

# ANNUAL REPORT

## STATE OF NORTH DAKOTA

### GAS OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017



**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)
		2017 Total Company	2017 North Dakota	ND % (B / A)	2016 North Dakota	Variance (B-D / D)
	<u>Operating Revenues:</u>					
1	Residential	\$134,672,154	55,526,567	41.23%	\$46,612,278	19.12%
2	Firm General	92,557,185	42,214,043	45.61%	33,131,057	27.42%
3	Small Interruptible	6,300,518	4,623,499	73.38%	3,703,732	24.83%
4	Large Interruptible	562,239	12,349	2.20%	31,412	-60.69%
5	Transportation	4,291,681	2,292,263	53.41%	2,116,969	8.28%
6	Other Operating Revenues	5,276,205	3,961,332	75.08%	4,146,114	-4.46%
7	Unbilled Revenue	(401,557)	(281,281)	70.05%	2,152,533	-113.07%
8	Reserve for Refunds	(66,062)	(61,939)	93.76%	(24,359)	154.28%
9	Total Operating Revenues	<u>\$243,192,363</u>	<u>\$108,286,833</u>	44.53%	<u>\$91,869,736</u>	17.87%
	<u>Operating Expenses:</u>					
10	Cost of Purchased Gas	\$150,351,493	\$67,007,865	44.57%	\$51,338,373	30.52%
11	Other Gas Supply Expense	672,237	314,545	46.79%	356,251	-11.71%
12	Distribution Expense	20,952,746	9,474,932	45.22%	8,874,515	6.77%
13	Customer Accounts Expense	6,580,316	2,603,037	39.56%	2,757,308	-5.59%
14	Customer Service & Info. Exp.	479,853	227,783	47.47%	246,252	-7.50%
15	Sales Expense	319,685	145,565	45.53%	133,030	9.42%
16	Administration & General Exp.	18,721,210	8,390,103	44.82%	7,880,939	6.46%
17	Depreciation Expense	17,954,676	7,823,347	43.57%	7,630,836	2.52%
18	Taxes Other than Income	8,746,234	2,155,013	24.64%	1,901,169	13.35%
19	Total Operating Expenses	<u>\$224,778,450</u>	<u>\$98,142,190</u>	43.66%	<u>\$81,118,673</u>	20.99%
20	Net Operating Income					
21	before Income Taxes	\$18,413,913	\$10,144,643	55.09%	\$10,751,063	-5.64%
	<u>Income Tax Expense:</u>					
22	Investment Tax Credits					
23	Deferred Income Taxes	\$4,260,240	\$2,026,534	47.57%	(\$1,249,456)	-262.19%
24	Income Taxes	239,174	524,273	219.20%	3,979,441	-86.83%
25	Total Income Tax Expense	<u>\$4,499,414</u>	<u>\$2,550,807</u>	56.69%	<u>\$2,729,985</u>	-6.56%
26	<b>Net Regulated Earnings</b>	<u><u>\$13,914,499</u></u>	<u><u>\$7,593,836</u></u>	<u>54.57%</u>	<u><u>\$8,021,078</u></u>	<u>-5.33%</u>

