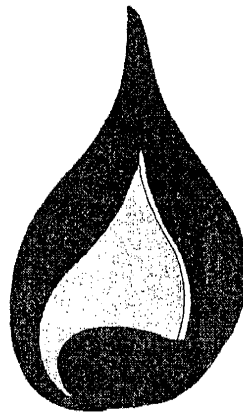


YEAR ENDING 2012

ANNUAL REPORT  
OF

MONTANA-DAKOTA UTILITIES CO.

GAS UTILITY



TO THE  
PUBLIC SERVICE COMMISSION  
STATE OF MONTANA  
1701 PROSPECT AVENUE  
P.O. BOX 202601  
HELENA, MT 59620-2601

## IDENTIFICATION

Year: 2012

|                         |  |   |
|-------------------------|--|---|
| 1.                      | Legal Name of Respondent:  | MDU Resources Group, Inc.   |
| 2.                      | Name Under Which Respondent Does Business:   | Montana-Dakota Utilities Co.  |
| 3.                      | Date Utility Service First Offered in Montana  | 1920  |
| 4.                      | Address to send Correspondence Concerning Report:  | Montana-Dakota Utilities Co.<br>400 North Fourth Street<br>Bismarck, ND 58501 |
| 5.                      | Person Responsible for This Report:  | Rita A. Mulkern   |
| 5a.                     | Telephone Number:  | (701) 222-7854  |
| Control Over Respondent |  |   |
| 1.                      | If direct control over the respondent was held by another entity at the end of year provide the following: |   |
|                         | 1a. Name and address of the controlling organization or person:  |   |
|                         | 1b. Means by which control was held:   |   |
|                         | 1c. Percent Ownership:   |   |

## SCHEDULE 2

| Board of Directors 1/ |   |                     |
|-----------------------|---|---------------------|
| Line No.              | Name of Director and Address (City, State)<br>(a)                           | Remuneration<br>(b) |
| 1                     | Terry D. Hildestad (Chairman), Bismarck, ND 2/                              | -                   |
| 2                     | Doran N. Schwartz, Bismarck, ND   | -                   |
| 3                     | Paul K. Sandness, Bismarck, ND  | -                   |
| 4                     | David L. Goodin, Bismarck, ND 3/  | -                   |
| 5                     |   | -                   |
| 6                     |   |                     |
| 7                     |   |                     |
| 8                     | 1/ Montana-Dakota Utilities Co. is a division of MDU Resources Group, Inc., |                     |
| 9                     | and has no Board of Directors. The affairs of the Company are managed by    |                     |
| 10                    | a Managing Committee, the members of which are provided herein rather       |                     |
| 11                    | than the directors of MDU Resources Group, Inc.                             |                     |
| 12                    | 2/ Terry D. Hildestad retired on January 3, 2013 and David L. Goodin        |                     |
| 13                    | was elected chairman, effective January 4, 2013                             |                     |
| 14                    | 3/ K. Frank Morehouse was elected January 4, 2013.                          |                     |
| 15                    |   |                     |
| 16                    |   |                     |
| 17                    |   |                     |
| 18                    |   |                     |

## Officers

Year: 2012

| Line No. | Title of Officer<br>(a)  | Department Supervised<br>(b)                       | Name<br>(c)        |
|----------|--|--|--------------------|
| 1        | President & Chief  | Executive  | David L. Goodin 1/ |
| 2        | Executive Officer  |  |                    |
| 3        |  |  |                    |
| 4        | Executive Vice President   | Marketing, Gas Supply<br>and Business Development  | Dennis L. Haider   |
| 5        |  |  |                    |
| 6        |  |  |                    |
| 7        | Executive Vice President   | Combined Utility Operations Support                | Mike J. Gardner    |
| 8        |  |  |                    |
| 9        | Vice President   | Electric Supply                                    | Andrea L. Stomberg |
| 10       |  |  |                    |
| 11       | Vice President   | Operations   | Jay W. Skabo       |
| 12       |  |  |                    |
| 13       | Vice President   | Regulatory Affairs and Chief<br>Accounting Officer | Garret Senger      |
| 14       |  |  |                    |
| 15       |  |  |                    |
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| 36       |  |  |                    |
| 37       |  |  |                    |
| 38       | 1/ Effective January 4, 2013, K. Frank Morehouse replaced David L. Goodin as President and Chief Executive |  |                    |
| 39       | Officer of Montana-Dakota Utilities Co.  |  |                    |
| 40       |  |  |                    |

## CORPORATE STRUCTURE

Year: 2012

|    | Subsidiary/Company Name          | Line of Business   | Earnings (000's) | Percent of Total |
|----|----------------------------------|--|------------------|------------------|
| 1  | Montana-Dakota Utilities Co./    | Electric and Natural Gas<br>Distribution                           | \$60,043         | 24.47%           |
| 2  | Great Plains Natural Gas Co.     |  |                  |                  |
| 3  | (Divisions of MDU Resources      |  |                  |                  |
| 4  | Group, Inc.) Cascade             |  |                  |                  |
| 5  | Natural Gas Corp. and            |  |                  |                  |
| 6  | Intermountain Gas Company        |  |                  |                  |
| 7  |                                  |  |                  |                  |
| 8  | WBI Energy 1/                    | Pipeline and Energy Services and<br>Natural Gas and Oil Production | 96,139           | 39.18%           |
| 9  |                                  |  |                  |                  |
| 10 |                                  |  |                  |                  |
| 11 | Knife River Corporation          | Construction Materials and<br>Mining                               | 32,420           | 13.21%           |
| 12 |                                  |  |                  |                  |
| 13 |                                  |  |                  |                  |
| 14 | MDU Construction Services        | Construction Services  | 38,429           | 15.66%           |
| 15 | Group, Inc.                      |  |                  |                  |
| 16 |                                  |  |                  |                  |
| 17 | Centennial Energy Resources LLC/ | Other  | 18,364           | 7.48%            |
| 18 | Centennial Holdings Capital LLC  |  |                  |                  |
| 19 |                                  |  |                  |                  |
| 20 |                                  |  |                  |                  |
| 21 |                                  |  |                  |                  |
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| 48 |                                  |  |                  |                  |
| 49 |                                  |  |                  |                  |
| 50 | <b>TOTAL</b>                     |  | <b>\$245,395</b> | <b>100.00%</b>   |

1/ Excludes the effects of \$246.8 million of after-tax noncash write-downs of oil and natural gas properties.

## CORPORATE ALLOCATIONS - GAS

Year: 2012

|    | Items Allocated    | Classification           | Allocation Method   | \$ to MT Utility | MT %  | \$ to Other |
|----|--------------------|--------------------------|---|------------------|-------|-------------|
| 1  | Audit Costs        | Administrative & General | Various Corporate Overhead Allocation Factors   | \$3,408          | 1.70% | \$197,292   |
| 2  |                    |                          |   |                  |       |             |
| 3  | Advertising        | Administrative & General | Various Corporate Overhead Allocation Factors, and/or Actual Costs Incurred               | 2,611            | 1.70% | 151,331     |
| 4  |                    |                          |   |                  |       |             |
| 5  |                    |                          |   |                  |       |             |
| 6  | Air Service        | Administrative & General | Various Corporate Overhead Allocation Factors, Time Studies, and/or Actual Costs Incurred | 1,948            | 1.41% | 136,640     |
| 7  |                    |                          |   |                  |       |             |
| 8  |                    |                          |   |                  |       |             |
| 9  | Automobile         | Administrative & General | Various Corporate Overhead Allocation Factors, Time Studies, and/or Actual Costs Incurred | 498              | 1.77% | 27,560      |
| 10 |                    |                          |   |                  |       |             |
| 11 |                    |                          |   |                  |       |             |
| 12 | Bank Services      | Administrative & General | Various Corporate Overhead Allocation Factors and/or Actual Costs Incurred                | 5,622            | 1.70% | 325,141     |
| 13 |                    |                          |   |                  |       |             |
| 14 |                    |                          |   |                  |       |             |
| 15 | Computer Rental    | Administrative & General | Various Corporate Overhead Allocation Factors, Time Studies, and/or Actual Costs Incurred | 57               | 1.70% | 3,302       |
| 16 |                    |                          |   |                  |       |             |
| 17 |                    |                          |   |                  |       |             |
| 18 | Consultant Fees    | Administrative & General | Various Corporate Overhead Allocation Factors and/or Actual Costs Incurred                | 12,797           | 1.81% | 692,543     |
| 19 |                    |                          |   |                  |       |             |
| 20 |                    |                          |   |                  |       |             |
| 21 | Contract Services  | Administrative & General | Various Corporate Overhead Allocation Factors and/or Actual Costs Incurred                | 27,152           | 1.47% | 1,817,346   |
| 22 |                    |                          |   |                  |       |             |
| 23 |                    |                          |   |                  |       |             |
| 24 | Corporate Aircraft | Administrative & General | Various Corporate Overhead Allocation Factors, Time Studies, and/or Actual Costs Incurred | 2,020            | 1.71% | 116,334     |
| 25 |                    |                          |   |                  |       |             |
| 26 |                    |                          |   |                  |       |             |
| 27 | Directors Expenses | Administrative & General | Corporate Overhead Allocation Factor  | 34,827           | 1.70% | 2,017,611   |
| 28 |                    |                          |   |                  |       |             |
| 29 | Employee Benefits  | Administrative & General | Various Corporate Overhead Allocation Factors, Time Studies, and/or Actual Costs Incurred | 1,912            | 1.69% | 111,002     |
| 30 |                    |                          |   |                  |       |             |

## CORPORATE ALLOCATIONS - GAS

Year: 2012

|    | Items Allocated          | Classification           | Allocation Method                                    | \$ to MT Utility | MT %   | \$ to Other |
|----|--------------------------|--------------------------|--|------------------|--------|-------------|
| 1  | Employee Meetings        | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 1,932            | 1.74%  | 109,345     |
| 2  |                          |                          | Actual Costs Incurred                                |                  |        |             |
| 3  |                          |                          |  |                  |        |             |
| 4  | Employee Reimbursable    | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 3,152            | 1.54%  | 201,616     |
| 5  | Expenses                 |                          | Studies, and/or Actual Costs Incurred                |                  |        |             |
| 6  |                          |                          |  |                  |        |             |
| 7  | Legal Retainers & Fees   | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 18,512           | 1.70%  | 1,070,902   |
| 8  |                          |                          | Actual Costs Incurred                                |                  |        |             |
| 9  |                          |                          |  |                  |        |             |
| 10 | Meal Allowance           | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 39               | 1.72%  | 2,227       |
| 11 |                          |                          | Studies, and/or Actual Costs Incurred                |                  |        |             |
| 12 |                          |                          |  |                  |        |             |
| 13 | Meals & Entertainment    | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 1,773            | 1.63%  | 107,199     |
| 14 |                          |                          | Studies, and/or Actual Costs Incurred                |                  |        |             |
| 15 |                          |                          |  |                  |        |             |
| 16 | Moving Expense           | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 51               | 2.55%  | 1,949       |
| 17 |                          |                          | Actual Costs Incurred                                |                  |        |             |
| 18 |                          |                          |  |                  |        |             |
| 19 | Industry Dues & Licenses | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 2,542            | 1.72%  | 145,413     |
| 20 |                          |                          | Studies, and/or Actual Costs Incurred                |                  |        |             |
| 21 |                          |                          |  |                  |        |             |
| 22 | Office Expenses          | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 2,106            | 1.73%  | 119,412     |
| 23 |                          |                          | Actual Costs Incurred                                |                  |        |             |
| 24 |                          |                          |  |                  |        |             |
| 25 | Prepaid Insurance        | Administrative & General | Various Corporate Overhead Allocation Factors and    | 16,758           | 10.82% | 138,112     |
| 26 |                          |                          | Allocation Factors Based on Actual Experience        |                  |        |             |
| 27 |                          |                          |  |                  |        |             |
| 28 | Permits and Filing Fees  | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 670              | 1.70%  | 38,708      |
| 29 |                          |                          | Actual Costs Incurred                                |                  |        |             |

**CORPORATE ALLOCATIONS - GAS**

Year: 2012

|    | Items Allocated         | Classification           | Allocation Method                                    | \$ to MT Utility | MT %         | \$ to Other         |
|----|-------------------------|--------------------------|--|------------------|--------------|---------------------|
| 1  | Postage                 | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 425              | 2.04%        | 20,411              |
| 2  |                         |                          | Actual Costs Incurred                                |                  |              |                     |
| 3  |                         |                          |  |                  |              |                     |
| 4  | Payroll                 | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 382,257          | 1.87%        | 20,037,220          |
| 5  |                         |                          | Studies, and/or Actual Costs Incurred                |                  |              |                     |
| 6  |                         |                          |  |                  |              |                     |
| 7  | Reimbursements          | Administrative & General | Various Corporate Overhead Allocation Factors and/or | (287)            | 2.37%        | (11,847)            |
| 8  |                         |                          | Actual Costs Incurred                                |                  |              |                     |
| 9  |                         |                          |  |                  |              |                     |
| 10 | Rental                  | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 0                | 0.00%        | 15                  |
| 11 |                         |                          | Actual Costs Incurred                                |                  |              |                     |
| 12 |                         |                          |  |                  |              |                     |
| 13 | Reference Materials     | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 3,362            | 1.73%        | 191,332             |
| 14 |                         |                          | Actual Costs Incurred                                |                  |              |                     |
| 15 |                         |                          |  |                  |              |                     |
| 16 | Seminars & Meeting      | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 1,345            | 1.81%        | 72,919              |
| 17 | Registrations           |                          | Studies, and/or Actual Costs Incurred                |                  |              |                     |
| 18 |                         |                          |  |                  |              |                     |
| 19 | Software Maintenance    | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 13,179           | 1.77%        | 730,648             |
| 20 |                         |                          | Studies, and/or Actual Costs Incurred                |                  |              |                     |
| 21 |                         |                          |  |                  |              |                     |
| 22 | Supplemental Insurance  | Administrative & General | Various Corporate Overhead Allocation Factors        | 0                | 0.00%        | 12,600              |
| 23 |                         |                          |  |                  |              |                     |
| 24 | Telephone & Cell Phones | Administrative & General | Various Corporate Overhead Allocation Factors and/or | 3,847            | 1.35%        | 281,202             |
| 25 |                         |                          | Actual Costs Incurred                                |                  |              |                     |
| 26 |                         |                          |  |                  |              |                     |
| 27 | Training Material       | Administrative & General | Various Corporate Overhead Allocation Factors, Time  | 1,264            | 1.83%        | 67,964              |
| 28 |                         |                          | Studies, and/or Actual Costs Incurred                |                  |              |                     |
| 29 |                         |                          |  |                  |              |                     |
| 30 | <b>TOTAL</b>            |                          |  | <b>\$545,779</b> | <b>1.85%</b> | <b>\$28,933,449</b> |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED TO UTILITY - GAS

Year: 2012

| Line No. | (a)<br>Affiliate Name   | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Utility | (e)<br>% Total Affil. Revs. | (f)<br>Charges to MT Utility |
|----------|-------------------------|--|----------------------------------|---------------------------|-----------------------------|------------------------------|
| 1        | KNIFE RIVER CORPORATION | Expense  | Actual Costs Incurred            |                           |                             |                              |
| 2        |                         | Contract Services  |                                  | \$743                     |                             |                              |
| 3        |                         | Materials  |                                  | 1,789                     |                             | \$1,641                      |
| 4        |                         |  |                                  |                           |                             |                              |
| 5        |                         |  |                                  |                           |                             |                              |
| 6        |                         | Capital  | Actual Costs Incurred            |                           |                             |                              |
| 7        |                         | Contract Services  |                                  | 384,832                   |                             | 9,242                        |
| 8        |                         | Materials  |                                  | 20,375                    |                             | 14,129                       |
| 9        |                         |  |                                  |                           |                             |                              |
| 10       |                         |  |                                  |                           |                             |                              |
| 11       |                         | Other  |                                  |                           |                             |                              |
| 12       |                         | Balance Sheet Accts  |                                  | 78,780                    |                             |                              |
| 13       |                         | MDU Resources Cost Centers   |                                  | 14,438                    |                             |                              |
| 14       |                         | Non Utility  |                                  | 6,039                     |                             |                              |
| 15       |                         |  |                                  |                           |                             |                              |
| 16       |                         |  |                                  |                           |                             |                              |
| 17       |                         | Total Knife River Corporation Operating Revenues for the Year 2012 |                                  |                           | \$1,617,425,000             |                              |
| 18       |                         | Excludes Intersegment Eliminations                                 |                                  |                           |                             |                              |
| 19       |                         |  |                                  |                           |                             |                              |
| 20       |                         |  |                                  |                           |                             |                              |
| 21       | TOTAL                   | Grand Total Affiliate Transactions                                 |                                  | \$506,996                 | 0.0313%                     | \$25,012                     |



## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED TO UTILITY - GAS

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services                            | (c)<br>Method to Determine Price | (d)<br>Charges to Utility | (e)<br>% Total Affil. Revs. | (f)<br>Charges to MT Utility |
|----------|-----------------------|---|----------------------------------|---------------------------|-----------------------------|------------------------------|
| 1        | WBI ENERGY            | Natural Gas   | Actual Costs Incurred            |                           |                             |                              |
| 2        |                       | Purchases/Transportation                              |                                  | \$47,163,533              |                             | \$14,714,457                 |
| 3        |                       |   |                                  |                           |                             |                              |
| 4        |                       | Expense   | Actual Costs Incurred            |                           |                             |                              |
| 5        |                       | Contract Services                                     |                                  | 6,023                     |                             | 1,163                        |
| 6        |                       | Materials   |                                  | 30,439                    |                             | 10,633                       |
| 7        |                       | Miscellaneous   |                                  | 1,082                     |                             | 1,082                        |
| 8        |                       |   |                                  |                           |                             |                              |
| 9        |                       |   |                                  |                           |                             |                              |
| 10       |                       | Capital   | Actual Costs Incurred            |                           |                             |                              |
| 11       |                       | Contract Services                                     |                                  | 1,438,545                 |                             | 65,544                       |
| 12       |                       | Materials   |                                  | 251,937                   |                             | 16,648                       |
| 13       |                       |   |                                  |                           |                             |                              |
| 14       |                       | Other   |                                  |                           |                             |                              |
| 15       |                       | Auto Clearing   |                                  | 12,586                    |                             |                              |
| 16       |                       | Balance sheet accounts                                |                                  | 774,275                   |                             |                              |
| 17       |                       | Non Utility   |                                  | 18,161                    |                             |                              |
| 18       |                       | MDU Resources Cost Centers                            |                                  | 24,756                    |                             |                              |
| 19       |                       |   |                                  |                           |                             |                              |
| 20       |                       | Total WBI Energy Operating Revenues for the Year 2012 |                                  |                           | \$641,774,000               |                              |
| 21       |                       | Excludes Intersegment Eliminations                    |                                  |                           |                             |                              |
| 22       |                       |   |                                  |                           |                             |                              |
| 23       |                       |   |                                  |                           |                             |                              |
| 24       | TOTAL                 | Grand Total Affiliate Transactions                    |                                  | \$49,721,337              | 7.7475%                     | \$14,809,527                 |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED TO UTILITY - GAS

