$2.1 billion in the next five years in this business segment to support growth.

Slowness in the housing market and uncertainty in federal transportation funding have hurt Knife River, a midsize construction materials company, and revenues remain weak. Nevertheless, the company's backlog in its construction materials and contracting business as of Sept. 30, 2011, was \$448 million, up from \$464 million a year ago, and was about 91% from public works. The unit has grown through the consolidation of smaller markets, where Knife River has the ability to become a dominant player.

MDU Resources' consolidated credit metrics are currently in line with our expectations and the rating medians. For the last 12 months ended Sept. 30, 2011, adjusted debt to EBITDA was 2.2x, FFO/TD was 36%, and EBITDA interest coverage was 6.5x. However, if natural gas prices fail to materially improve from current levels and construction materials segment operating result remains soft, credit measures may weaken. Given its commitment to maintaining a solid balance sheet, we expect MDU Resources to manage capital spending and acquisitions so that debt to EBITDA averages about 2x.

### Liquidity

In our view, the company's liquidity is "adequate".

In accordance with "Liquidity Descriptors For Global Corporate Issuers," published Sept. 28, 2011, our assessment of MDU's liquidity profile incorporates the following expectations and assumptions:

- Cash flows from operating activities should fund the majority of the 2011 capital expenditure of \$515 million.
- The company has debt maturities of \$72 million in 2011 and \$136.4 million in 2012, which we expect to be repaid with cash flow.

As of Sept. 30, 2011, the company had about \$119 million of cash on hand and \$622 million availability under various credit facilities, including \$125 million at MDU Resources, \$48 million at Cascade, and \$61 million at Intermountain Gas Co. Additional facilities include one at Centennial totaling \$400 million that remains substantially undrawn and backs up a \$400 million commercial paper program with \$375 million in current availability.

### Outlook

The stable outlook reflects our expectation that MDU Resources will maintain the moderate financial policies that have helped offset the volatility of its unregulated businesses. We could lower the ratings if MDU Resources fails to maintain moderate financial measures, including FFO to debt at about 30%. We do not expect positive rating actions in the next 12 to 18 months given the high proportion of unregulated earnings, low natural gas prices, and weak industry conditions for the construction-related businesses.