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

Line #	Description	(A)	(B)	(C)	(D)	(E)
		2017		ND % (B / A)	2016	
		Total Company	North Dakota			North Dakota
	<u>Rate Base:</u>					
1	Plant in Service 1/	\$527,881,034	\$257,086,786	48.70%	\$245,350,306	4.78%
2	Less: Accumulated Depreciation 1/	234,142,035	93,231,313	39.82%	88,119,207	5.80%
3	Net Plant in Service	\$293,738,999	\$163,855,473	55.78%	\$157,231,099	4.21%
	<u>Additions:</u>					
4	Materials and Supplies 2/	\$3,732,630	\$1,950,602	52.26%	\$2,109,464	-7.53%
5	Prepayments 2/	499,610	229,392	45.91%	232,480	-1.33%
6	Prepaid Demand/Commodity 1/	1,152,053		0.00%		
7	Fuel Stocks 2/	111,061	111,061	100.00%	101,812	9.08%
8	Gas in Underground Storage 1/	3,750,823		0.00%		
9	Other 1/	187,574		0.00%		
10	Unamortized Loss on Debt 1/	945,111	523,619	55.40%	638,319	-17.97%
11	Gain and Loss on Property 1/	(299,079)	(299,079)	100.00%	(316,643)	-5.55%
12	Total Additions	\$10,079,783	\$2,515,595	24.96%	\$2,765,432	-9.03%
	<u>Deductions:</u>					
13	Accum. Deferred Income Taxes 1/	\$47,069,930	\$20,862,932	44.32%	\$20,608,456	1.23%
14	Cust. Advances for Construct. 2/	17,249,216	13,783,337	79.91%	12,724,578	8.32%
15	Total Deductions	\$64,319,146	\$34,646,269	53.87%	\$33,333,034	3.94%
16	<b>Average Rate Base</b>	<u>\$239,499,636</u>	<u>\$131,724,799</u>	55.00%	<u>\$126,663,497</u>	4.00%
17	Rate of Return on Avg. Rate Base	5.810%	5.765%		6.333%	
18	Less: Weighted Cost of Debt	2.372%	2.372%		2.396%	
19	Weighted Cost of Pref. Stock	0.026%	0.026%		0.052%	
20	Weighted Return on Equity	3.412%	3.367%		3.885%	
21	% of Equity to Capital Structure	51.873%	51.873%		50.195%	
22	<b>Return on Equity</b>	<u>6.578%</u>	<u>6.491%</u>		<u>7.740%</u>	

1/ Beginning and ending year average.

2/ Thirteen month average.

II. AVERAGE CAPITAL STRUCTURE - TOTAL UTILITY

GAS UTILITY  
PAGE 1 OF 2

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

Line #	Description	(A) 2017 Average Average (000's)	(B) Ratio	(C) Cost	(D) Weighted Cost
1	Long-Term Debt 1/	\$600,442	43.822%	5.247%	2.299%
2	Short Term Debt 2/	51,324	3.746%	1.953%	0.073%
3	Preferred Equity 3/	7,654	0.559%	4.581%	0.026%
4	Common Equity	<u>710,753</u>	<u>51.873%</u>	4/	<u>4/</u>
5	Total	<u>\$1,370,173</u>	<u>100.000%</u>		<u>4/</u>

- 1/ Includes additional other long term debt and excludes \$10.5 million economic development loan for a North Dakota project.
- 2/ Reflects monthly average short term debt.
- 3/ Preferred Stock was redeemed in full in 2017.
- 4/ 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, 2017

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	12/15/03	12/15/33	5.980%	\$30,000,000	\$30,000,000	624,465	2.082%	0	0.000%
6.33% - Senior Note	08/24/06	08/24/26	6.330%	100,000,000	100,000,000	344,061	0.344%	10,532,009	10.532%
6.04% - Senior Note	09/16/08	09/16/18	6.040%	100,000,000	100,000,000	362,431	0.362%	0	0.000%
5.18% - Senior Note	04/15/14	04/15/44	5.180%	50,000,000	50,000,000	239,178	0.478%	0	0.000%
4.24% - Senior Note	07/15/14	07/15/24	4.240%	60,000,000	60,000,000	291,263	0.485%	0	0.000%
4.34% - Senior Note	07/15/14	07/15/26	4.340%	40,000,000	40,000,000	197,042	0.493%	0	0.000%
3.78% - Senior Note	10/29/15	10/30/25	3.780%	87,000,000	87,000,000	471,997	0.543%	0	0.000%
4.87% - Senior Note	10/29/15	10/30/45	4.870%	11,000,000	11,000,000	59,461	0.541%	0	0.000%
4.03% - Senior Note	12/10/15	12/10/30	4.030%	52,000,000	52,000,000	286,355	0.551%	0	0.000%
4.15% - Senior Note	11/21/16	11/21/46	4.150%	40,000,000	40,000,000	226,084	0.565%	0	0.000%
3.73% - Senior Note	03/21/17	03/31/37	3.730%	40,000,000	40,000,000	173,631	0.434%	0	0.000%
3.36% - Senior Note	03/21/17	03/31/32	3.360%	20,000,000	20,000,000	86,065	0.430%	0	0.000%
2.00% - Senior Note 1/	09/05/17	9/3/2032	2.000%	10,500,000	10,500,000			0	0.000%
Total Long-Term Debt Capital				<u>\$640,500,000</u>	<u>\$640,500,000</u>	<u>\$3,362,033</u>		<u>\$10,532,009</u>	