Year: 2012

| Line No. | (a)<br>Affiliate Name                | (b)<br>Products & Services  | (c)<br>Method to Determine Price | (d)<br>Charges to Utility | (e)<br>% Total Affil. Revs. | (f)<br>Charges to MT Utility |
|----------|--------------------------------------|---|----------------------------------|---------------------------|-----------------------------|------------------------------|
| 1        | MDU CONSTRUCTION SERVICES GROUP, INC |   |                                  |                           |                             |                              |
| 2        |                                      | Expense   | Actual Costs Incurred            |                           |                             |                              |
| 3        |                                      | Materials   |                                  | \$10,134                  |                             |                              |
| 4        |                                      |   |                                  |                           |                             |                              |
| 5        |                                      |   |                                  |                           |                             |                              |
| 6        |                                      |   |                                  |                           |                             |                              |
| 7        |                                      |   |                                  |                           |                             |                              |
| 8        |                                      | Capital   | Actual Costs Incurred            |                           |                             |                              |
| 9        |                                      | Contract Services   |                                  | 1,288,353                 |                             | \$11,678                     |
| 10       |                                      |   |                                  |                           |                             |                              |
| 11       |                                      |   |                                  |                           |                             |                              |
| 12       |                                      |   |                                  |                           |                             |                              |
| 13       |                                      | Other   | Actual Costs Incurred            |                           |                             |                              |
| 14       |                                      | MDU Resources Cost Centers  |                                  | 7,291                     |                             |                              |
| 15       |                                      | Auto Clearing   |                                  | 7,618                     |                             |                              |
| 16       |                                      | Non Utility   |                                  | 21,090                    |                             |                              |
| 17       |                                      |   |                                  |                           |                             |                              |
| 18       |                                      |   |                                  |                           |                             |                              |
| 19       |                                      |   |                                  |                           |                             |                              |
| 20       |                                      |   |                                  |                           |                             |                              |
| 21       |                                      | Total MDU Construction Services Group, Inc Operating Revenues for the Year 2012 |                                  |                           | \$938,558,000               |                              |
| 22       |                                      | Excludes Intersegment Eliminations  |                                  |                           |                             |                              |
| 23       |                                      |   |                                  |                           |                             |                              |
| 24       |                                      |   |                                  |                           |                             |                              |
| 25       | TOTAL                                | Grand Total Affiliate Transactions  |                                  | \$1,334,486               | 0.1422%                     | \$11,678                     |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED TO UTILITY - GAS

Year: 2012

| Line No. | (a)<br>Affiliate Name                   | (b)<br>Products & Services  | (c)<br>Method to Determine Price | (d)<br>Charges to Utility | (e)<br>% Total Affil. Revs. | (f)<br>Charges to MT Utility |
|----------|---|---|----------------------------------|---------------------------|-----------------------------|------------------------------|
| 1        | <b>CENTENNIAL HOLDINGS CAPITAL, LLC</b> | Expense   | 1/ Various Corporate Overhead    |                           |                             |                              |
| 2        |   | Contract Services   | Allocation Factors and/or        | \$93,209                  |                             | \$23,080                     |
| 3        |   | Corporate Aircraft  | Actual Costs Incurred            | 21,933                    |                             | 5,536                        |
| 4        |   | Office Expense  |                                  | 211,303                   |                             | 52,322                       |
| 5        |   | Rent  |                                  | 117,867                   |                             | 29,186                       |
| 6        |   | Capital   |                                  |                           |                             |                              |
| 7        |   | Corporate Aircraft  | Actual Costs Incurred            | 2,358                     |                             | 601                          |
| 8        |   | Other   |                                  | (47)                      |                             | (12)                         |
| 9        |   | Other   |                                  |                           |                             |                              |
| 10       |   | MDU Resources Cost Centers  |                                  | 292,708                   |                             |                              |
| 11       |   | Balance Sheet Accounts  |                                  | 2,481,614                 |                             |                              |
| 12       |   | Clearing Accounts   |                                  | 293,369                   |                             |                              |
| 13       |   | Non Utility   |                                  | 21,598                    |                             |                              |
| 14       |   |   |                                  |                           |                             |                              |
| 15       |   |   |                                  |                           |                             |                              |
| 16       |   | Total Centennial Holdings Capital, LLC Operating Revenues for the Year 2012 |                                  |                           | \$10,370,000                |                              |
| 17       |   | Excludes Intersegment Eliminations  |                                  |                           |                             |                              |
| 18       |   |   |                                  |                           |                             |                              |
| 19       |   |   |                                  |                           |                             |                              |
| 20       |   |   |                                  |                           |                             |                              |
| 21       |   |   |                                  |                           |                             |                              |
| 22       |   |   |                                  |                           |                             |                              |
| 23       | <b>TOTAL</b>                            | <b>Grand Total Affiliate Transactions</b>                                   |                                  | \$3,535,912               | 34.0975%                    | \$110,713                    |

1/Corporate overhead allocation factors are derived from the invested capital balance as a percentage of the total corporate invested capital. Montana-Dakota Utilities Co. cost of service amounts are calculated for the general office complex, the printing department, and the budget and forecast system. The general office complex amounts are payroll and floor space costs for employees that perform services for MDU Resources. These include accounts payable, general accounting, fixed asset accounting, and miscellaneous other services. The charges are based on the percentage of system users that are MDU Resources employees. Both the general office complex and amounts for MDU Resources are allocated to affiliated companies based on corporate overhead allocation factors. The printing department amount is allocated to affiliated companies based on the direct printing images processed for them and their percentage of the corporate overhead allocation for the corporate printed image amount.

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED TO UTILITY - GAS

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services                                    | (c)<br>Method to Determine Price | (d)<br>Charges to Utility | (e)<br>% Total Affil. Revs. | (f)<br>Charges to MT Utility |
|----------|-----------------------|---|----------------------------------|---------------------------|-----------------------------|------------------------------|
| 1        | MDU ENERGY CAPITAL    | Expense   | Actual Costs Incurred            |                           |                             |                              |
| 3        |                       | Contract Services   |                                  | \$25,548                  |                             | \$6,893                      |
| 4        |                       | Cost of Service   |                                  | 14,509                    |                             | 3,593                        |
| 5        |                       | Materials   |                                  | 412                       |                             | 126                          |
| 6        |                       | Office Expenses   |                                  | 95,091                    |                             | 30,061                       |
| 7        |                       | Other   |                                  | 2,325                     |                             | 836                          |
| 8        |                       |   |                                  |                           |                             |                              |
| 9        |                       | Capital   | Actual Costs Incurred            |                           |                             |                              |
| 10       |                       | Contract Services   |                                  | 21,242                    |                             | 5,518                        |
| 11       |                       | Materials   |                                  | 1,904                     |                             | 0                            |
| 12       |                       | Other   |                                  | 74                        |                             | 19                           |
| 13       |                       |   |                                  |                           |                             |                              |
| 14       |                       | Other Transactions/Reimbursements                             | Actual Costs Incurred            |                           |                             |                              |
| 15       |                       | MDU Resources Cost Centers                                    |                                  | 4,609                     |                             |                              |
| 16       |                       | Auto Clearing   |                                  | (2,204)                   |                             |                              |
| 17       |                       | Subsidiary Receivables  |                                  | 4,742                     |                             |                              |
| 18       |                       | Miscellaneous   |                                  | 1,874                     |                             |                              |
| 19       |                       | Non Utility   |                                  | 40,531                    |                             |                              |
| 20       |                       |   |                                  |                           |                             |                              |
| 21       |                       |   |                                  |                           |                             |                              |
| 22       |                       |   |                                  |                           |                             |                              |
| 23       |                       |   |                                  |                           |                             |                              |
| 24       |                       | Total MDU Energy Capital Operating Revenues for the Year 2012 |                                  |                           | \$519,442,000               |                              |
| 25       |                       | Grand Total Affiliate Transactions                            |                                  |                           |                             |                              |
| 26       |                       |   |                                  |                           |                             |                              |
| 27       | TOTAL                 | Grand Total Affiliate Transactions                            |                                  | \$210,658                 | 0.0406%                     | \$47,045                     |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name   | (b)<br>Products & Services       | (c)<br>Method to Determine Price  | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-------------------------|----------------------------------|---|-----------------------------|----------------------------|-------------------------------|
| 1        | KNIFE RIVER CORPORATION | MDU RESOURCES GROUP, INC.        | 1/ Various Corporate Overhead Allocation Factors, Time Studies and/or Actual Costs Incurred |                             |                            |                               |
| 2        |                         | Corporate Overhead               |   |                             |                            |                               |
| 3        |                         | Audit Costs                      |   | \$49,036                    |                            |                               |
| 4        |                         | Advertising                      |   | 37,568                      |                            |                               |
| 5        |                         | Air Service                      |   | 35,520                      |                            |                               |
| 6        |                         | Automobile                       |   | 7,740                       |                            |                               |
| 7        |                         | Bank Services                    |   | 80,900                      |                            |                               |
| 8        |                         | Corporate Aircraft               |   | 28,683                      |                            |                               |
| 9        |                         | Consultant Fees                  |   | 174,428                     |                            |                               |
| 10       |                         | Contract Services                |   | 903,783                     |                            |                               |
| 11       |                         | Computer Rental                  |   | 819                         |                            |                               |
| 12       |                         | Directors Expenses               |   | 501,017                     |                            |                               |
| 13       |                         | Employee Benefits                |   | 30,154                      |                            |                               |
| 14       |                         | Employee Meeting                 |   | 27,212                      |                            |                               |
| 15       |                         | Employee Reimbursable Expense    |   | 52,654                      |                            |                               |
| 16       |                         | Express Mail                     |   | 54                          |                            |                               |
| 18       |                         | Legal Retainers & Fees           |   | 266,175                     |                            |                               |
| 19       |                         | Moving Allowance                 |   | 733                         |                            |                               |
| 20       |                         | Meal Allowance                   |   | 586                         |                            |                               |
| 21       |                         | Cash Donations                   |   | 18,456                      |                            |                               |
| 22       |                         | Meals & Entertainment            |   | 27,558                      |                            |                               |
| 23       |                         | Industry Dues & Licenses         |   | 36,894                      |                            |                               |
| 24       |                         | Office Expenses                  |   | 42,780                      |                            |                               |
| 25       |                         | Supplemental Insurance           |   | 3,630                       |                            |                               |
| 26       |                         | Permits & Filing Fees            |   | 9,648                       |                            |                               |
| 27       |                         | Postage                          |   | 4,950                       |                            |                               |
| 28       |                         | Payroll                          |   | 5,272,624                   |                            |                               |
| 29       |                         | Reimbursements                   |   | (4,169)                     |                            |                               |
| 30       |                         | Reference Materials              |   | 47,182                      |                            |                               |
| 31       |                         | Rental                           |   | 4                           |                            |                               |
| 32       |                         | Seminars & Meeting Registrations |   | 18,125                      |                            |                               |
| 33       |                         | Software Maintenance             |   | 246,926                     |                            |                               |
| 34       |                         | Telephone/cell Expenses          |   | 123,985                     |                            |                               |
| 35       |                         | Training                         |   | 17,617                      |                            |                               |
| 36       |                         | Total MDU Resources Group, Inc.  |   | \$8,063,272                 | 0.5170%                    |                               |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name   | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-------------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | KNIFE RIVER CORPORATION | MONTANA-DAKOTA UTILITIES CO.   | Actual Costs Incurred            |                             | 0.1828%                    | \$17,398                      |
| 2        |                         | Other Direct Charges   |                                  |                             |                            |                               |
| 3        |                         | Vehicle Maintenance  |                                  | \$43                        |                            |                               |
| 4        |                         | Communications   |                                  | 6,976                       |                            |                               |
| 5        |                         | Employee Discounts   |                                  | 22,498                      |                            |                               |
| 6        |                         | Dues, Permits, and Filing Fees   |                                  | 348                         |                            |                               |
| 7        |                         | Legal  |                                  | 1,304                       |                            |                               |
| 8        |                         | Sponsorship  |                                  | 49,200                      |                            |                               |
| 9        |                         | Electric Consumption   |                                  | 55,806                      |                            |                               |
| 10       |                         | Gas Consumption  |                                  | 48,234                      |                            |                               |
| 11       |                         | Bank Fees  |                                  | 28,990                      |                            |                               |
| 12       |                         | Computer/Software Support  |                                  | 977,182                     |                            |                               |
| 13       |                         | Office Expense   |                                  | 851                         |                            |                               |
| 14       |                         | Cost of Service  |                                  | 596,130                     |                            |                               |
| 15       |                         | Audit Costs  |                                  | 602,794                     |                            |                               |
| 16       |                         | Auto   |                                  | 18,727                      |                            |                               |
| 17       |                         | Travel   |                                  | 17,916                      |                            |                               |
| 18       |                         | Employee Benefits  |                                  | 90,884                      |                            |                               |
| 19       |                         | Contract Services  |                                  | 332,772                     |                            |                               |
| 20       |                         |  |                                  |                             |                            |                               |
| 21       |                         | Total Montana-Dakota Utilities Co.   |                                  | \$2,850,652                 |                            | \$162,180                     |
| 22       |                         |  |                                  |                             |                            |                               |
| 23       |                         | OTHER TRANSACTIONS/REIMBURSEMENTS  | Actual Costs Incurred            |                             | 2.2319%                    |                               |
| 24       |                         |  |                                  |                             |                            |                               |
| 26       |                         | Federal & State Tax Liability Payments   |                                  | \$35,094,928                |                            |                               |
| 28       |                         | Miscellaneous Reimbursements   |                                  | (287,011)                   |                            |                               |
| 29       |                         |  |                                  |                             |                            |                               |
| 30       |                         | Total Other Transactions/Reimbursements  |                                  | \$34,807,917                |                            |                               |
| 31       |                         |  |                                  |                             |                            |                               |
| 32       |                         | Grand Total Affiliate Transactions   |                                  | \$45,721,841                | 2.9317%                    | \$162,180                     |
| 33       |                         |  |                                  |                             |                            |                               |
| 34       |                         | Total Knife River Corporation Operating Expenses for 2012-Excludes Intersegment Eliminations |                                  |                             | \$1,559,561,000            |                               |

**AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY**

Year: 2012

**KNIFE RIVER CORPORATION**

1/Corporate overhead allocation factors are derived from the invested capital balance as a percentage of the total corporate invested capital. Montana-Dakota Utilities Co. cost of service amounts are calculated for the general office complex, the printing department, and the budget and forecast system. The general office complex amounts are payroll and floor space costs for employees that perform services for MDU Resources. These include accounts payable, general accounting, fixed asset accounting, and miscellaneous other services. The charges are based on the percentage of system users that are MDU Resources employees. Both the general office complex and amounts for MDU Resources are allocated to affiliated companies based on corporate overhead allocation factors. The printing department amount is allocated to affiliated companies based on the direct printing images processed for them and their percentage of the corporate overhead allocation for the corporate printed image amount.

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services             | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | WBI ENERGY, INC.      | MDU RESOURCES GROUP, INC.              |                                  |                             |                            |                               |
| 2        |                       | Corporate Overhead                     | 1/ Various Corporate Overhead    |                             |                            |                               |
| 3        |                       | Audit Costs                            | Allocation Factors, Time         | \$69,293                    |                            |                               |
| 4        |                       | Advertising                            | Studies and/or Actual Costs      | 53,183                      |                            |                               |
| 5        |                       | Air Service                            | Incurred                         | 42,566                      |                            |                               |
| 6        |                       | Automobile                             |                                  | 8,812                       |                            |                               |
| 7        |                       | Bank Services                          |                                  | 114,134                     |                            |                               |
| 8        |                       | Corporate Aircraft                     |                                  | 41,252                      |                            |                               |
| 9        |                       | Consultant Fees                        |                                  | 241,829                     |                            |                               |
| 10       |                       | Contract Services                      |                                  | 374,192                     |                            |                               |
| 11       |                       | Computer Rental                        |                                  | 1,160                       |                            |                               |
| 12       |                       | Directors Expenses                     |                                  | 708,951                     |                            |                               |
| 13       |                       | Employee Benefits                      |                                  | 42,583                      |                            |                               |
| 14       |                       | Employee Meeting                       |                                  | 38,199                      |                            |                               |
| 15       |                       | Employee Reimbursable Expense          |                                  | 63,335                      |                            |                               |
| 16       |                       | Express Mail                           |                                  | 49                          |                            |                               |
| 18       |                       | Legal Retainers & Fees                 |                                  | 376,066                     |                            |                               |
| 19       |                       | Meal Allowance                         |                                  | 762                         |                            |                               |
| 20       |                       | Cash Donations                         |                                  | 26,056                      |                            |                               |
| 21       |                       | Meals & Entertainment                  |                                  | 35,559                      |                            |                               |
| 22       |                       | Moving Expense                         |                                  | 366                         |                            |                               |
| 23       |                       | Industry Dues & Licenses               |                                  | 50,479                      |                            |                               |
| 24       |                       | Office Expenses                        |                                  | 33,546                      |                            |                               |
| 25       |                       | Supplemental Insurance                 |                                  | 3,937                       |                            |                               |
| 26       |                       | Permits & Filing Fees                  |                                  | 13,576                      |                            |                               |
| 27       |                       | Postage                                |                                  | 7,010                       |                            |                               |
| 28       |                       | Payroll                                |                                  | 6,430,753                   |                            |                               |
| 29       |                       | Reimbursements                         |                                  | (1,461)                     |                            |                               |
| 30       |                       | Reference Materials                    |                                  | 66,726                      |                            |                               |
| 31       |                       | Rental                                 |                                  | 5                           |                            |                               |
| 32       |                       | Seminars & Meeting Registrations       |                                  | 24,915                      |                            |                               |
| 33       |                       | Software Maintenance                   |                                  | 215,485                     |                            |                               |
| 34       |                       | Telephone/cell Expenses                |                                  | 78,677                      |                            |                               |
| 35       |                       | Training Material                      |                                  | 17,865                      |                            |                               |
| 36       |                       | <b>Total MDU Resources Group, Inc.</b> |                                  | <b>\$9,179,857</b>          | <b>1.0560%</b>             |                               |



## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services         | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|------------------------------------|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | WBI ENERGY, INC.      | MONTANA-DAKOTA UTILITIES CO.       |                                  |                             |                            |                               |
| 2        |                       | Other Departments                  | 1/ Various Corporate Overhead    |                             |                            |                               |
| 3        |                       | Expense                            | Allocation Factors, Cost of      |                             |                            |                               |
| 4        |                       | Payroll                            | Service Factors, Time            | \$3,433                     |                            |                               |
| 5        |                       | Automobile                         | Studies and /or Actual Costs     | 1,376                       |                            |                               |
| 6        |                       | Miscellaneous                      |                                  | 718                         |                            |                               |
| 7        |                       |                                    |                                  |                             |                            |                               |
| 8        |                       | Transportation Department          | 1/ Various Corporate Overhead    |                             |                            |                               |
| 9        |                       | Clearing Accounts                  | Allocation Factors, Time         |                             |                            |                               |
| 10       |                       | Office Expenses                    | Studies and/or Actual Costs      | 20                          |                            |                               |
| 11       |                       |                                    |                                  |                             |                            |                               |
| 12       |                       | Other Direct Charges               | Actual Costs Incurred            |                             |                            |                               |
| 13       |                       | Utility/Merchandise Discounts      |                                  | 29,310                      |                            |                               |
| 14       |                       | Audit Costs                        |                                  | 394,909                     |                            |                               |
| 15       |                       | Contract Services                  |                                  | 595,117                     |                            |                               |
| 16       |                       | Auto                               |                                  | 1,333                       |                            |                               |
| 17       |                       | Vehicle Maintenance                |                                  | 7,357                       |                            |                               |
| 18       |                       | Dues, Permits, and Filing Fees     |                                  | 15,529                      |                            |                               |
| 19       |                       | Misc Employee Benefits             |                                  | 90,396                      |                            |                               |
| 20       |                       | Computer/Software Support          |                                  | 307,706                     |                            |                               |
| 21       |                       | Sponsorship                        |                                  | 68,800                      |                            |                               |
| 22       |                       | Electric Consumption               |                                  | 695,396                     |                            | \$546,100                     |
| 23       |                       | Gas Consumption                    |                                  | 27,408                      |                            | 20,808                        |
| 24       |                       | Cost of Service                    |                                  | 297,183                     |                            | 72,177                        |
| 25       |                       | Legal Fees                         |                                  | 1,182                       |                            |                               |
| 26       |                       | Travel                             |                                  | 25,515                      |                            |                               |
| 27       |                       | Communication Services             |                                  | 11,483                      |                            |                               |
| 28       |                       | Office Expense                     |                                  | 13,781                      |                            |                               |
| 29       |                       | Bank Fees                          |                                  | 13,680                      |                            |                               |
| 30       |                       | Training Registration              |                                  | 1,945                       |                            |                               |
| 31       |                       |                                    |                                  |                             |                            |                               |
| 32       |                       |                                    |                                  |                             |                            |                               |
| 33       |                       | Total Montana-Dakota Utilities Co. |                                  | \$ 2,603,577                | 0.2995%                    | \$639,085                     |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | WBI ENERGY, INC.      |  |                                  |                             |                            |                               |
| 2        |                       |  |                                  |                             |                            |                               |
| 3        |                       | OTHER TRANSACTIONS/REIMBURSEMENTS  | Actual Costs Incurred            |                             |                            |                               |
| 4        |                       | Insurance  |                                  |                             |                            |                               |
| 5        |                       | Federal & State Tax Liability Payments   |                                  | (\$37,355,049)              |                            |                               |
| 6        |                       | Miscellaneous Reimbursements   |                                  | (85,969)                    |                            |                               |
| 7        |                       | <b>Total Other Transactions/Reimbursements</b>   |                                  | <b>(\$37,441,018)</b>       | -4.3071%                   |                               |
| 8        |                       |  |                                  |                             |                            |                               |
| 9        |                       | <b>Grand Total Affiliate Transactions</b>  |                                  | <b>(\$25,657,585)</b>       | -2.9516%                   | <b>\$639,085</b>              |
| 10       |                       |  |                                  |                             |                            |                               |
| 11       |                       |  |                                  |                             |                            |                               |
| 12       |                       |  |                                  |                             |                            |                               |
| 13       |                       | <b>Total WBI Energy Operating Expenses for 2012 - Excludes Intersegment Eliminations</b> |                                  |                             | <b>\$869,277,000</b>       |                               |

1/Corporate overhead allocation factors are derived from the invested capital balance as a percentage of the total corporate invested capital.

Montana-Dakota Utilities Co. cost of service amounts are calculated for the general office complex, the printing department, and the budget and forecast system. The general office complex amounts are payroll and floor space costs for employees that perform services for MDU Resources. These include accounts payable, general accounting, fixed asset accounting, and miscellaneous other services. The charges are based on the percentage of system users that are MDU Resources employees. Both the general office complex and amounts for MDU Resources are allocated to affiliated companies based on corporate overhead allocation factors. The printing department amount is allocated to affiliated companies based on the direct printing images processed for them and their percentage of the corporate overhead allocation for the corporate printed image amount.

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services             | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU CONSTRUCTION      | MDU RESOURCES GROUP, INC.              |                                  |                             |                            |                               |
| 2        | SERVICES GROUP INC    | Corporate Overhead                     | 1/ Various Corporate Overhead    |                             |                            |                               |
| 3        |                       | Audit Costs                            | Allocation Factors, Time         | \$12,177                    |                            |                               |
| 4        |                       | Advertising                            | Studies and/or Actual Costs      | 9,385                       |                            |                               |
| 5        |                       | Air Service                            | Incurred                         | 16,028                      |                            |                               |
| 6        |                       | Automobile                             |                                  | 1,499                       |                            |                               |
| 7        |                       | Bank Services                          |                                  | 19,983                      |                            |                               |
| 8        |                       | Corporate Aircraft                     |                                  | 7,121                       |                            |                               |
| 9        |                       | Consultant Fees                        |                                  | 40,722                      |                            |                               |
| 10       |                       | Contract Services                      |                                  | 54,089                      |                            |                               |
| 11       |                       | Computer Rental                        |                                  | 205                         |                            |                               |
| 12       |                       | Directors Expenses                     |                                  | 124,977                     |                            |                               |
| 13       |                       | Employee Benefits                      |                                  | 7,685                       |                            |                               |
| 14       |                       | Employee Meeting                       |                                  | 6,611                       |                            |                               |
| 15       |                       | Employee Reimbursable Expense          |                                  | 24,567                      |                            |                               |
| 16       |                       | Express Mail                           |                                  | 34                          |                            |                               |
| 18       |                       | Legal Retainers & Fees                 |                                  | 66,063                      |                            |                               |
| 19       |                       | Moving Allowance                       |                                  | 19                          |                            |                               |
| 20       |                       | Meal Allowance                         |                                  | 128                         |                            |                               |
| 21       |                       | Cash Donations                         |                                  | 4,569                       |                            |                               |
| 22       |                       | Meals & Entertainment                  |                                  | 9,744                       |                            |                               |
| 23       |                       | Industry Dues & Licenses               |                                  | 8,721                       |                            |                               |
| 24       |                       | Office Expenses                        |                                  | 4,408                       |                            |                               |
| 25       |                       | Supplemental Insurance                 |                                  | 213                         |                            |                               |
| 26       |                       | Permits & Filing Fees                  |                                  | 2,362                       |                            |                               |
| 27       |                       | Postage                                |                                  | 1,271                       |                            |                               |
| 28       |                       | Payroll                                |                                  | 1,252,505                   |                            |                               |
| 29       |                       | Reimbursements                         |                                  | (796)                       |                            |                               |
| 30       |                       | Reference Materials                    |                                  | 12,473                      |                            |                               |
| 31       |                       | Rent                                   |                                  | 1                           |                            |                               |
| 32       |                       | Seminars & Meeting Registrations       |                                  | 4,553                       |                            |                               |
| 33       |                       | Software Maintenance                   |                                  | 30,218                      |                            |                               |
| 34       |                       | Telephone/cell Expenses                |                                  | 6,308                       |                            |                               |
| 35       |                       | Training Material                      |                                  | 2,672                       |                            |                               |
| 36       |                       | <b>Total MDU Resources Group, Inc.</b> |                                  | <b>\$1,730,515</b>          | <b>0.1984%</b>             |                               |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name               | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-------------------------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU CONSTRUCTION SERVICES GROUP INC | Intercompany Settlements   | Actual Costs Incurred            |                             | 0.4104%                    | \$28,462                      |
| 2        |                                     | Sponsorship  |                                  | \$11,800                    |                            |                               |
| 3        |                                     | Audit  |                                  | 392,023                     |                            |                               |
| 4        |                                     | Computer/Software Support  |                                  | 135,326                     |                            |                               |
| 5        |                                     | Travel   |                                  | 44,468                      |                            |                               |
| 6        |                                     | Cost of Service  |                                  | 117,190                     |                            |                               |
| 7        |                                     | Employee Benefits  |                                  | 250,409                     |                            |                               |
| 8        |                                     | Bank Fees  |                                  | 68,208                      |                            |                               |
| 9        |                                     | Dues, Permits, and Filing Fees   |                                  | 19,918                      |                            |                               |
| 10       |                                     | Payroll  |                                  | 2,449,878                   |                            |                               |
| 11       |                                     | Office Expense   |                                  | 5,764                       |                            |                               |
| 12       |                                     | Contract Services  |                                  | 84,037                      |                            |                               |
| 13       |                                     |  |                                  |                             |                            |                               |
| 14       |                                     | <b>Total Montana-Dakota Utilities Co.</b>                                      |                                  | \$3,579,022                 |                            | \$28,462                      |
| 15       |                                     |  |                                  |                             |                            |                               |
| 16       |                                     | OTHER TRANSACTIONS/REIMBURSEMENTS  | Actual Costs Incurred            |                             | 2.0320%                    | \$28,462                      |
| 17       |                                     | Federal & State Tax Liability Payments   |                                  | \$17,936,887                |                            |                               |
| 18       |                                     | Miscellaneous Reimbursements   |                                  | (217,188)                   |                            |                               |
| 19       |                                     |  |                                  |                             |                            |                               |
| 20       |                                     | <b>Total Other Transactions/Reimbursements</b>                                 |                                  | \$17,719,699                |                            |                               |
| 21       |                                     | <b>Grand Total Affiliate Transactions</b>                                      |                                  | \$23,029,236                | 2.6409%                    | \$28,462                      |
| 22       |                                     |  |                                  |                             |                            |                               |
| 23       |                                     | <b>Total MDU Construction Services Group, Inc. Operating Expenses for 2012</b> |                                  |                             | \$872,027,000              |                               |
| 24       |                                     | <b>Excludes Intersegment Eliminations</b>                                      |                                  |                             |                            |                               |
| 25       |                                     |  |                                  |                             |                            |                               |

1/Corporate overhead allocation factors are derived from the invested capital balance as a percentage of the total corporate invested capital. Montana-Dakota Utilities Co. cost of service amounts are calculated for the general office complex, the printing department, and the budget and forecast system. The general office complex amounts are payroll and floor space costs for employees that perform services for MDU Resources. These include accounts payable, general accounting, fixed asset accounting, and miscellaneous other services. The charges are based on the percentage of system users that are MDU Resources employees. Both the general office complex and amounts for MDU Resources are allocated to affiliated companies based on corporate overhead allocation factors. The printing department amount is allocated to affiliated companies based on the direct printing images processed for them and their percentage of the corporate overhead allocation for the corporate printed image amount.

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | CENTENNIAL ENERGY     | MONTANA-DAKOTA UTILITIES CO.   |                                  |                             |                            |                               |
| 2        | RESOURCES INT         |  |                                  |                             |                            |                               |
| 3        |                       | Other Direct Charges   | Actual costs incurred            |                             |                            |                               |
| 4        |                       | Audit Costs  |                                  | \$1,680                     |                            |                               |
| 5        |                       | Dues, Permits, and Filing Fees   |                                  | 375                         |                            |                               |
| 6        |                       | Bank Fees  |                                  | 2,460                       |                            |                               |
| 8        |                       |  |                                  |                             |                            |                               |
| 9        |                       | Intercompany Settlements   | Actual costs incurred            |                             |                            |                               |
| 10       |                       | Office Expense   |                                  | 3,188                       |                            |                               |
| 11       |                       | <b>Total Montana-Dakota Utilities Co.</b>  |                                  | \$7,703                     | -20.8191%                  |                               |
| 12       |                       |  |                                  |                             |                            |                               |
| 13       |                       | OTHER TRANSACTIONS/REIMBURSEMENTS  | Actual costs incurred            |                             |                            |                               |
| 14       |                       | Federal & State Tax Liability Payments   |                                  | (\$710,658)                 |                            |                               |
| 15       |                       | Miscellaneous Reimbursements   |                                  |                             |                            |                               |
| 16       |                       | <b>Total Other Transactions/Reimbursements</b>                                     |                                  | (\$710,658)                 |                            |                               |
| 17       |                       |  |                                  |                             |                            |                               |
| 18       |                       | <b>Grand Total Affiliate Transactions</b>  |                                  | (\$702,955)                 | 1899.8782%                 |                               |
| 19       |                       |  |                                  |                             |                            |                               |
| 20       |                       | <b>Total Centennial Energy Resources International Operating Expenses for 2012</b> |                                  |                             | (\$37,000)                 |                               |
| 21       |                       | <b>Excludes Intersegment Eliminations</b>  |                                  |                             |                            |                               |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services              | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |  |
|----------|-----------------------|---|----------------------------------|-----------------------------|----------------------------|-------------------------------|--|
| 1        | CENTENNIAL HOLDINGS   | MONTANA-DAKOTA UTILITIES CO.            | Actual costs incurred            |                             | 15.1254%                   |                               |  |
| 2        | CAPITAL CORP. AND     | Direct and Intercompany charges         |                                  |                             |                            |                               |  |
| 3        | FUTURESOURCE          | Dues, Permits, and Filing Fees          |                                  | \$1,187                     |                            |                               |  |
| 4        |                       | Computer/Software Support               |                                  | 231,427                     |                            |                               |  |
| 5        |                       | Bank Fees                               |                                  | 32,141                      |                            |                               |  |
| 7        |                       | Office Expense                          |                                  | 451                         |                            |                               |  |
| 8        |                       | Electric Consumption                    |                                  | 171,760                     |                            |                               |  |
| 9        |                       | Gas Consumption                         |                                  | 10,343                      |                            |                               |  |
| 10       |                       | Payroll                                 |                                  | 387,856                     |                            |                               |  |
| 11       |                       | Miscellaneous                           |                                  | 211                         |                            |                               |  |
| 12       |                       | Total Montana-Dakota Utilities Co.      |                                  | 835,376                     |                            |                               |  |
| 13       |                       | OTHER TRANSACTIONS/REIMBURSEMENTS       |                                  |                             | 44.8815%                   |                               |  |
| 14       |                       | Miscellaneous Reimbursements            |                                  | (\$751)                     |                            |                               |  |
| 15       |                       | Federal & State Tax Liability Payments  |                                  | 1,644,182                   |                            |                               |  |
| 16       |                       | Total Other Transactions/Reimbursements |                                  | \$1,643,431                 |                            |                               |  |
| 17       |                       |   |                                  |                             |                            |                               |  |
| 18       |                       | Grand Total Affiliate Transactions      |                                  | \$2,478,807                 | 44.8815%                   | \$0                           |  |
| 19       |                       |   |                                  |                             |                            |                               |  |
| 20       |                       | Total CHCC Operating Expenses for 2012  |                                  |                             | \$5,523,000                |                               |  |
| 21       |                       | Excludes Intersegment Eliminations      |                                  |                             |                            |                               |  |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services             | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|--|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU ENERGY            | MDU RESOURCES GROUP, INC.              |                                  |                             |                            |                               |
| 2        | CAPITAL 2/            | Corporate Overhead                     | 1/ Various Corporate Overhead    |                             |                            |                               |
| 3        |                       | Audit Costs                            | Allocation Factors, Time         | \$38,651                    |                            |                               |
| 4        |                       | Advertising                            | Studies and/or Actual Costs      | 29,635                      |                            |                               |
| 5        |                       | Air Service                            | Incurred                         | 26,442                      |                            |                               |
| 6        |                       | Automobile                             |                                  | 5,193                       |                            |                               |
| 7        |                       | Bank Services                          |                                  | 63,720                      |                            |                               |
| 8        |                       | Corporate Aircraft                     |                                  | 22,608                      |                            |                               |
| 9        |                       | Consultant Fees                        |                                  | 127,591                     |                            |                               |
| 10       |                       | Contract Services                      |                                  | 261,875                     |                            |                               |
| 11       |                       | Computer Rental                        |                                  | 647                         |                            |                               |
| 12       |                       | Directors Expenses                     |                                  | 395,150                     |                            |                               |
| 13       |                       | Employee Benefits                      |                                  | 23,749                      |                            |                               |
| 14       |                       | Employee Meeting                       |                                  | 21,386                      |                            |                               |
| 15       |                       | Employee Reimbursable Expense          |                                  | 34,541                      |                            |                               |
| 16       |                       | Express Mail                           |                                  | 34                          |                            |                               |
| 17       |                       | Legal Retainers & Fees                 |                                  | 209,787                     |                            |                               |
| 18       |                       | Meal Allowance                         |                                  | 428                         |                            |                               |
| 19       |                       | Cash Donations                         |                                  | 14,541                      |                            |                               |
| 20       |                       | Meals & Entertainment                  |                                  | 19,537                      |                            |                               |
| 21       |                       | Moving Expense                         |                                  | 413                         |                            |                               |
| 22       |                       | Industry Dues & Licenses               |                                  | 28,351                      |                            |                               |
| 23       |                       | Office Expenses                        |                                  | 20,928                      |                            |                               |
| 24       |                       | Supplemental Insurance                 |                                  | 2,564                       |                            |                               |
| 25       |                       | Permits & Filing Fees                  |                                  | 7,590                       |                            |                               |
| 26       |                       | Postage                                |                                  | 3,906                       |                            |                               |
| 27       |                       | Payroll                                |                                  | 3,926,709                   |                            |                               |
| 28       |                       | Reimbursements                         |                                  | (3,024)                     |                            |                               |
| 29       |                       | Reference Materials                    |                                  | 37,190                      |                            |                               |
| 30       |                       | Rental                                 |                                  | 3                           |                            |                               |
| 31       |                       | Seminars & Meeting Registrations       |                                  | 14,224                      |                            |                               |
| 32       |                       | Software Maintenance                   |                                  | 129,293                     |                            |                               |
| 33       |                       | Telephone/cell Expenses                |                                  | 40,504                      |                            |                               |
| 34       |                       | Training Material                      |                                  | 10,425                      |                            |                               |
| 35       |                       | <b>Total MDU Resources Group, Inc.</b> |                                  | <b>\$5,514,592</b>          | <b>1.1753%</b>             |                               |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services      | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|---------------------------------|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU ENERGY            | MONTANA-DAKOTA UTILITIES CO.    |                                  |                             |                            |                               |
| 2        | CAPITAL 2/            | Customer Serv/Credit & Collect. | 1/ Various Corporate Overhead    |                             |                            |                               |
| 3        |                       | Payroll                         | Allocation Factors, Cost of      | \$16,953                    |                            |                               |
| 4        |                       | Travel                          | Service Factors, Time Studies    | 199                         |                            |                               |
| 5        |                       |                                 | and/or Actual Costs Incurred     |                             |                            |                               |
| 6        |                       |                                 |                                  |                             |                            |                               |
| 7        |                       | Executive Departments           | 1/ Various Corporate Overhead    |                             |                            |                               |
| 8        |                       | Automobile                      | Allocation Factors, Cost of      | 208                         |                            |                               |
| 9        |                       | Contract Services               | Service Factors, Time Studies    | 3,443                       |                            |                               |
| 10       |                       | Employee Benefits               | and/or Actual Costs Incurred     | 2,310                       |                            |                               |
| 11       |                       | Ref Material                    |                                  | 22,760                      |                            |                               |
| 12       |                       | Office Expense                  |                                  | 3,577                       |                            |                               |
| 13       |                       | Payroll                         |                                  | 878,421                     |                            |                               |
| 14       |                       | Travel                          |                                  | 49,490                      |                            |                               |
| 15       |                       |                                 |                                  |                             |                            |                               |
| 16       |                       | Information Systems             |                                  |                             |                            |                               |
| 17       |                       | Payroll                         | 1/ Various Corporate Overhead    | 111,186                     |                            |                               |
| 18       |                       |                                 | Allocation Factors, Cost of      |                             |                            |                               |
| 19       |                       |                                 | Service Factors, Time Studies    |                             |                            |                               |
| 20       |                       |                                 | and/or Actual Costs Incurred     |                             |                            |                               |
| 21       |                       |                                 |                                  |                             |                            |                               |
| 22       |                       | Other Miscellaneous Departments |                                  |                             |                            |                               |
| 23       |                       | Payroll                         | 1/ Various Corporate Overhead    | 40,478                      |                            |                               |
| 24       |                       | Travel                          | Allocation Factors, Cost of      | 1,375                       |                            |                               |
| 25       |                       | Office                          | Service Factors, Time Studies    | 124                         |                            |                               |
| 26       |                       | Employee Benefits               | and/or Actual Costs Incurred     | 638                         |                            |                               |
| 27       |                       |                                 |                                  |                             |                            |                               |
| 28       |                       |                                 |                                  |                             |                            |                               |
| 29       |                       |                                 |                                  |                             |                            |                               |
| 30       |                       |                                 |                                  |                             |                            |                               |



## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services   | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|------------------------------|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU ENERGY            | MONTANA-DAKOTA UTILITIES CO. |                                  |                             |                            |                               |
| 2        | CAPITAL 2/            | Payroll & HR                 |                                  |                             |                            |                               |
| 3        |                       | Employee Benefits            | 1/ Various Corporate Overhead    | \$216                       |                            |                               |
| 4        |                       | Payroll                      | Allocation Factors, Cost of      | 77,845                      |                            |                               |
| 5        |                       | Contract Services            | Service Factors, Time Studies    | 1,855                       |                            |                               |
| 6        |                       | Travel                       | and/or Actual Costs Incurred     | 2,287                       |                            |                               |
| 7        |                       | Office                       |                                  | 803                         |                            |                               |
| 8        |                       |                              |                                  |                             |                            |                               |
| 9        |                       | Other Direct Charges         |                                  |                             |                            |                               |
| 10       |                       | Audit                        | Actual costs incurred            |                             |                            |                               |
| 11       |                       | Bank Fees                    |                                  | 3,555                       |                            |                               |
| 12       |                       | Communications               |                                  | 51,033                      |                            |                               |
| 13       |                       | Computer Equip/Software      |                                  | 111,120                     |                            |                               |
| 14       |                       | Contract Services            |                                  | 267,317                     |                            |                               |
| 15       |                       | Employee Benefits            |                                  | 11,109                      |                            |                               |
| 16       |                       | Filing Fees                  |                                  | 567                         |                            |                               |
| 17       |                       | Industry Dues                |                                  | 228,931                     |                            |                               |
| 18       |                       | Miscellaneous                |                                  | 646                         |                            |                               |
| 19       |                       | Travel                       |                                  | 2,401                       |                            |                               |
| 20       |                       | Vehicle Maintenance          |                                  | 1,271                       |                            |                               |
| 21       |                       |                              |                                  |                             |                            |                               |
| 22       |                       | Intercompany Settlements     | Actual costs incurred            |                             |                            |                               |
| 23       |                       | O&M                          |                                  |                             |                            |                               |
| 24       |                       | Advertising                  |                                  | 6,773                       |                            |                               |
| 25       |                       | Auto                         |                                  | 1,803                       |                            |                               |
| 26       |                       | Contract Services            |                                  | 99,246                      |                            |                               |
| 27       |                       | Cost of Service              |                                  | 1,579,968                   |                            | \$383,727                     |
| 28       |                       | Employee Benefits            |                                  | 58,273                      |                            |                               |
| 29       |                       | Material                     |                                  | 20,427                      |                            |                               |
| 30       |                       | Miscellaneous                |                                  | 58,061                      |                            |                               |
| 31       |                       | Office Expense               |                                  | 415,175                     |                            |                               |
| 32       |                       | Payroll                      |                                  | 9,408,882                   |                            |                               |
| 33       |                       | Supplemental Insurance       |                                  | 220,544                     |                            |                               |
| 34       |                       | Software Maintenance         |                                  | 507,558                     |                            |                               |
| 35       |                       | Travel                       |                                  | 263,625                     |                            |                               |

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services                                  | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|---|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | MDU ENERGY            | MONTANA-DAKOTA UTILITIES CO.                                |                                  |                             |                            |                               |
| 2        | CAPITAL 2/            | Other   | Actual costs incurred            |                             |                            |                               |
| 3        |                       | Audit   |                                  | \$385,485                   |                            |                               |
| 4        |                       | Auto O & M  |                                  |                             |                            |                               |
| 5        |                       | LTIP  |                                  | 449,317                     |                            |                               |
| 6        |                       | MII   |                                  | 241,017                     |                            |                               |
| 7        |                       | Miscellaneous   |                                  | (600)                       |                            |                               |
| 8        |                       | Payflex   |                                  | (39,541)                    |                            |                               |
| 9        |                       | Capital   | Actual costs incurred            |                             |                            |                               |
| 10       |                       | Auto  |                                  | 58                          |                            |                               |
| 11       |                       | Contract Services   |                                  | 1,108,608                   |                            |                               |
| 12       |                       | Material  |                                  | 99,824                      |                            |                               |
| 13       |                       | Office Expense  |                                  | 3,688                       |                            |                               |
| 14       |                       | Payroll   |                                  | 150,464                     |                            |                               |
| 15       |                       | Travel  |                                  | 67,764                      |                            |                               |
| 16       |                       | Utility Group Project Allocation                            |                                  | 9,891,195                   |                            |                               |
| 17       |                       | <b>Total Montana-Dakota Utilities Co.</b>                   |                                  | <b>\$26,889,732</b>         | <b>5.7308%</b>             | <b>\$383,727</b>              |
| 18       |                       | OTHER TRANSACTIONS/REIMBURSEMENTS                           |                                  |                             |                            |                               |
| 19       |                       | Federal & State Tax Liability Payments                      |                                  | (\$3,196,149)               |                            |                               |
| 20       |                       | Miscellaneous Reimbursements                                |                                  | (119,550)                   |                            |                               |
| 21       |                       |   |                                  |                             |                            |                               |
| 22       |                       |   |                                  |                             |                            |                               |
| 23       |                       | <b>Total Other Transactions/Reimbursements</b>              |                                  | <b>(\$3,315,699)</b>        | <b>0.0000%</b>             |                               |
| 24       |                       |   |                                  |                             |                            |                               |
| 25       |                       | <b>Grand Total Affiliate Transactions</b>                   |                                  | <b>\$29,088,626</b>         | <b>6.1994%</b>             | <b>\$383,727</b>              |
| 26       |                       |   |                                  |                             |                            |                               |
| 27       |                       | <b>Total MDU Energy Capital Operating Expenses for 2012</b> |                                  |                             | <b>\$469,218,000</b>       |                               |
| 28       |                       | <b>Excludes Intersegment Eliminations</b>                   |                                  |                             |                            |                               |
| 29       |                       |   |                                  |                             |                            |                               |

**AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY**

Year: 2012

**MDU ENERGY CAPITAL**

1/Corporate overhead allocation factors are derived from the invested capital balance as a percentage of the total corporate invested capital. Montana-Dakota Utilities Co. cost of service amounts are calculated for the general office complex, the printing department, and the budget and forecast system. The general office complex amounts are payroll and floor space costs for employees that perform services for MDU Resources. These include accounts payable, general accounting, fixed asset accounting, and miscellaneous other services. The charges are based on the percentage of system users that are MDU Resources employees. Both the general office complex and amounts for MDU Resources are allocated to affiliated companies based on corporate overhead allocation factors. The printing department amount is allocated to affiliated companies based on the direct printing images processed for them and their percentage of the corporate overhead allocation for the corporate printed image amount.

2/ MDU Energy Capital is the parent company for Cascade Natural Gas Company and Intermountain Gas Company.

## AFFILIATE TRANSACTIONS - PRODUCTS &amp; SERVICES PROVIDED BY UTILITY

Year: 2012

| Line No. | (a)<br>Affiliate Name | (b)<br>Products & Services                | (c)<br>Method to Determine Price | (d)<br>Charges to Affiliate | (e)<br>% Total Affil. Exp. | (f)<br>Revenues to MT Utility |
|----------|-----------------------|---|----------------------------------|-----------------------------|----------------------------|-------------------------------|
| 1        | CENTENNIAL ENERGY     | MONTANA-DAKOTA UTILITIES CO.              |                                  |                             |                            |                               |
| 2        | HOLDING INC           |   |                                  |                             |                            |                               |
| 3        |                       | Other Direct Charges                      | Actual costs incurred            |                             |                            |                               |
| 4        |                       | Audit Costs                               |                                  | \$127,380                   |                            |                               |
| 5        |                       | Dues, Permits, and Filing Fees            |                                  | 125                         |                            |                               |
| 6        |                       | Contract Services                         |                                  | 98,917                      |                            |                               |
| 7        |                       | Bank Fees                                 |                                  | 2,631                       |                            |                               |
| 8        |                       | Miscellaneous                             |                                  | 2,302                       |                            |                               |
| 9        |                       | <b>Total Montana-Dakota Utilities Co.</b> |                                  | <b>\$231,355</b>            |                            |                               |
| 10       |                       |   |                                  |                             |                            |                               |
| 11       |                       | <b>Grand Total Affiliate Transactions</b> |                                  | <b>\$231,355</b>            |                            |                               |
| 12       |                       |   |                                  |                             |                            |                               |
| 13       |                       |   |                                  |                             |                            |                               |
| 14       |                       |   |                                  |                             |                            |                               |

**MONTANA UTILITY INCOME STATEMENT**

Year: 2012

|    | Account Number & Title                               | Last Year           | This Year           | % Change       |
|----|--|---------------------|---------------------|----------------|
| 1  | 400 Operating Revenues                               | \$74,110,974        | \$57,140,765        | -22.90%        |
| 2  |  |                     |                     |                |
| 3  | Operating Expenses                                   |                     |                     |                |
| 4  | 401 Operation Expenses                               | \$62,625,234        | \$47,269,090        | -24.52%        |
| 5  | 402 Maintenance Expense                              | 979,108             | 992,634             | 1.38%          |
| 6  | 403 Depreciation Expense                             | 2,900,311           | 3,035,027           | 4.64%          |
| 7  | 404-405 Amort. & Depl. of Gas Plant                  | 110,987             | 83,664              | -24.62%        |
| 8  | 406 Amort. of Gas Plant Acquisition Adjustments      |                     |                     |                |
| 9  | 407.1 Amort. of Property Losses, Unrecovered Plant   |                     |                     |                |
| 10 | & Regulatory Study Costs                             |                     |                     |                |
| 11 | 407.2 Amort. of Conversion Expense                   |                     |                     |                |
| 12 | 408.1 Taxes Other Than Income Taxes                  | 3,308,019           | 3,739,200           | 13.03%         |
| 13 | 409.1 Income Taxes - Federal                         | (2,219,553)         | (3,155,052)         | -42.15%        |
| 14 | - Other  | (710,633)           | (759,073)           | -6.82%         |
| 15 | 410.1 Provision for Deferred Income Taxes            | 3,034,219           | 3,686,970           | 21.51%         |
| 16 | 411.1 (Less) Provision for Def. Inc. Taxes - Cr.     | 454,982             | 518,119             | 13.88%         |
| 17 | 411.4 Investment Tax Credit Adjustments              |                     |                     |                |
| 18 | 411.6 (Less) Gains from Disposition of Utility Plant |                     |                     |                |
| 19 | 411.7 Losses from Disposition of Utility Plant       |                     |                     |                |
| 20 | <b>TOTAL Utility Operating Expenses</b>              | <b>\$70,482,674</b> | <b>\$55,410,579</b> | <b>-21.38%</b> |
| 21 | <b>NET UTILITY OPERATING INCOME</b>                  | <b>\$3,628,300</b>  | <b>\$1,730,186</b>  | <b>-52.31%</b> |

**MONTANA REVENUES**

SCHEDULE 9

|    | Account Number & Title                           | Last Year           | This Year           | % Change       |
|----|--|---------------------|---------------------|----------------|
| 1  | Sales of Gas                                     |                     |                     |                |
| 2  | 480 Residential                                  | \$45,522,909        | \$33,696,141        | -25.98%        |
| 3  | 481 Commercial & Industrial - Small              | 28,100,036          | 20,558,739          | -26.84%        |
| 4  | Commercial & Industrial - Large                  | 107,192             | 17,112              | -84.04%        |
| 5  | 482 Other Sales to Public Authorities            |                     |                     |                |
| 6  | 484 Interdepartmental Sales                      |                     |                     |                |
| 7  | 485 Intracompany Transfers                       |                     |                     |                |
| 8  | Net Unbilled Revenue                             | (1,240,879)         | 1,275,810           | 202.82%        |
| 9  | <b>TOTAL Sales to Ultimate Consumers</b>         | <b>72,489,258</b>   | <b>55,547,802</b>   | <b>-23.37%</b> |
| 10 | 483 Sales for Resale                             |                     |                     |                |
| 11 | <b>TOTAL Sales of Gas</b>                        | <b>\$72,489,258</b> | <b>\$55,547,802</b> | <b>-23.37%</b> |
| 12 | Other Operating Revenues                         |                     |                     |                |
| 13 | 487 Forfeited Discounts & Late Payment Revenues  |                     |                     |                |
| 14 | 488 Miscellaneous Service Revenues               | \$45,335            | \$35,818            | -20.99%        |
| 15 | 489 Revenues from Transp. of Gas for Others 1/   | 1,252,889           | 1,217,426           | -2.83%         |
| 16 | 490 Sales of Products Extracted from Natural Gas |                     |                     |                |
| 17 | 491 Revenues from Nat. Gas Processed by Others   |                     |                     |                |
| 18 | 492 Incidental Gasoline & Oil Sales              |                     |                     |                |
| 19 | 493 Rent From Gas Property                       | 244,710             | 305,639             | 24.90%         |
| 20 | 494 Interdepartmental Rents                      |                     |                     |                |
| 21 | 495 Other Gas Revenues                           | 78,782              | 34,080              | -56.74%        |
| 22 | <b>TOTAL Other Operating Revenues</b>            | <b>1,621,716</b>    | <b>1,592,963</b>    | <b>-1.77%</b>  |
| 23 | <b>Total Gas Operating Revenues</b>              | <b>\$74,110,974</b> | <b>\$57,140,765</b> | <b>-22.90%</b> |
| 24 |  |                     |                     |                |
| 25 | 496 (Less) Provision for Rate Refunds            |                     |                     |                |
| 26 |  |                     |                     |                |
| 27 | <b>TOTAL Oper. Revs. Net of Pro. for Refunds</b> | <b>\$74,110,974</b> | <b>\$57,140,765</b> | <b>-22.90%</b> |