Description	Net Proceeds		Cost of Money 2/	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%	4.442%	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	39,773,916	99.435%	4.228%	40,000,000	1,691,200	
3.73% - Senior Note	39,826,369	99.566%	3.797%	40,000,000	1,518,800	
3.36% - Senior Note	19,913,935	99.570%	3.425%	20,000,000	685,000	
2.00% - Senior Note	10,500,000		2.000%	10,500,000		
Total Long-Term Debt Capital	<u>\$626,605,958</u>			<u>\$640,500,000</u>	<u>\$32,545,090</u>	<u>5.081%</u>

1/ Debt is associated with an economic development project in North Dakota. Interest is capitalized in the project work order.

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

**MONTANA-DAKOTA UTILITIES CO.  
ANNUAL REPORT  
TO THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION  
MAJOR TRANSACTIONS 2017**

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	\$189,433	\$189,433
2		Natural Gas Sales	91,906	83,659
3	WBI Energy	Electric Sales	613,520	212,567
4		Natural Gas Pipeline Services	(49,626,719)	(21,535,308)
5		Natural Gas Sales	32,756	5,786
6	FutureSource	Electric Sales	182,964	182,964
7		Natural Gas Sales	12,500	12,500
8	JTL Group	Natural Gas Sales	12,164	0
9	Total Corrosion Solution	Electric Sales	629	629
10		Natural Gas Sales	2,860	650
11	Rocky Mountain Contractor	Natural Gas Sales	3,983	0
	Total		<u>(\$48,484,004)</u>	<u>(\$20,847,120)</u>

IV. MISCELLANEOUS

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

Line #	Description	2017	2016	2015	2014	2013
	<u>Customer Related</u>					
1	Year End Customers - Residential	94,103	93,722	93,295	91,288	88,372
2	- Firm General	15,078	14,854	14,487	14,031	13,522
3	- Small Interruptible	126	118	168	179	164
4	- Large Interruptible	1	1	1	1	1
5	- Other - Transportation 1/	69	88	78	80	79
6	- Total	<u>109,377</u>	<u>108,783</u>	<u>108,029</u>	<u>105,579</u>	<u>102,138</u>
7	Dk Sold - Residential	8,045,125	7,274,157	7,757,907	9,280,391	8,514,963
8	- Firm General	7,435,092	6,497,983	6,897,228	7,920,494	7,041,584
9	- Small Interruptible	1,186,688	1,048,439	1,243,285	1,608,358	1,418,415
10	- Large Interruptible	1	5,816	47,386	59,521	44,053
11	- Other - Transportation	5,541,319	5,251,263	5,482,942	6,380,462	6,228,357
12	- Total	<u>22,208,225</u>	<u>20,077,658</u>	<u>21,428,748</u>	<u>25,249,226</u>	<u>23,247,372</u>

1/ Years 2013-2016 may include duplication of customers also receiving sales service.