**MONTANA OPERATION & MAINTENANCE EXPENSES**

Year: 2012

| Account Number & Title |   | Last Year | This Year | % Change |
|------------------------|---|-----------|-----------|----------|
| 1                      | <b>Production Expenses</b>                          |           |           |          |
| 2                      | Production & Gathering - Operation                  |           |           |          |
| 3                      | 750 Operation Supervision & Engineering             |           |           |          |
| 4                      | 751 Production Maps & Records                       |           |           |          |
| 5                      | 752 Gas Wells Expenses                              |           |           |          |
| 6                      | 753 Field Lines Expenses                            |           |           |          |
| 7                      | 754 Field Compressor Station Expenses               | \$185,343 | \$156,221 | -15.71%  |
| 8                      | 755 Field Compressor Station Fuel & Power           |           |           |          |
| 9                      | 756 Field Measuring & Regulating Station Expense    |           |           |          |
| 10                     | 757 Purification Expenses                           |           |           |          |
| 11                     | 758 Gas Well Royalties                              |           |           |          |
| 12                     | 759 Other Expenses                                  |           |           |          |
| 13                     | 760 Rents   |           |           |          |
| 14                     | <b>Total Operation - Natural Gas Production</b>     | \$185,343 | \$156,221 | -15.71%  |
| 15                     | Production & Gathering - Maintenance                |           |           |          |
| 16                     | 761 Maintenance Supervision & Engineering           |           |           |          |
| 17                     | 762 Maintenance of Structures & Improvements        |           |           |          |
| 18                     | 763 Maintenance of Producing Gas Wells              |           |           |          |
| 19                     | 764 Maintenance of Field Lines                      |           |           |          |
| 20                     | 765 Maintenance of Field Compressor Sta. Equip.     | \$3,215   | \$20,740  | 545.10%  |
| 21                     | 766 Maintenance of Field Meas. & Reg. Sta. Equip.   |           |           |          |
| 22                     | 767 Maintenance of Purification Equipment           |           |           |          |
| 23                     | 768 Maintenance of Drilling & Cleaning Equip.       |           |           |          |
| 24                     | 769 Maintenance of Other Equipment                  |           |           |          |
| 25                     | <b>Total Maintenance- Natural Gas Prod.</b>         | \$3,215   | \$20,740  | 545.10%  |
| 26                     | <b>TOTAL Natural Gas Production &amp; Gathering</b> | \$188,558 | \$176,961 | -6.15%   |
| 27                     | Products Extraction - Operation                     |           |           |          |
| 28                     | 770 Operation Supervision & Engineering             |           |           |          |
| 29                     | 771 Operation Labor                                 |           |           |          |
| 30                     | 772 Gas Shrinkage                                   |           |           |          |
| 31                     | 773 Fuel  |           |           |          |
| 32                     | 774 Power   |           |           |          |
| 33                     | 775 Materials                                       |           |           |          |
| 34                     | 776 Operation Supplies & Expenses                   |           |           |          |
| 35                     | 777 Gas Processed by Others                         |           |           |          |
| 36                     | 778 Royalties on Products Extracted                 |           |           |          |
| 37                     | 779 Marketing Expenses                              |           |           |          |
| 38                     | 780 Products Purchased for Resale                   |           |           |          |
| 39                     | 781 Variation in Products Inventory                 |           |           |          |
| 40                     | 782 (Less) Extracted Products Used by Utility - Cr. |           |           |          |
| 41                     | 783 Rents   |           |           |          |
| 42                     | <b>Total Operation - Products Extraction</b>        |           |           |          |
| 43                     | Products Extraction - Maintenance                   |           |           |          |
| 44                     | 784 Maintenance Supervision & Engineering           |           |           |          |
| 45                     | 785 Maintenance of Structures & Improvements        |           |           |          |
| 46                     | 786 Maintenance of Extraction & Refining Equip.     |           |           |          |
| 47                     | 787 Maintenance of Pipe Lines                       |           |           |          |
| 48                     | 788 Maintenance of Extracted Prod. Storage Equip.   |           |           |          |
| 49                     | 789 Maintenance of Compressor Equipment             |           |           |          |
| 50                     | 790 Maintenance of Gas Meas. & Reg. Equip.          |           |           |          |
| 51                     | 791 Maintenance of Other Equipment                  |           |           |          |
| 52                     | <b>Total Maintenance - Products Extraction</b>      |           |           |          |
| 53                     | <b>TOTAL Products Extraction</b>                    |           |           |          |

**MONTANA OPERATION & MAINTENANCE EXPENSES**

Year: 2012

| Account Number & Title |  | Last Year    | This Year    | % Change |
|------------------------|--|--------------|--------------|----------|
| 1                      | <b>Production Expenses - continued</b>                 |              |              |          |
| 2                      |  |              |              |          |
| 3                      | Exploration & Development - Operation                  |              |              |          |
| 4                      | 795 Delay Rentals                                      |              |              |          |
| 5                      | 796 Nonproductive Well Drilling                        |              |              |          |
| 6                      | 797 Abandoned Leases                                   |              |              |          |
| 7                      | 798 Other Exploration                                  |              |              |          |
| 8                      | <b>TOTAL Exploration &amp; Development</b>             |              |              |          |
| 9                      |  |              |              |          |
| 10                     | Other Gas Supply Expenses - Operation                  |              |              |          |
| 11                     | 800 Natural Gas Wellhead Purchases                     |              |              |          |
| 12                     | 800.1 Nat. Gas Wellhead Purch., Intracomp. Trans.      |              |              |          |
| 13                     | 801 Natural Gas Field Line Purchases                   |              |              |          |
| 14                     | 802 Natural Gas Gasoline Plant Outlet Purchases        |              |              |          |
| 15                     | 803 Natural Gas Transmission Line Purchases            |              |              |          |
| 16                     | 804 Natural Gas City Gate Purchases                    | \$54,043,985 | \$36,827,168 | -31.86%  |
| 17                     | 805 Other Gas Purchases                                |              |              |          |
| 18                     | 805.1 Purchased Gas Cost Adjustments                   | 52,393       | (78,765)     | -250.33% |
| 19                     | 805.2 Incremental Gas Cost Adjustments                 |              |              |          |
| 20                     | 806 Exchange Gas                                       |              |              |          |
| 21                     | 807.1 Well Expenses - Purchased Gas                    |              |              |          |
| 22                     | 807.2 Operation of Purch. Gas Measuring Stations       |              |              |          |
| 23                     | 807.3 Maintenance of Purch. Gas Measuring Stations     |              |              |          |
| 24                     | 807.4 Purchased Gas Calculations Expenses              |              |              |          |
| 25                     | 807.5 Other Purchased Gas Expenses                     |              |              |          |
| 26                     | 808.1 Gas Withdrawn from Storage -Dr.                  | 11,534,089   | 8,186,798    | -29.02%  |
| 27                     | 808.2 (Less) Gas Delivered to Storage -Cr.             | (12,895,437) | (7,319,544)  | 43.24%   |
| 28                     | 809.2 (Less) Deliveries of Nat. Gas for Processing-Cr. |              |              |          |
| 29                     | 810 (Less) Gas Used for Compressor Sta. Fuel-Cr.       |              |              |          |
| 30                     | 811 (Less) Gas Used for Products Extraction-Cr.        |              |              |          |
| 31                     | 812 (Less) Gas Used for Other Utility Operations-Cr.   |              |              |          |
| 32                     | 813 Other Gas Supply Expenses                          | 73,609       | 76,295       | 3.65%    |
| 33                     | <b>TOTAL Other Gas Supply Expenses</b>                 | \$52,808,639 | \$37,691,952 | -28.63%  |
| 34                     |  |              |              |          |
| 35                     | <b>TOTAL PRODUCTION EXPENSES</b>                       | \$52,997,197 | \$37,868,913 | -28.55%  |

**MONTANA OPERATION & MAINTENANCE EXPENSES**

Year: 2012

| Account Number & Title |   | Last Year | This Year | % Change |
|------------------------|---|-----------|-----------|----------|
| 1                      | <b>Storage, Terminaling &amp; Processing Expenses</b> |           |           |          |
| 2                      |   |           |           |          |
| 3                      | Underground Storage Expenses - Operation              |           |           |          |
| 4                      | 814 Operation Supervision & Engineering               |           |           |          |
| 5                      | 815 Maps & Records                                    |           |           |          |
| 6                      | 816 Wells Expenses                                    |           |           |          |
| 7                      | 817 Lines Expenses                                    |           |           |          |
| 8                      | 818 Compressor Station Expenses                       |           |           |          |
| 9                      | 819 Compressor Station Fuel & Power                   |           |           |          |
| 10                     | 820 Measuring & Reg. Station Expenses                 |           |           |          |
| 11                     | 821 Purification Expenses                             |           |           |          |
| 12                     | 822 Exploration & Development                         |           |           |          |
| 13                     | 823 Gas Losses  |           |           |          |
| 14                     | 824 Other Expenses                                    |           |           |          |
| 15                     | 825 Storage Well Royalties                            |           |           |          |
| 16                     | 826 Rents   |           |           |          |
| 17                     | <b>Total Operation - Underground Strg. Exp.</b>       |           |           |          |
| 18                     |   |           |           |          |
| 19                     | Underground Storage Expenses - Maintenance            |           |           |          |
| 20                     | 830 Maintenance Supervision & Engineering             |           |           |          |
| 21                     | 831 Maintenance of Structures & Improvements          |           |           |          |
| 22                     | 832 Maintenance of Reservoirs & Wells                 |           |           |          |
| 23                     | 833 Maintenance of Lines                              |           |           |          |
| 24                     | 834 Maintenance of Compressor Station Equip.          |           |           |          |
| 25                     | 835 Maintenance of Meas. & Reg. Sta. Equip.           |           |           |          |
| 26                     | 836 Maintenance of Purification Equipment             |           |           |          |
| 27                     | 837 Maintenance of Other Equipment                    |           |           |          |
| 28                     | <b>Total Maintenance - Underground Storage</b>        |           |           |          |
| 29                     | <b>TOTAL Underground Storage Expenses</b>             |           |           |          |
| 30                     |   |           |           |          |
| 31                     | Other Storage Expenses - Operation                    |           |           |          |
| 32                     | 840 Operation Supervision & Engineering               |           |           |          |
| 33                     | 841 Operation Labor and Expenses                      |           |           |          |
| 34                     | 842 Rents   |           |           |          |
| 35                     | 842.1 Fuel  |           |           |          |
| 36                     | 842.2 Power   |           |           |          |
| 37                     | 842.3 Gas Losses                                      |           |           |          |
| 38                     | <b>Total Operation - Other Storage Expenses</b>       |           |           |          |
| 39                     |   |           |           |          |
| 40                     | Other Storage Expenses - Maintenance                  |           |           |          |
| 41                     | 843.1 Maintenance Supervision & Engineering           |           |           |          |
| 42                     | 843.2 Maintenance of Structures & Improvements        |           |           |          |
| 43                     | 843.3 Maintenance of Gas Holders                      |           |           |          |
| 44                     | 843.4 Maintenance of Purification Equipment           |           |           |          |
| 45                     | 843.6 Maintenance of Vaporizing Equipment             |           |           |          |
| 46                     | 843.7 Maintenance of Compressor Equipment             |           |           |          |
| 47                     | 843.8 Maintenance of Measuring & Reg. Equipment       |           |           |          |
| 48                     | 843.9 Maintenance of Other Equipment                  |           |           |          |
| 49                     | <b>Total Maintenance - Other Storage Exp.</b>         |           |           |          |
| 50                     | <b>TOTAL - Other Storage Expenses</b>                 |           |           |          |
| 51                     |   |           |           |          |
| 52                     | <b>TOTAL - STORAGE, TERMINALING &amp; PROC.</b>       |           |           |          |



**MONTANA OPERATION & MAINTENANCE EXPENSES**

Year: 2012

| Account Number & Title |  | Last Year   | This Year   | % Change |
|------------------------|--|-------------|-------------|----------|
| 1                      | <b>Transmission Expenses</b>                     |             |             |          |
| 2                      | Operation  |             |             |          |
| 3                      | 850 Operation Supervision & Engineering          |             |             |          |
| 4                      | 851 System Control & Load Dispatching            |             |             |          |
| 5                      | 852 Communications System Expenses               |             |             |          |
| 6                      | 853 Compressor Station Labor & Expenses          |             |             |          |
| 7                      | 854 Gas for Compressor Station Fuel              |             |             |          |
| 8                      | 855 Other Fuel & Power for Compressor Stations   |             |             |          |
| 9                      | 856 Mains Expenses                               |             |             |          |
| 10                     | 857 Measuring & Regulating Station Expenses      |             |             |          |
| 11                     | 858 Transmission & Compression of Gas by Others  |             |             |          |
| 12                     | 859 Other Expenses                               |             |             |          |
| 13                     | 860 Rents  |             |             |          |
| 14                     | <b>Total Operation - Transmission</b>            |             |             |          |
| 15                     | Maintenance                                      |             |             |          |
| 16                     | 861 Maintenance Supervision & Engineering        |             |             |          |
| 17                     | 862 Maintenance of Structures & Improvements     |             |             |          |
| 18                     | 863 Maintenance of Mains                         |             |             |          |
| 19                     | 864 Maintenance of Compressor Station Equip.     |             |             |          |
| 20                     | 865 Maintenance of Measuring & Reg. Sta. Equip.  |             |             |          |
| 21                     | 866 Maintenance of Communication Equipment       |             |             |          |
| 22                     | 867 Maintenance of Other Equipment               |             |             |          |
| 23                     | <b>Total Maintenance - Transmission</b>          |             |             |          |
| 24                     | <b>TOTAL Transmission Expenses</b>               |             |             |          |
| 25                     | <b>Distribution Expenses</b>                     |             |             |          |
| 26                     | Operation  |             |             |          |
| 27                     | 870 Operation Supervision & Engineering          | \$514,850   | \$597,182   | 15.99%   |
| 28                     | 871 Distribution Load Dispatching                | 74,482      | 65,818      | -11.63%  |
| 29                     | 872 Compressor Station Labor and Expenses        |             |             |          |
| 30                     | 873 Compressor Station Fuel and Power            |             |             |          |
| 31                     | 874 Mains and Services Expenses                  | 1,138,366   | 1,174,264   | 3.15%    |
| 32                     | 875 Measuring & Reg. Station Exp.-General        | 34,815      | 64,146      | 84.25%   |
| 33                     | 876 Measuring & Reg. Station Exp.-Industrial     | 14,521      | 13,679      | -5.80%   |
| 34                     | 877 Meas. & Reg. Station Exp.-City Gate Ck. Sta. |             |             |          |
| 35                     | 878 Meter & House Regulator Expenses             | 267,551     | 200,783     | -24.96%  |
| 36                     | 879 Customer Installations Expenses              | 538,992     | 547,552     | 1.59%    |
| 37                     | 880 Other Expenses                               | 832,223     | 890,276     | 6.98%    |
| 38                     | 881 Rents  | 33,379      | 36,302      | 8.76%    |
| 39                     | <b>Total Operation - Distribution</b>            | \$3,449,179 | \$3,590,002 | 4.08%    |
| 40                     | Maintenance                                      |             |             |          |
| 41                     | 885 Maintenance Supervision & Engineering        | \$130,671   | \$151,297   | 15.78%   |
| 42                     | 886 Maintenance of Structures & Improvements     | 1,179       | 3,931       | 233.42%  |
| 43                     | 887 Maintenance of Mains                         | 138,093     | 119,448     | -13.50%  |
| 44                     | 888 Maint. of Compressor Station Equipment       |             |             |          |
| 45                     | 889 Maint. of Meas. & Reg. Station Exp.-General  | 28,158      | 36,677      | 30.25%   |
| 46                     | 890 Maint. of Meas. & Reg. Sta. Exp.-Industrial  | 15,721      | 34,414      | 118.90%  |
| 47                     | 891 Maint. of Meas. & Reg. Sta. Equip.-City Gate |             |             |          |
| 48                     | 892 Maintenance of Services                      | 155,111     | 150,970     | -2.67%   |
| 49                     | 893 Maintenance of Meters & House Regulators     | 284,028     | 255,323     | -10.11%  |
| 50                     | 894 Maintenance of Other Equipment               | 120,738     | 135,242     | 12.01%   |
| 51                     | <b>Total Maintenance - Distribution</b>          | \$873,699   | \$887,302   | 1.56%    |
| 52                     | <b>TOTAL Distribution Expenses</b>               | \$4,322,878 | \$4,477,304 | 3.57%    |

**MONTANA OPERATION & MAINTENANCE EXPENSES**

Year: 2012

| Account Number & Title |  | Last Year           | This Year           | % Change       |
|------------------------|--|---------------------|---------------------|----------------|
| 1                      |  |                     |                     |                |
| 2                      | <b>Customer Accounts Expenses</b>                    |                     |                     |                |
| 3                      | Operation  |                     |                     |                |
| 4                      | 901 Supervision                                      | \$96,853            | \$71,047            | -26.64%        |
| 5                      | 902 Meter Reading Expenses                           | 230,640             | 222,383             | -3.58%         |
| 6                      | 903 Customer Records & Collection Expenses           | 1,376,127           | 1,261,984           | -8.29%         |
| 7                      | 904 Uncollectible Accounts Expenses                  | 173,361             | 120,753             | -30.35%        |
| 8                      | 905 Miscellaneous Customer Accounts Expenses         | 71,102              | 92,422              | 29.99%         |
| 9                      |  |                     |                     |                |
| 10                     | <b>TOTAL Customer Accounts Expenses</b>              | <b>\$1,948,083</b>  | <b>\$1,768,589</b>  | <b>-9.21%</b>  |
| 11                     |  |                     |                     |                |
| 12                     | <b>Customer Service &amp; Informational Expenses</b> |                     |                     |                |
| 13                     | Operation  |                     |                     |                |
| 14                     | 907 Supervision                                      | \$28,530            | \$27,261            | -4.45%         |
| 15                     | 908 Customer Assistance Expenses                     | 11,125              | 22,466              | 101.94%        |
| 16                     | 909 Informational & Instructional Advertising Exp.   | 29,420              | 60,037              | 104.07%        |
| 17                     | 910 Miscellaneous Customer Service & Info. Exp.      | 20,025              | (616)               | -103.08%       |
| 18                     |  |                     |                     |                |
| 19                     | <b>TOTAL Customer Service &amp; Info. Expenses</b>   | <b>\$89,100</b>     | <b>\$109,148</b>    | <b>22.50%</b>  |
| 20                     |  |                     |                     |                |
| 21                     | <b>Sales Expenses</b>                                |                     |                     |                |
| 22                     | Operation  |                     |                     |                |
| 23                     | 911 Supervision                                      | \$22,825            | \$2,363             | -89.65%        |
| 24                     | 912 Demonstrating & Selling Expenses                 | 72,732              | 76,825              | 5.63%          |
| 25                     | 913 Advertising Expenses                             | 12,258              | 18,845              | 53.74%         |
| 26                     | 916 Miscellaneous Sales Expenses                     | 11,758              | 8,257               | -29.78%        |
| 27                     |  |                     |                     |                |
| 28                     | <b>TOTAL Sales Expenses</b>                          | <b>\$119,573</b>    | <b>\$106,290</b>    | <b>-11.11%</b> |
| 29                     |  |                     |                     |                |
| 30                     | <b>Administrative &amp; General Expenses</b>         |                     |                     |                |
| 31                     | Operation  |                     |                     |                |
| 32                     | 920 Administrative & General Salaries                | \$956,138           | \$1,006,618         | 5.28%          |
| 33                     | 921 Office Supplies & Expenses                       | 548,659             | 578,505             | 5.44%          |
| 34                     | 922 (Less) Administrative Expenses Transferred - Cr. |                     |                     |                |
| 35                     | 923 Outside Services Employed                        | 123,948             | 89,098              | -28.12%        |
| 36                     | 924 Property Insurance                               | 80,637              | 108,557             | 34.62%         |
| 37                     | 925 Injuries & Damages                               | 263,668             | 350,715             | 33.01%         |
| 38                     | 926 Employee Pensions & Benefits                     | 1,837,400           | 1,510,262           | -17.80%        |
| 39                     | 927 Franchise Requirements                           |                     |                     |                |
| 40                     | 928 Regulatory Commission Expenses                   | 1,742               | 15,422              | 785.30%        |
| 41                     | 929 (Less) Duplicate Charges - Cr.                   |                     |                     |                |
| 42                     | 930.1 General Advertising Expenses                   | 18,504              | 12,737              | -31.17%        |
| 43                     | 930.2 Miscellaneous General Expenses                 | 78,885              | 78,763              | -0.15%         |
| 44                     | 931 Rents  | 115,735             | 96,212              | -16.87%        |
| 45                     |  |                     |                     |                |
| 46                     | <b>TOTAL Operation - Admin. &amp; General</b>        | <b>\$4,025,316</b>  | <b>\$3,846,889</b>  | <b>-4.43%</b>  |
| 47                     | Maintenance  |                     |                     |                |
| 48                     | 935 Maintenance of General Plant                     | \$102,194           | \$84,592            | -17.22%        |
| 49                     |  |                     |                     |                |
| 50                     | <b>TOTAL Administrative &amp; General Expenses</b>   | <b>\$4,127,510</b>  | <b>\$3,931,481</b>  | <b>-4.75%</b>  |
| 51                     | <b>TOTAL OPERATION &amp; MAINTENANCE EXP.</b>        | <b>\$63,604,342</b> | <b>\$48,261,725</b> | <b>-24.12%</b> |