# **NORTH DAKOTA COST OF SERVICE STUDY**

## **GAS OPERATIONS**

**2017**

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2017**

	Total Company	North Dakota	Others
<b><u>Operating Revenues</u></b>			
Sales Revenues			
Residential	\$134,672,154	\$55,526,567	\$79,145,587
Firm General	92,557,185	42,214,043	50,343,142
Small Interruptible	6,300,518	4,623,499	1,677,019
Large Interruptible	562,239	12,349	549,890
Unbilled Revenue	(448,237)	(277,026)	(171,211)
Reserve for Refunds	(66,062)	(61,939)	(4,123)
Total Sales Revenues	<u>233,577,797</u>	<u>102,037,493</u>	<u>131,540,304</u>
Transportation Revenues			
Small Interruptible	1,678,903	909,889	769,014
Large Interruptible	2,612,778	1,382,373	1,230,405
Unbilled Revenue	46,680	(4,254)	50,934
Total Transportation Revenues	<u>4,338,361</u>	<u>2,288,008</u>	<u>2,050,353</u>
Other Operating Revenues	<u>5,276,205</u>	<u>3,961,332</u>	<u>1,314,873</u>
Total Operating Revenues	<u>\$243,192,363</u>	<u>\$108,286,833</u>	<u>\$134,905,530</u>
<b><u>Operating Expenses</u></b>			
Operation and Maintenance			
Cost of Purchased Gas	\$150,351,493	\$67,007,865	\$83,343,628
Other Gas Supply	672,237	314,545	357,692
Distribution	20,952,746	9,474,932	11,477,814
Customer Accounts	6,580,316	2,603,037	3,977,279
Customer Service & Information	479,853	227,783	252,070
Sales	319,685	145,565	174,120
Administrative & General	18,721,210	8,390,103	10,331,107
Total O&M Expenses	<u>198,077,540</u>	<u>88,163,830</u>	<u>109,913,710</u>
Depreciation			
Distribution	14,069,079	6,113,944	7,955,135
General	864,412	213,679	650,733
Common	783,671	445,985	337,686
Amort. of Intangible Plant - General	332,850	242,418	90,432
Amort. of Intangible Plant - Common	1,904,664	807,321	1,097,343
Total Depreciation Expense	<u>17,954,676</u>	<u>7,823,347</u>	<u>10,131,329</u>

**MONTANA-DAKOTA UTILITIES CO.**  
**INCOME STATEMENT**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2017**

	<u>Total Company</u>	<u>North Dakota</u>	<u>Others</u>
<b><u>Operating Expenses Con't.</u></b>			
Taxes Other Than Income Taxes			
Ad Valorem Taxes			
Distribution	\$5,657,375	\$1,109,984	\$4,547,391
General	452,774	60,061	392,713
Common	155,561	42,735	112,826
Intangible	126,409	75,968	50,441
Total Ad Valorem Taxes	<u>6,392,119</u>	<u>1,288,748</u>	<u>5,103,371</u>
Other Taxes	2,354,115	866,265	1,487,850
Total Taxes Other Than Income Taxes	<u>8,746,234</u>	<u>2,155,013</u>	<u>6,591,221</u>
Current Income Taxes	239,174	524,273	(285,099)
Deferred Income Taxes	4,260,240	2,026,534	2,233,706
Total Operating Expenses	<u>\$229,277,864</u>	<u>\$100,692,997</u>	<u>\$128,584,867</u>
<b>Operating Income</b>	<u><u>\$13,914,499</u></u>	<u><u>\$7,593,836</u></u>	<u><u>\$6,320,663</u></u>
<b>Year End Rate Base</b>	<u><u>\$243,869,402</u></u>	<u><u>\$134,669,900</u></u>	<u><u>\$109,199,502</u></u>
<b>Rate of Return</b>	<u><u>5.71%</u></u>	<u><u>5.64%</u></u>	<u><u>5.79%</u></u>

**MONTANA-DAKOTA UTILITIES CO.**  
**YEAR END RATE BASE**  
**GAS UTILITY**  
**TWELVE MONTHS ENDED DECEMBER 31, 2017**

	Total Company	North Dakota	Others
<b><u>Plant in Service</u></b>			
Gas Plant in Service			
Distribution	\$431,699,355	\$216,284,346	\$215,415,009
General	44,968,500	13,680,984	31,287,516
Intangible Plant - General	7,124,201	5,874,109	1,250,092
Common	25,051,014	14,243,992	10,807,022
Intangible Plant - Common	32,312,010	13,897,385	18,414,625
Acquisition Adjustment	97,266	97,266	0
Total Gas Plant in Service	<u>541,252,346</u>	<u>264,078,082</u>	<u>277,174,264</u>
Accumulated Reserve for Depreciation			
Distribution	203,801,909	80,545,946	123,255,963
General	12,485,849	3,546,875	8,938,974
Intangible Plant - General	1,784,128	1,299,899	484,229
Common	9,003,307	4,672,937	4,330,370
Intangible Plant - Common	13,365,382	5,978,878	7,386,504
Acquisition Adjustment	69,310	69,310	0
Total Accum. Reserve for Depreciation	<u>240,509,885</u>	<u>96,113,845</u>	<u>144,396,040</u>
Net Gas Plant in Service	300,742,461	167,964,237	132,778,224
<b><u>Additions</u></b>			
Materials and Supplies	3,793,963	1,841,403	1,952,560
Fuel Stocks	170,169	170,169	0
Prepayments	118,772	53,374	65,398
Prepaid Demand/Commodity	1,132,504	0	1,132,504
Gas in Underground Storage	3,147,873	0	3,147,873
Other	140,121	0	140,121
Unamortized Loss on Debt	876,761	488,367	388,394
Gain or Loss on Property	(290,296)	(290,296)	0
Total Additions	<u>9,089,867</u>	<u>2,263,017</u>	<u>6,826,850</u>
Total Before Deductions	\$309,832,328	\$170,227,254	\$139,605,074
<b><u>Deductions</u></b>			
Accumulated Deferred Income Taxes	48,393,699	21,546,498	26,847,201
Customer Advances	17,569,227	14,010,856	3,558,371
Total Deductions	<u>65,962,926</u>	<u>35,557,354</u>	<u>30,405,572</u>
<b>Year End Rate Base</b>	<u><u>\$243,869,402</u></u>	<u><u>\$134,669,900</u></u>	<u><u>\$109,199,502</u></u>

**REPORT OF INDEPENDENT  
PUBLIC ACCOUNTANTS**

**2017**



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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 per dk and Fuel and Purchased Power Cost per kWh (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, 2017 to December 31, 2017. The Company's management is responsible for the calculation of the cost of gas per dk and fuel and purchased power cost per kWh in the Schedules 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 and Purchased Power Adjustment Rate 58 (the "Tariffs") filed by the Company with the Commission. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedules are in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Schedules. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedules of the Cost of Gas per dk and Fuel and Purchased Power Cost per kWh of Montana-Dakota Utilities Co. for the period from January 1, 2017 to December 31, 2017, present the cost of gas per dk and the fuel and purchased power cost per kWh in accordance with Chapters 69-09-01-30 and 69-09-02-39 of the North Dakota Administrative Code and Cost of Gas Rate 88 and Fuel Clause Rate 58, in all material respects.

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.

April 11, 2018

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2017 COST OF GAS PER DK

**Effective for the Month of:**

	<b>Cost of Gas Factor</b>		
	<b>Residential and General Service</b>	<b>Small and Large Interruptible</b>	<b>Air Force Interruptible</b>
January	\$4.015	\$2.956	\$2.859
February	4.878	3.827	3.726
March	4.170	3.107	3.009
April	3.737	2.673	2.577
May	3.892	2.825	2.729
June (1)	3.892	2.825	2.729
July (1)	3.892	2.825	2.729
August (1)	3.892	2.825	2.729
September (1)	3.892	2.825	2.729
October	3.996	2.911	2.873
November (1)	3.996	2.911	2.873
December (1)	3.996	2.911	2.873

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

MONTANA-DAKOTA UTILITIES CO.

SCHEDULE OF 2017 FUEL AND PURCHASED POWER COST PER kWh

<b>Rate Effective Date</b>	<b>Primary</b>	<b>Secondary</b>
January 1, 2017	\$0.0223	\$0.0235
February 1, 2017	0.02261	0.02377
March 1, 2017	0.02270	0.02367
April 1, 2017	0.02144	0.02217
May 1, 2017	0.02050	0.02116
June 1, 2017	0.01995	0.02065
July 1, 2017	0.01922	0.02005
August 1, 2017	0.01974	0.02063
August 7, 2017	0.02099	0.02162
September 1, 2017	0.02394	0.02470
October 1, 2017	0.02364	0.02436
November 1, 2017	0.02372	0.02446
December 1, 2017	0.02293	0.02372