**MONTANA TAXES OTHER THAN INCOME**

Year: 2012

|    | Description of Tax                      | Last Year          | This Year          | % Change      |
|----|---|--------------------|--------------------|---------------|
| 1  | Payroll Taxes                           | \$428,471          | \$421,463          | -1.64%        |
| 2  | Secretary of State                      | 286                | 338                | 18.18%        |
| 3  | Highway Use Tax                         | 210                | 255                | 21.43%        |
| 4  | Montana Consumer Counsel                | 83,064             | 58,693             | -29.34%       |
| 5  | Montana PSC                             | 272,846            | 113,885            | -58.26%       |
| 6  | Delaware Franchise Taxes                | 19,066             | 19,515             | 2.35%         |
| 7  | Property Taxes                          | 2,497,882          | 3,117,319          | 24.80%        |
| 8  | Tribal Taxes                            | 6,194              | 7,732              | 24.83%        |
| 9  |   |                    |                    |               |
| 10 |   |                    |                    |               |
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| 45 |   |                    |                    |               |
| 46 |   |                    |                    |               |
| 47 |   |                    |                    |               |
| 48 |   |                    |                    |               |
| 49 |   |                    |                    |               |
| 50 | <b>TOTAL MT Taxes other than Income</b> | <b>\$3,308,019</b> | <b>\$3,739,200</b> | <b>13.03%</b> |

**PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES - GAS**

Year: 2012

|    | Name of Recipient               | Nature of Service                           | Total Company | Montana | % Montana |
|----|---------------------------------|---|---------------|---------|-----------|
| 1  | AFPI                            | Annual Report Preparation                   | \$133,075     | \$2,274 | 1.71%     |
| 2  |                                 |   |               |         |           |
| 3  | Agri Industries Inc             | Pipeline Install, Directional Drilling      | 253,254       | 5,870   | 2.32%     |
| 4  |                                 |   |               |         |           |
| 5  | American Gas Association        | Industrial Membership                       | 80,170        | 19,723  | 24.60%    |
| 6  |                                 |   |               |         |           |
| 7  | Arvig Construction              | Pipeline Install, Directional Drilling      | 1,269,221     |         | 0.00%     |
| 8  |                                 |   |               |         |           |
| 9  | Automotive Rentals Inc          | Auto Purchases & Services                   | 99,984        | 880     | 0.88%     |
| 10 |                                 |   |               |         |           |
| 11 | Avery Pipeline Services         | Contractor Services - Pipeline Install      | 173,544       |         | 0.00%     |
| 12 |                                 |   |               |         |           |
| 13 | B&H Contracting and Mobile      | Contractor Services                         | 111,327       |         | 0.00%     |
| 14 | Washing Inc.                    |   |               |         |           |
| 15 | Back Country Spraying Inc       | Contract Services - Weed Spraying           | 86,445        | 3,228   | 3.73%     |
| 16 |                                 |   |               |         |           |
| 17 | Barr Engineering Inc            | Engineering Services                        | 232,211       |         | 0.00%     |
| 18 |                                 |   |               |         |           |
| 19 | Benco Equipment Co              | Vehicle Maintenance                         | 243,538       | 416     | 0.17%     |
| 20 |                                 |   |               |         |           |
| 21 | Blue Heron Consulting           | Consulting Services                         | 1,503,967     | 4,847   | 0.32%     |
| 22 |                                 |   |               |         |           |
| 23 | Borsheim Crane Service          | Crane & Truck Rental                        | 132,170       |         | 0.00%     |
| 24 |                                 |   |               |         |           |
| 25 | Brink Construction Inc          | Contractor Services - Electric Line Install | 2,312,906     |         | 0.00%     |
| 26 |                                 |   |               |         |           |
| 27 | Broadridge                      | Contract Services                           | 79,250        | 1,354   | 1.71%     |
| 28 |                                 |   |               |         |           |
| 29 | Broadridge Services             | Contract Services - Turbines                | 242,928       |         | 0.00%     |
| 30 |                                 |   |               |         |           |
| 31 | Broadridge Services, LLC        | Contract Services - Turbines                | 300,157       |         | 0.00%     |
| 32 |                                 |   |               |         |           |
| 33 | Bullinger Tree Service          | Tree Trimming                               | 358,146       |         | 0.00%     |
| 34 |                                 |   |               |         |           |
| 35 | CA Contracting Inc              | Contract Services                           | 988,000       |         | 0.00%     |
| 36 |                                 |   |               |         |           |
| 37 | Central Trenching Inc           | Contract Services - Trenching               | 704,043       |         | 0.00%     |
| 38 |                                 |   |               |         |           |
| 39 | CGI Technologies and Solutions  | Consulting Services - PragmaCAD             | 246,258       | 28,141  | 11.43%    |
| 40 | Inc.                            |   |               |         |           |
| 41 | Chief Construction              | Construction Services                       | 1,170,571     |         | 0.00%     |
| 42 |                                 |   |               |         |           |
| 43 | Cisco Systems Capital Corp      | Software Maintenance                        | 121,382       | 2,457   | 2.02%     |
| 44 |                                 |   |               |         |           |
| 45 | Cleary Building Corporation     | Contractor - Pierre Building                | 190,000       |         | 0.00%     |
| 46 |                                 |   |               |         |           |
| 47 | Cohen Tauber Speivack &         | Legal Services                              | 246,136       | 4,180   | 1.70%     |
| 48 | Wagner, PC                      |   |               |         |           |
| 49 | Concentric Energy Advisors, Inc | Consulting Services                         | 95,593        |         | 0.00%     |
| 50 |                                 |   |               |         |           |

## PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES - GAS

Year: 2012

|    | Name of Recipient               | Nature of Service                         | Total Company | Montana | % Montana |
|----|---------------------------------|---|---------------|---------|-----------|
| 1  | Connecting Point                | Computer Services & Software Maint.       | \$164,926     | \$4,203 | 2.55%     |
| 2  |                                 |   |               |         |           |
| 3  | Dakota Tree Service             | Tree Trimming                             | 410,750       |         | 0.00%     |
| 4  |                                 |   |               |         |           |
| 5  | Dayton Jackson Excavating LLC   | Gas & Electric Line Install - Directional | 220,509       |         | 0.00%     |
| 6  |                                 | Boring                                    |               |         |           |
| 7  | Dell Marketing L.P.             | Software Maintenance                      | 82,524        | 3,180   | 3.85%     |
| 8  |                                 |   |               |         |           |
| 9  | Deloitte & Touche LLP           | Auditing & Consulting Services            | 920,294       | 23,669  | 2.57%     |
| 10 |                                 |   |               |         |           |
| 11 | Denny's Electric Motor Repair   | Line Installation - Boring                | 142,059       | 11,417  | 8.04%     |
| 12 |                                 |   |               |         |           |
| 13 | Dewey & LeBoeuf                 | Legal Services                            | 471,550       | 8,054   | 1.71%     |
| 14 |                                 |   |               |         |           |
| 15 | Danovan Lawncare Services LLC   | Landscaping Services                      | 92,816        | 6       | 0.01%     |
| 16 |                                 |   |               |         |           |
| 17 | Duane Morris, LLP               | Legal Services                            | 185,722       | 3,127   | 1.68%     |
| 18 |                                 |   |               |         |           |
| 19 | Edison Electric Institute       | Industrial Membership                     | 102,407       | 3,514   | 3.43%     |
| 20 |                                 |   |               |         |           |
| 21 | Edling Electric Inc             | Contractor Services                       | 158,060       | 125     | 0.08%     |
| 22 |                                 |   |               |         |           |
| 23 | Eide Ford Mercury Lincoln Inc.  | Auto Maintenance                          | 89,092        |         | 0.00%     |
| 24 |                                 |   |               |         |           |
| 25 | EP2M                            | Consulting Services                       | 2,504,561     | 500,055 | 19.97%    |
| 26 |                                 |   |               |         |           |
| 27 | Ernst & Young LLP               | Tax Services                              | 81,290        | 3,571   | 4.39%     |
| 28 |                                 |   |               |         |           |
| 29 | ESRI                            | Consulting Services                       | 80,418        | 3,893   | 4.84%     |
| 30 |                                 |   |               |         |           |
| 31 | ETI Ewer Testing & Inspection   | Pipeline Inspection                       | 78,032        |         | 0.00%     |
| 32 |                                 |   |               |         |           |
| 33 | Fischer Contracting             | Construction Services - Gas               | 480,573       |         | 0.00%     |
| 34 |                                 |   |               |         |           |
| 35 | Forrester, Gary                 | Lobbying & Promotion                      | 110,926       | 1,880   | 1.69%     |
| 36 |                                 |   |               |         |           |
| 37 | Franz Construction Inc          | Contractor Services - Power Plant         | 174,368       |         | 0.00%     |
| 38 |                                 |   |               |         |           |
| 39 | GE International, Inc.          | Contractor Services - Power Plant         | 404,783       |         | 0.00%     |
| 40 |                                 |   |               |         |           |
| 41 | Great Plains Technical Services | Contractor Services - Power Plant         | 123,144       |         | 0.00%     |
| 42 |                                 |   |               |         |           |
| 43 | Gustafson & Goudge Inc          | Contract Services - Substations           | 100,010       |         | 0.00%     |
| 44 |                                 |   |               |         |           |
| 45 | HDR Engineering, Inc            | Engineering Services                      | 932,149       |         | 0.00%     |
| 46 |                                 |   |               |         |           |
| 47 | HDR Inc.                        | Engineering Services                      | 159,118       |         | 0.00%     |
| 48 |                                 |   |               |         |           |
| 49 | Hico America Sales Tech, Inc.   | Transformer Installation                  | 210,750       |         | 0.00%     |
| 50 |                                 |   |               |         |           |

## PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES - GAS

Year: 2012

|    | Name of Recipient              | Nature of Service                 | Total Company | Montana | % Montana |
|----|--------------------------------|-----------------------------------|---------------|---------|-----------|
| 1  | High Voltage, Inc.             | Contractor Services               | \$1,289,595   |         | 0.00%     |
| 2  |                                |                                   |               |         |           |
| 3  | Highmark, Inc                  | Contractor Services               | 2,152,874     |         | 0.00%     |
| 4  |                                |                                   |               |         |           |
| 5  | Hillerud Construction Inc      | Construction Services - Warehouse | 153,526       |         | 0.00%     |
| 6  |                                | Remodel                           |               |         |           |
| 7  | Hogan Lovells US, LLP          | Legal Services                    | 76,203        |         | 0.00%     |
| 8  |                                |                                   |               |         |           |
| 9  | Hoeneywell Industry Solutions  | Equipment Installation            | 96,515        |         | 0.00%     |
| 10 |                                |                                   |               |         |           |
| 11 | Houston Engineering, Inc.      | Engineering Services              | 279,417       |         | 0.00%     |
| 12 |                                |                                   |               |         |           |
| 13 | Hulsing & Associates           | Architect Services                | 329,007       |         | 0.00%     |
| 14 |                                |                                   |               |         |           |
| 15 | Industrial Builders            | Contractor Services               | 451,812       |         | 0.00%     |
| 16 |                                |                                   |               |         |           |
| 17 | Industrial Contractors         | Contractor Services - Power Plant | 768,515       |         | 0.00%     |
| 18 |                                |                                   |               |         |           |
| 19 | Infrasource                    | Underground Gas line Installation | 4,596,396     |         | 0.00%     |
| 20 |                                |                                   |               |         |           |
| 21 | Intermountain Tree Expert      | Tree Trimming Services            | 140,876       |         | 0.00%     |
| 22 |                                |                                   |               |         |           |
| 23 | Itron Inc                      | Contractor Serv & Software Maint. | 267,133       | 42,750  | 16.00%    |
| 24 |                                |                                   |               |         |           |
| 25 | J.B Construction, Inc.         | Pipeline Services                 | 250,445       |         | 0.00%     |
| 26 |                                |                                   |               |         |           |
| 27 | K V Inc                        | Contractor Services               | 383,227       | 383,227 | 0.00%     |
| 28 |                                |                                   |               |         |           |
| 29 | Kadrmass, Lee & Jackson        | Engineering Services              | 156,237       | 8,132   | 5.20%     |
| 30 |                                |                                   |               |         |           |
| 31 | Kappel Tree Service, LLC       | Tree Trimming Services            | 311,949       |         | 0.00%     |
| 32 |                                |                                   |               |         |           |
| 33 | Keane                          | Legal Services                    | 90,924        | 1,536   | 1.69%     |
| 34 |                                |                                   |               |         |           |
| 35 | M C M General Contractors, Inc | Construction Services             | 404,197       |         | 0.00%     |
| 36 |                                |                                   |               |         |           |
| 37 | Mavo Systems North Dakota, LL  | Contractor Services               | 291,084       |         | 0.00%     |
| 38 |                                |                                   |               |         |           |
| 39 | Michels Power                  | Contractor Services - Power Lines | 1,636,667     |         | 0.00%     |
| 40 |                                |                                   |               |         |           |
| 41 | Microsoft Licensing, GP        | Software Maintenance              | 629,391       | 10,598  | 1.68%     |
| 42 |                                |                                   |               |         |           |
| 43 | Midwest Independent            | Contractor Services               | 247,035       |         | 0.00%     |
| 44 |                                |                                   |               |         |           |
| 45 | Millcreek Engineering Company  | Engineering Services              | 1,952,680     |         | 0.00%     |
| 46 |                                |                                   |               |         |           |
| 47 | Miller Construction            | Construction Services             | 86,616        |         | 0.00%     |
| 48 |                                |                                   |               |         |           |

**PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES - GAS**

Year: 2012

|    | Name of Recipient             | Nature of Service                      | Total Company | Montana | % Montana |
|----|-------------------------------|--|---------------|---------|-----------|
| 1  | Montana Dept of Environmental | Title V Emission Fee                   | \$90,165      | \$654   | 0.73%     |
| 2  | Quality                       |  |               |         |           |
| 3  | Moorhead Machinery & Boiler   | Contractor Services - Power Plant      | 668,665       |         | 0.00%     |
| 4  | Co.                           |  |               |         |           |
| 5  | Morton Buildings Inc.         | Building Construction                  | 154,826       |         | 0.00%     |
| 6  |                               |  |               |         |           |
| 7  | NERC                          | Contract Services - Quaterly Assesmnet | 114,658       |         | 0.00%     |
| 8  |                               |  |               |         |           |
| 9  | Neundorfer, Inc.              | Contract services                      | 121,300       |         | 0.00%     |
| 10 |                               |  |               |         |           |
| 11 | North Dakota One Call, Inc.   | Line Locating Services                 | 75,223        | 125     | 0.17%     |
| 12 |                               |  |               |         |           |
| 13 | NYSE Market Inc               | Financial Services                     | 177,649       | 3,035   | 1.71%     |
| 14 |                               |  |               |         |           |
| 15 | One Call Locators LTD         | Line Locating Services                 | 1,998,025     | 284,282 | 14.23%    |
| 16 |                               |  |               |         |           |
| 17 | Oracle Corp                   | Software Maintenance                   | 462,312       | 36,572  | 7.91%     |
| 18 |                               |  |               |         |           |
| 19 | Ormat Nevada Inc.             | Install Energy Converter               | 340,424       |         | 0.00%     |
| 20 |                               |  |               |         |           |
| 21 | Pearce, Harry J               | Active Director's Fees                 | 130,000       | 2,205   | 1.70%     |
| 22 |                               |  |               |         |           |
| 23 | Power Generation Service Inc. | Contractor Services - Power Plant      | 1,026,444     |         | 0.00%     |
| 24 |                               |  |               |         |           |
| 25 | Powerplan, Inc.               | Consulting Services - Software         | 1,651,619     | 188,740 | 11.43%    |
| 26 |                               |  |               |         |           |
| 27 | Progressive Maintenance Co    | Custodial Servie                       | 132,633       | 11,434  | 8.62%     |
| 28 |                               |  |               |         |           |
| 29 | Prosource Tech Inc            | Contract Services - Environmental      | 3,569,826     | 122,033 | 3.42%     |
| 30 |                               |  |               |         |           |
| 31 | PSC Industrial Outsourcing    | Contractor Services - Power Plant      | 511,709       |         | 0.00%     |
| 32 |                               |  |               |         |           |
| 33 | Q3 Contracting                | Construction Services                  | 477,011       |         | 0.00%     |
| 34 |                               |  |               |         |           |
| 35 | Rachel Contracting            | Contract Services - Power Plant Demo   | 668,126       |         | 0.00%     |
| 36 |                               |  |               |         |           |
| 37 | Rocky Mountain Line Systems   | Contractor services                    | 935,500       | 242,815 | 25.96%    |
| 38 |                               |  |               |         |           |
| 39 | Sega, Inc.                    | Engineering Services                   | 955,678       |         | 0.00%     |
| 40 |                               |  |               |         |           |
| 41 | Skye Recruitment Solutions    | Recruitment Services                   | 93,100        | 6,476   | 6.96%     |
| 42 |                               |  |               |         |           |
| 43 | Southern Cross Corp           | Construction Services - Gas            | 382,672       | 75,119  | 19.63%    |
| 44 |                               |  |               |         |           |
| 45 | Spearfish Excavation Inc      | Excavation Services                    | 109,469       |         | 0.00%     |
| 46 |                               |  |               |         |           |
| 47 | Spherion Corporation          | Temp Service                           | 630,232       | 44,575  | 7.07%     |
| 48 |                               |  |               |         |           |
| 49 | SQLSoft Consulting Group      | Consulting Services                    | 159,688       | 31,913  | 19.98%    |
| 50 |                               |  |               |         |           |

**PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES - GAS**

Year: 2012

|    | Name of Recipient                  | Nature of Service                           | Total Company       | Montana            | % Montana    |
|----|------------------------------------|---|---------------------|--------------------|--------------|
| 1  | Standard & Poor's                  | Financial Services                          | \$89,913            | \$9,130            | 10.15%       |
| 2  |                                    |   |                     |                    |              |
| 3  | State-Line Contractors, Inc        | Constructions Services                      | 901,037             | 864,008            | 95.89%       |
| 4  |                                    |   |                     |                    |              |
| 5  | Thomson Reuters                    | Consulting Services                         | 145,178             | 2,462              | 1.70%        |
| 6  |                                    |   |                     |                    |              |
| 7  | Timberline Construction Inc        | Contractor Services - Transmission Line     | 1,116,829           |                    | 0.00%        |
| 8  |                                    |   |                     |                    |              |
| 9  | Total Asphalt Repair Inc           | Contractor Services                         | 82,283              | 81,704             | 99.30%       |
| 10 |                                    |   |                     |                    |              |
| 11 | Treasury Management Services       | Banking Services                            | 251,572             | 32,262             | 12.82%       |
| 12 |                                    |   |                     |                    |              |
| 13 | US Bank                            | Banking Services                            | 99,250              | 14,284             | 14.39%       |
| 14 |                                    |   |                     |                    |              |
| 15 | Ulmer Tree Service                 | Tree Trimming Service                       | 224,788             |                    | 0.00%        |
| 16 |                                    |   |                     |                    |              |
| 17 | Ulteig Engineers Inc.              | Engineering Services                        | 105,110             |                    | 0.00%        |
| 18 |                                    |   |                     |                    |              |
| 19 | USA Airmobile Inc.                 | Contract Services - Inst Bird flight Divert | 165,208             |                    | 0.00%        |
| 20 |                                    |   |                     |                    |              |
| 21 | USIC Locating Services, Inc.       | Line Locating                               | 143,107             |                    | 0.00%        |
| 22 |                                    |   |                     |                    |              |
| 23 | Utilclimatic LLC                   | Install Energy Converter                    | 394,081             | 39,647             | 10.06%       |
| 24 |                                    |   |                     |                    |              |
| 25 | Van Horn Media                     | Advertising                                 | 128,012             | 12,698             | 9.92%        |
| 26 |                                    |   |                     |                    |              |
| 27 | Ventyx Inc.                        | Software Maintenance                        | 106,356             | 4,204              | 3.95%        |
| 28 |                                    |   |                     |                    |              |
| 29 | Vic's Crane & Heavy Haul, Inc.     | Crane Service and Rental                    | 99,500              |                    | 0.00%        |
| 30 |                                    |   |                     |                    |              |
| 31 | Wausau Financial Systems Inc       | Software Support                            | 139,462             | 30,371             | 21.78%       |
| 32 |                                    |   |                     |                    |              |
| 33 | Wells Fargo Shareowners Serv       | Stock Transfer Agent                        | 301,110             | 5,110              | 1.70%        |
| 34 |                                    |   |                     |                    |              |
| 35 | Wentzel Engineering, LLC           | Engineering Services                        | 89,072              |                    | 0.00%        |
| 36 |                                    |   |                     |                    |              |
| 37 | Western Union Financial Serv.      | Financial Services                          | 142,280             | 32,618             | 22.93%       |
| 38 |                                    |   |                     |                    |              |
| 39 | Willis of Minnesota                | Consulting Services                         | 93,543              | 1,397              | 1.49%        |
| 40 |                                    |   |                     |                    |              |
| 41 | Workforce Services, Inc            | Vehicle Maintenance                         | 197,918             | 2,123              | 1.07%        |
| 42 |                                    |   |                     |                    |              |
| 43 |                                    |   |                     |                    |              |
| 44 |                                    |   |                     |                    |              |
| 45 |                                    |   |                     |                    |              |
| 46 |                                    |   |                     |                    |              |
| 47 |                                    |   |                     |                    |              |
| 48 |                                    |   |                     |                    |              |
| 49 |                                    |   |                     |                    |              |
| 50 |                                    |   |                     |                    |              |
|    | <b>Total Payments for Services</b> |   | <b>\$57,675,454</b> | <b>\$3,268,302</b> | <b>5.67%</b> |



**POLITICAL ACTION COMMITTEES / POLITICAL CONTRIBUTIONS**

Year: 2012

|    | Description                        | Total Company   | Montana         | % Montana     |
|----|------------------------------------|-----------------|-----------------|---------------|
| 1  | Contributions to Candidates by PAC | \$68,077        | \$11,710        | 17.20%        |
| 2  |                                    |                 |                 |               |
| 3  |                                    |                 |                 |               |
| 4  |                                    |                 |                 |               |
| 5  |                                    |                 |                 |               |
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| 39 |                                    |                 |                 |               |
| 40 |                                    |                 |                 |               |
| 41 |                                    |                 |                 |               |
| 42 |                                    |                 |                 |               |
| 43 | <b>TOTAL Contributions</b>         | <b>\$68,077</b> | <b>\$11,710</b> | <b>17.20%</b> |

## Pension Costs

Year: 2012

|    |   |              |                               |          |
|----|---|--------------|-------------------------------|----------|
| 1  | Plan Name MDU Resources Group, Inc. Master Pension Plan Trust |              |                               |          |
| 2  | Defined Benefit Plan? Yes                                     |              | Defined Contribution Plan? No |          |
| 3  | Actuarial Cost Method? Traditional Unit Credit                |              | IRS Code: 1A                  |          |
| 4  | Annual Contribution by Employer: 12,038,687                   |              | Is the Plan Over Funded? No   |          |
| 5  |   |              |                               |          |
|    | Item  | Current Year | Last Year                     | % Change |
| 6  | <b>Change in Benefit Obligation</b>                           | (000's)      | (000's)                       |          |
| 7  | Benefit obligation at beginning of year                       | \$249,823    | \$230,271                     | 8.49%    |
| 8  | Service cost  | -            | 1,056                         | -100.00% |
| 9  | Interest cost   | 10,126       | 11,446                        | -11.53%  |
| 10 | Plan participants' contributions                              | -            | -                             | 0.00%    |
| 11 | Amendments  | -            | -                             | 0.00%    |
| 12 | Actuarial (Gain) Loss   | 18,532       | 35,719                        | -48.12%  |
| 13 | Curtailment gain  | -            | (13,939)                      | 100.00%  |
| 14 | Benefits paid   | (15,572)     | (14,730)                      | -5.72%   |
| 15 | Benefit obligation at end of year                             | \$262,909    | \$249,823                     | 5.24%    |
| 16 | <b>Change in Plan Assets</b>                                  |              |                               |          |
| 17 | Fair value of plan assets at beginning of year                | \$161,284    | \$164,852                     | -2.16%   |
| 18 | Actual return on plan assets                                  | 20,050       | (2,595)                       | 872.64%  |
| 19 | Employer contribution   | 12,038       | 13,757                        | -12.50%  |
| 20 | Plan participants' contributions                              | -            | -                             | 0.00%    |
| 21 | Benefits paid   | (15,572)     | (14,730)                      | -5.72%   |
| 22 | Fair value of plan assets at end of year                      | \$177,800    | \$161,284                     | 10.24%   |
| 23 | <b>Funded Status</b>  | (\$85,109)   | (\$88,539)                    | 3.87%    |
| 24 | Unrecognized net actuarial loss                               | -            | -                             | N/A      |
| 25 | Unrecognized prior service cost                               | -            | -                             | 0.00%    |
| 26 | Unrecognized net transition obligation                        | -            | -                             | 0.00%    |
| 27 | Accrued benefit cost  | (\$85,109)   | (\$88,539)                    | 3.87%    |
| 28 |   |              |                               |          |
| 29 | <b>Weighted-Average Assumptions as of Year End</b>            |              |                               |          |
| 30 | Discount rate   | 3.61         | 4.16                          | -13.22%  |
| 31 | Expected return on plan assets                                | 7.00         | 7.75                          | -9.68%   |
| 32 | Rate of compensation increase                                 | -            | -                             | 0.00%    |
| 33 |   |              |                               |          |
| 34 | <b>Components of Net Periodic Benefit Costs</b>               |              |                               |          |
| 35 | Service cost  | -            | \$1,056                       | -100.00% |
| 36 | Interest cost   | 10,126       | 11,446                        | -11.53%  |
| 37 | Expected return on plan assets                                | (13,666)     | (13,712)                      | 0.34%    |
| 38 | Amortization of prior service cost                            | -            | 130                           | -100.00% |
| 39 | Recognized net actuarial gain                                 | 2,800        | 1,473                         | 90.09%   |
| 40 | Curtailment loss  | -            | 1,218                         | -100.00% |
| 41 | Net periodic benefit cost                                     | (\$740)      | \$1,611                       | -145.93% |
| 42 |   |              |                               |          |
| 43 | <b>Montana Intrastate Costs:</b>                              |              |                               |          |
| 44 | Pension costs   | (\$740)      | \$1,611                       | -145.93% |
| 45 | Pension costs capitalized                                     | (160)        | 385                           | -141.56% |
| 46 | Accumulated pension asset (liability) at year end             | (\$85,109)   | (\$88,539)                    | 3.87%    |
| 47 | <b>Number of Company Employees:</b>                           |              |                               |          |
| 48 | Covered by the plan   | 1,726        | 1,766                         | -2.27%   |
| 49 | Not covered by the plan                                       | 609          | 503                           | 21.07%   |
| 50 | Active  | 655          | 715                           | -8.39%   |
| 51 | Retired   | 962          | 954                           | 0.84%    |
| 52 | Deferred vested terminated                                    | 109          | 97                            | 12.37%   |

## Other Post Employment Benefits (OPEBS)

Year: 2012

|    | Item   | Current Year          | Last Year             | % Change |
|----|--|-----------------------|-----------------------|----------|
| 1  | <b>Regulatory Treatment:</b>   |                       |                       |          |
| 2  | Commission authorized - most recent  |                       |                       |          |
| 3  | Docket number:   |                       |                       |          |
| 4  | Order numbers:   |                       |                       |          |
| 5  | Amount recovered through rates -   |                       |                       |          |
| 6  | <b>Weighted-Average Assumptions as of Year End</b>                                   |                       |                       |          |
| 7  | Discount rate  | 3.65                  | 4.12                  | -11.41%  |
| 8  | Expected return on plan assets   | 6.00                  | 6.75                  | -11.11%  |
| 9  | Medical cost inflation rate  | 6.00                  | 6.00                  | 0.00%    |
| 10 | Actuarial cost method  | Projected unit credit | Projected unit credit |          |
| 11 | Rate of compensation increase  | N/A                   | N/A                   |          |
| 12 | <b>List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:</b> |                       |                       |          |
| 13 | <b>VEBA</b>  |                       |                       |          |
| 14 | <b>Describe any Changes to the Benefit Plan:</b>                                     |                       |                       |          |
| 15 |  |                       |                       |          |
| 16 |  |                       |                       |          |
|    | <b>TOTAL COMPANY</b>   |                       |                       |          |
| 17 | <b>Change in Benefit Obligation</b>  | (000's)               | (000's)               |          |
| 18 | Benefit obligation at beginning of year  | \$57,161              | \$45,547              | 25.50%   |
| 19 | Service cost   | 881                   | 746                   | 18.10%   |
| 20 | Interest cost  | 2,080                 | 2,406                 | -13.55%  |
| 21 | Plan participants' contributions   | 1,767                 | 1,710                 | 3.33%    |
| 22 | Amendments   | (9,227)               | -                     | -100.00% |
| 23 | Actuarial (Gain) Loss  | 1,276                 | 10,734                | -88.11%  |
| 24 | Acquisition  | -                     | -                     | 0.00%    |
| 25 | Benefits paid  | (4,345)               | (3,982)               | -9.12%   |
| 26 | Benefit obligation at end of year  | \$49,593              | \$57,161              | -13.24%  |
| 27 | <b>Change in Plan Assets</b>   |                       |                       |          |
| 28 | Fair value of plan assets at beginning of year                                       | \$38,975              | \$40,183              | -3.01%   |
| 29 | Actual return on plan assets   | 3,696                 | (506)                 | 830.43%  |
| 30 | Acquisition  | -                     | -                     | 0.00%    |
| 31 | Employer contribution  | 3,318                 | 1,570                 | 111.34%  |
| 32 | Plan participants' contributions   | 1,767                 | 1,710                 | 3.33%    |
| 33 | Benefits paid  | (4,345)               | (3,982)               | -9.12%   |
| 34 | Fair value of plan assets at end of year   | \$43,411              | \$38,975              | 11.38%   |
| 35 | <b>Funded Status</b>   | (\$6,182)             | (\$18,186)            | 66.01%   |
| 36 | Unrecognized net actuarial loss  | -                     | -                     | 0.00%    |
| 37 | Unrecognized prior service cost  | -                     | -                     | 0.00%    |
| 38 | Unrecognized transition obligation   | -                     | -                     | 0.00%    |
| 39 | Accrued benefit cost   | (\$6,182)             | (\$18,186)            | 66.01%   |
| 40 | <b>Components of Net Periodic Benefit Costs</b>                                      |                       |                       |          |
| 41 | Service cost   | \$881                 | \$746                 | 18.10%   |
| 42 | Interest cost  | 2,080                 | 2,406                 | -13.55%  |
| 43 | Expected return on plan assets   | (2,895)               | (2,974)               | 2.66%    |
| 44 | Amortization of prior service cost   | (580)                 | (294)                 | -97.28%  |
| 45 | Recognized net actuarial gain  | 612                   | -                     | 100.00%  |
| 46 | Transition amount amortization   | 3,284                 | 1,671                 | 96.53%   |
| 47 | Net periodic benefit cost  | \$3,382               | \$1,555               | 117.49%  |
| 48 | <b>Accumulated Post Retirement Benefit Obligation</b>                                |                       |                       |          |
| 49 | Amount funded through VEBA   | \$5,085               | \$3,280               | 55.03%   |
| 50 | Amount funded through 401(h)   |                       |                       |          |
| 51 | Amount funded through Other _____  |                       |                       |          |
| 52 | TOTAL  | \$5,085               | \$3,280               | 55.03%   |
| 53 | Amount that was tax deductible - VEBA  | \$3,318 (1)           | \$1,570               | 111.34%  |
| 54 | Amount that was tax deductible - 401(h)  |                       |                       |          |
| 55 | Amount that was tax deductible - Other _____   |                       |                       |          |
| 56 | TOTAL  | \$3,318               | \$1,570               | 111.34%  |

## Other Post Employment Benefits (OPEBS) Continued

Year: 2012

|    | Item  | Current Year   | Last Year | % Change |
|----|---|----------------|-----------|----------|
| 1  | <b>Number of Company Employees:</b>                   |                |           |          |
| 2  | Covered by the plan                                   | 1,627          | 1,723     | -5.57%   |
| 3  | Not covered by the plan                               | 36             | 35        | 2.86%    |
| 4  | Active  | 866            | 934       | -7.28%   |
| 5  | Retired   | 601            | 639       | -5.95%   |
| 6  | Spouses/dependants covered by the plan                | 160            | 150       | 6.67%    |
| 7  | <b>Montana</b>  |                |           |          |
| 8  | <b>Change in Benefit Obligation</b>                   |                |           |          |
| 9  | Benefit obligation at beginning of year               | NOT APPLICABLE |           |          |
| 10 | Service cost  |                |           |          |
| 11 | Interest cost   |                |           |          |
| 12 | Plan participants' contributions                      |                |           |          |
| 13 | Amendments  |                |           |          |
| 14 | Actuarial gain  |                |           |          |
| 15 | Acquisition   |                |           |          |
| 16 | Benefits paid   |                |           |          |
| 17 | Benefit obligation at end of year                     |                |           |          |
| 18 | <b>Change in Plan Assets</b>                          |                |           |          |
| 19 | Fair value of plan assets at beginning of year        | NOT APPLICABLE |           |          |
| 20 | Actual return on plan assets                          |                |           |          |
| 21 | Acquisition   |                |           |          |
| 22 | Employer contribution                                 |                |           |          |
| 23 | Plan participants' contributions                      |                |           |          |
| 24 | Benefits paid   |                |           |          |
| 25 | Fair value of plan assets at end of year              |                |           |          |
| 26 | <b>Funded Status</b>                                  |                |           |          |
| 27 | Unrecognized net actuarial loss                       | NOT APPLICABLE |           |          |
| 28 | Unrecognized prior service cost                       |                |           |          |
| 29 | Prepaid (accrued) benefit cost                        |                |           |          |
| 30 | <b>Components of Net Periodic Benefit Costs</b>       |                |           |          |
| 31 | Service cost  | NOT APPLICABLE |           |          |
| 32 | Interest cost   |                |           |          |
| 33 | Expected return on plan assets                        |                |           |          |
| 34 | Amortization of prior service cost                    |                |           |          |
| 35 | Recognized net actuarial loss                         |                |           |          |
| 36 | Net periodic benefit cost                             |                |           |          |
| 37 | <b>Accumulated Post Retirement Benefit Obligation</b> |                |           |          |
| 38 | Amount funded through VEBA                            | NOT APPLICABLE |           |          |
| 39 | Amount funded through 401(h)                          |                |           |          |
| 40 | Amount funded through other _____                     |                |           |          |
| 41 | TOTAL   |                |           |          |
| 42 | Amount that was tax deductible - VEBA                 | NOT APPLICABLE |           |          |
| 43 | Amount that was tax deductible - 401(h)               |                |           |          |
| 44 | Amount that was tax deductible - Other                |                |           |          |
| 45 | TOTAL   |                |           |          |
| 46 | <b>Montana Intrastate Costs:</b>                      |                |           |          |
| 47 | Pension costs   | NOT APPLICABLE |           |          |
| 48 | Pension costs capitalized                             |                |           |          |
| 49 | Accumulated pension asset (liability) at year end     |                |           |          |
| 50 | <b>Number of Montana Employees:</b>                   |                |           |          |
| 51 | Covered by the plan                                   | NOT APPLICABLE |           |          |
| 52 | Not covered by the plan                               |                |           |          |
| 53 | Active  |                |           |          |
| 54 | Retired   |                |           |          |
| 55 | Spouses/dependants covered by the plan                |                |           |          |

**TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)**

| Line No. | Name/Title   | Base Salary | Bonuses | Other | Total Compensation | Total Compensation Last Year | % Increase Total Compensation |
|----------|--|-------------|---------|-------|--------------------|------------------------------|-------------------------------|
| 1        |  |             |         |       |                    |                              |                               |
| 2        |  |             |         |       |                    |                              |                               |
| 3        |  |             |         |       |                    |                              |                               |
| 4        |  |             |         |       |                    |                              |                               |
| 5        | The Commission has declared, by administrative rule, that some of Montana-Dakota's employees no longer have the right to maintain the privacy of their salary information (ARM 38.2.5031). Montana-Dakota has been advised by its legal counsel that the existence of that administrative rule effectively prohibits it from providing such information to the Commission on a voluntary basis, and that the Commission will need to institute proceedings to compel the disclosure of the requested salary information. |             |         |       |                    |                              |                               |
| 6        |  |             |         |       |                    |                              |                               |
| 7        |  |             |         |       |                    |                              |                               |
| 8        |  |             |         |       |                    |                              |                               |
| 9        |  |             |         |       |                    |                              |                               |
| 10       |  |             |         |       |                    |                              |                               |

**COMPENSATION OF TOP 5 CORPORATE EMPLOYEES - SEC INFORMATION 1/**

| Line No. | Name/Title   | Base Salary | Bonuses   | Other 2/    | Total Compensation | Total Compensation Last Year 2/ 3/ | % Increase Total Compensation |
|----------|--|-------------|-----------|-------------|--------------------|------------------------------------|-------------------------------|
| 1        | Terry D. Hilestad<br>President & CEO   | \$750,000   | \$518,250 | \$1,290,528 | \$2,558,778        | \$3,566,327                        | -28%                          |
| 2        | Doran N. Schwartz<br>Vice President and CFO                                      | 300,000     | 103,650   | 314,604     | 718,254            | 825,444                            | -13%                          |
| 3        | Steven L. Bietz<br>President & CEO<br>of WBI Holdings, Inc.                      | 360,500     | 347,973   | 626,618     | 1,335,091          | 1,484,627                          | -10%                          |
| 4        | J. Kent Wells<br>President & CEO of Fidelity<br>Exploration & Production Company | 550,000     | 0         | 973,801     | 1,523,801          | 3,301,242                          | -54%                          |
| 5        | William E. Schneider<br>Executive Vice President-<br>Bakken Development          | 447,400     | 200,950   | 599,438     | 1,247,788          | 1,721,285                          | -28%                          |

1/ See Schedule 17A for Total Compensation detail.

2/ Amounts represent the aggregate grant date fair value of the performance share awards calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 - Share Based Payment.

3/ Total 2011 compensation for J. Kent Wells reported in 2012 differs from total compensation reported in 2011. Please refer to schedule 17A, page 20c, subnote 7.

The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. In our financial statements, we record salaries and annual incentive compensation as expenses in the amount paid, or to be paid, to the named executive officers. For our equity awards, accounting rules also require that we record an expense in our financial statements. We calculate the accounting expense of equity awards to employees in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation.

## Stock Ownership Requirements

We instituted stock ownership guidelines on May 5, 1993, which we revised in November 2010 to provide that executives who participate in our Long-Term Performance-Based Incentive Plan are required within five years to own our common stock equal to a multiple of their base salaries. Stock owned through our 401(k) plan or by a spouse is considered in ownership calculations. Unvested performance shares and other unvested equity awards are not considered in ownership calculations. The level of stock ownership compared to the requirements is determined based on the closing sale price of the stock on the last trading day of the year and base salary at December 31 of each year. Each February, the compensation committee receives a report on the status of stock holdings by executives. The committee may, in its sole discretion, grant an extension of time to meet the ownership requirements or take such other action as it deems appropriate to enable the executive to achieve compliance with the policy. The table shows the named executive officers' holdings as of December 31, 2012:

| Name                 | Assigned<br>Guideline<br>Multiple of<br>Base Salary | Actual<br>Holdings as a<br>Multiple of<br>Base Salary | Number of<br>Years at<br>Guideline<br>Multiple<br>(#) |
|----------------------|---|---|---|
| Terry D. Hildestad   | 4X  | 6.06  | 7.67  |
| Doran N. Schwartz    | 3X  | 1.75  | 2.87(1)   |
| Steven L. Bietz      | 3X  | 4.09  | 10.33   |
| J. Kent Wells        | 3X  | 1.07  | 1.67(2)   |
| William E. Schneider | 3X  | 4.96  | 11.00   |

(1) Participant must meet ownership requirement by January 1, 2015.

(2) Participant must meet ownership requirement by May 1, 2016.

The compensation committee may consider the policy and the executive's stock ownership in determining compensation. The committee, however, did not do so with respect to 2012 compensation.

## Policy Regarding Hedging Stock Ownership

Our executive compensation policy prohibits Section 16 officers from hedging their ownership of company common stock. Executives may not enter into transactions that allow the executive to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership. See the Security Ownership section of the proxy statement for our policy on margin accounts and pledging of our stock.

## Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Regulation S-K, Item 402(b), with management. Based on the review and discussions referred to in the preceding sentence, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in our proxy statement on Schedule 14A.

**Thomas Everist, Chairman**

**Karen B. Fagg**

**Thomas C. Knudson**

**Patricia L. Moss**

PROXY

## Summary Compensation Table for 2012

| Name and Principal Position<br>(a)  | Year<br>(b) | Salary<br>(\$)<br>(c) | Bonus<br>(\$)<br>(d) | Stock Awards<br>(\$)<br>(e)(1) | Option Awards<br>(\$)<br>(f) | Non-Equity Incentive Plan Compensation<br>(\$)<br>(g) | Change in Pension Value and Nonqualified Deferred Compensation Earnings<br>(\$)<br>(h)(2) | All Other Compensation<br>(\$)<br>(i) | Total<br>(\$)<br>(j) |
|---|-------------|-----------------------|----------------------|--------------------------------|------------------------------|---|---|---------------------------------------|----------------------|
| Terry D. Hildestad<br>President and CEO   | 2012        | 750,000               | —                    | 897,277                        | —                            | 518,250   | 355,027   | 38,224(3)                             | 2,558,778            |
|   | 2011        | 750,000               | —                    | 1,084,318                      | —                            | 954,750   | 739,760   | 37,499                                | 3,566,327            |
|   | 2010        | 750,000               | —                    | 830,137                        | —                            | 762,750   | 480,532   | 37,499                                | 2,860,918            |
| Doran N. Schwartz<br>Vice President and CFO   | 2012        | 300,000               | —                    | 179,445                        | —                            | 103,650   | 100,935   | 34,224(3)                             | 718,254              |
|   | 2011        | 273,000               | —                    | 197,341                        | —                            | 173,765   | 147,789   | 33,549                                | 825,444              |
|   | 2010        | 252,454               | —                    | 143,881                        | —                            | 127,053   | 71,302  | 33,549                                | 628,239              |
| Steven L. Bietz<br>President and CEO<br>of WBI Holdings, Inc.                         | 2012        | 360,500               | —                    | 258,765                        | —                            | 347,973   | 329,969   | 37,884(3)                             | 1,335,091            |
|   | 2011        | 360,500               | —                    | 312,704                        | —                            | 229,198   | 545,066   | 37,159                                | 1,484,627            |
|   | 2010        | 350,000               | —                    | 232,429                        | —                            | 245,245   | 302,863   | 36,218                                | 1,166,755            |
| J. Kent Wells<br>President and CEO of<br>Fidelity Exploration &<br>Production Company | 2012        | 550,000               | —                    | 877,331                        | —                            | —   | —   | 96,470(3)                             | 1,523,801            |
|   | 2011        | 367,671               | 916,685(4)           | 925,000(5)                     | —                            | 1,007,306(6)  | —   | 84,580(7)                             | 3,301,242            |
|   | 2010        | —                     | —                    | —                              | —                            | —   | —   | —                                     | —                    |
| William E. Schneider<br>Executive Vice President -<br>Bakken Development              | 2012        | 447,400               | —                    | 321,146                        | —                            | 200,950   | 240,068   | 38,224(3)                             | 1,247,788            |
|   | 2011        | 447,400               | —                    | 388,086                        | —                            | 436,215   | 412,085   | 37,499                                | 1,721,285            |
|   | 2010        | 447,400               | —                    | 297,122                        | —                            | 37,805  | 306,909   | 37,499                                | 1,126,735            |

(1) Amounts in this column represent the aggregate grant date fair value of the performance share awards calculated in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation in FASB Accounting Standards Codification Topic 718. This column was prepared assuming none of the awards will be forfeited. The amounts were calculated using a Monte Carlo simulation, as described in Note 13 of our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

(2) Amounts shown represent the change in the actuarial present value for years ended December 31, 2010, 2011, and 2012 for the named executive officers' accumulated benefits under the pension plan, excess SISP, and SISP, collectively referred to as the "accumulated pension change," plus above market earnings on deferred annual incentives, if any. The amounts shown are based on accumulated pension change and above market earnings as of December 31, 2010, 2011, and 2012, as follows:

| Name                 | Accumulated Pension Change |                    |                    | Above Market Earnings |                    |                    |
|----------------------|----------------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|
|                      | 12/31/2010<br>(\$)         | 12/31/2011<br>(\$) | 12/31/2012<br>(\$) | 12/31/2010<br>(\$)    | 12/31/2011<br>(\$) | 12/31/2012<br>(\$) |
| Terry D. Hildestad   | 462,186                    | 728,587            | 331,845            | 18,346                | 11,173             | 23,182             |
| Doran N. Schwartz    | 71,302                     | 147,789            | 100,935            | —                     | —                  | —                  |
| Steven L. Bietz      | 302,863                    | 545,066            | 329,969            | —                     | —                  | —                  |
| J. Kent Wells        | —                          | —                  | —                  | —                     | —                  | —                  |
| William E. Schneider | 277,507                    | 393,768            | 201,944            | 29,402                | 18,317             | 38,124             |

PROXY



(3)

|                      | 401(k)<br>(\$)(a) | Life<br>Insurance<br>Premium<br>(\$) | Matching<br>Charitable<br>Contribution<br>(\$) | Additional<br>LTD<br>Premium<br>(\$) | Relocation<br>(\$) | Parking<br>(\$) | Payment<br>In Lieu<br>of<br>Medical<br>Coverage<br>(\$) | Spousal<br>Travel<br>(\$) | Total<br>(\$) |
|----------------------|-------------------|--------------------------------------|--|--------------------------------------|--------------------|-----------------|---|---------------------------|---------------|
| Terry D. Hildestad   | 36,250            | 174                                  | 1,800  | —                                    | —                  | —               | —   | —                         | 38,224        |
| Doran N. Schwartz    | 33,750            | 174                                  | 300  | —                                    | —                  | —               | —   | —                         | 34,224        |
| Steven L. Bietz      | 36,250            | 174                                  | 1,460  | —                                    | —                  | —               | —   | —                         | 37,884        |
| J. Kent Wells        | 20,000            | 174                                  | —  | 435                                  | 69,695             | 3,600           | 1,200   | 1,366                     | 96,470        |
| William E. Schneider | 36,250            | 174                                  | 1,800  | —                                    | —                  | —               | —   | —                         | 38,224        |

(a) Represents company contributions to 401(k) plan, which include matching contributions and contributions made in lieu of pension plan accruals after pension plans were frozen at December 31, 2009.

(4) Includes a cash recruitment payment of \$550,000 and guaranteed target annual incentive payment of \$366,685.

(5) Represents the aggregate grant date fair value of the portion of Mr. Wells' additional 2011 annual incentive award that was paid in shares of our common stock calculated in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation in FASB Accounting Standards Codification Topic 718.

(6) Includes \$82,296, the value of Mr. Wells' annual incentive earned above the guaranteed target amount and the \$925,010 cash portion of Mr. Wells' additional 2011 annual incentive.

(7) The 2011 amount for Mr. Wells' all other compensation has been reduced to reflect the removal of \$4,925, an excess 401(k) company match, that exceeded the limit when contributions from his prior company and current company were aggregated.

## Grants of Plan-Based Awards in 2012

|                      |                             |   |                |                 |   |               |                | All Other<br>Stock<br>Awards:               | All Other<br>Option<br>Awards:                   | Exercise<br>or Base<br>Price of<br>Option<br>Awards | Grant<br>Date Fair<br>Value of<br>Stock and<br>Option<br>Awards |
|----------------------|-----------------------------|---|----------------|-----------------|---|---------------|----------------|---|--|---|---|
|                      |                             | Estimated Future<br>Payouts Under Non-Equity<br>Incentive Plan Awards |                |                 | Estimated Future<br>Payouts Under Equity<br>Incentive Plan Awards |               |                | Number of<br>Shares of<br>Stock or<br>Units | Number of<br>Securities<br>Underlying<br>Options |   |   |
| Name                 | Grant<br>Date               | Threshold<br>(\$)   | Target<br>(\$) | Maximum<br>(\$) | Threshold<br>(#)  | Target<br>(#) | Maximum<br>(#) | (#)   | (#)  | (\$/Sh)   | (\$)  |
| (a)                  | (b)                         | (c)   | (d)            | (e)             | (f)   | (g)           | (h)            | (i)   | (j)  | (k)   | (l)   |
| Terry D. Hildestad   | 3/1/2012(1)<br>2/16/2012(2) | 187,500<br>—  | 750,000<br>—   | 1,500,000<br>—  | —<br>5,223  | —<br>52,228   | —<br>104,456   | —<br>—                                      | —<br>—   | —<br>—  | —<br>897,277  |
| Doran N. Schwartz    | 3/1/2012(1)<br>2/16/2012(2) | 37,500<br>—   | 150,000<br>—   | 300,000<br>—    | —<br>1,045  | —<br>10,445   | —<br>20,890    | —<br>—                                      | —<br>—   | —<br>—  | —<br>179,445  |
| Steven L. Bietz      | 3/1/2012(1)<br>2/16/2012(2) | 58,581<br>—   | 234,325<br>—   | 468,650<br>—    | —<br>1,506  | —<br>15,062   | —<br>30,124    | —<br>—                                      | —<br>—   | —<br>—  | —<br>258,765  |
| J. Kent Wells        | 3/1/2012(1)<br>2/16/2012(2) | 171,875<br>—  | 687,500<br>—   | 1,375,000<br>—  | —<br>5,107  | —<br>51,067   | —<br>102,134   | —<br>—                                      | —<br>—   | —<br>—  | —<br>877,331  |
| William E. Schneider | 3/1/2012(1)<br>2/16/2012(2) | 72,703<br>—   | 290,810<br>—   | 581,620<br>—    | —<br>1,869  | —<br>18,693   | —<br>37,386    | —<br>—                                      | —<br>—   | —<br>—  | —<br>321,146  |

(1) Annual incentive for 2012 granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan, except for Mr. Schwartz whose award was granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan.

(2) Performance shares for the 2012-2014 performance period granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

## Narrative Discussion Relating to the Summary Compensation Table and Grants of Plan-Based Awards Table

### Incentive Awards

#### Annual Incentive

On March 1, 2012, the compensation committee recommended the 2012 annual incentive award opportunities for our named executive officers and the board approved these opportunities at its meeting on March 1, 2012. These award opportunities are reflected in the Grants of Plan-Based Awards table at grant on March 1, 2012, in columns (c), (d), and (e) and in the Summary Compensation Table as earned with respect to 2012 in column (g).

PROXY

Executive officers may receive a payment of annual cash incentive awards based upon achievement of annual performance measures with a threshold, target, and maximum level. A target incentive award is established based on a percent of the executive's base salary. Actual payment may range from 0% to 200% of the target based upon achievement of goals.

In order to be eligible to receive a payment of an annual incentive award under the Long-Term Performance-Based Incentive Plan, Messrs. Hildestad, Bietz, Wells, and Schneider must have remained employed by the company through December 31, 2012, unless the compensation committee determines otherwise. The committee has full discretion to determine the extent to which goals have been achieved, the payment level, whether any final payment will be made, and whether to adjust awards downward based upon individual performance. Unless otherwise determined and established in writing by the compensation committee within 90 days of the beginning of the performance period, the performance goals may not be adjusted if the adjustment would increase the annual incentive award payment. The compensation committee may use negative discretion and adjust any annual incentive award payment downward, using any subjective or objective measures as it shall determine, including but not limited to the 20% limitation described in the following sentence. The 20% limitation means that no more than 20% of after-tax earnings that are in excess of planned earnings at the business segment level for operating company executives and at the MDU Resources Group level for corporate executives will be paid in annual incentives to executives. The application of this limitation or any other reduction, and the methodology used in determining any such reduction, is in the sole discretion of the compensation committee.

With respect to annual incentive awards granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan, which includes Mr. Schwartz, participants who retire at age 65 during the year remain eligible to receive an award. Subject to the compensation committee's discretion, executives who terminate employment for other reasons are not eligible for an award. The compensation committee has full discretion to determine the extent to which goals have been achieved, the payment level, and whether any final payment will be made. Once performance goals are approved by the committee for executive incentive compensation plan awards, the committee generally does not modify the goals. However, if major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management substantially affected management's ability to achieve the specified performance goals, the committee, in consultation with the chief executive officer, may modify the performance goals. Such goal modifications will only be considered in years of unusually adverse or favorable external conditions.

Annual incentive award payments for Messrs. Hildestad, Schwartz, and Schneider were determined based on achievement of performance goals at the following business segments – (i) construction services and construction materials and contracting, (ii) exploration and production, (iii) pipeline and energy services, and (iv) electric and natural gas distribution - and were calculated as follows:

|   | Column A<br>Percentage of<br>Annual Incentive<br>Target Achieved | Column B<br>Percentage of<br>Average Invested<br>Capital | Column A x Column B |
|---|--|--|---------------------|
| Construction Services Segment and<br>Construction Materials and Contracting Segment | 133.5%   | 29.2%  | 39.0%               |
| Exploration and Production Segment  | 0.0%   | 28.1%  | 0.0%                |
| Pipeline and Energy Services Segment  | 148.5%   | 8.8%   | 13.1%               |
| Electric and Natural Gas Distribution Segments                                      | 50.0%  | 33.9%  | 17.0%               |
| Total (Payout Percentage)   |  |  | 69.1%               |

The award opportunity available to Mr. Bietz was:

| Pipeline and Energy Services' 2012<br>return on invested capital results<br>as a % (weighted 37.5%)<br>of 2012 target | Corresponding payment of<br>annual incentive target based on<br>return on invested capital | Pipeline and Energy Services' 2012<br>earnings per share results<br>as a % (weighted 37.5%)<br>of 2012 target | Corresponding payment of<br>annual incentive target based on<br>earnings per share |
|---|--|---|--|
| Less than 85%   | 0%   | Less than 85%   | 0%   |
| 85%   | 25%  | 85%   | 25%  |
| 90%   | 50%  | 90%   | 50%  |
| 95%   | 75%  | 95%   | 75%  |
| 100%  | 100%   | 100%  | 100%   |
| 103%  | 120%   | 103%  | 120%   |
| 106%  | 140%   | 106%  | 140%   |
| 109%  | 160%   | 109%  | 160%   |
| 112%  | 180%   | 112%  | 180%   |
| 115%  | 200%   | 115%  | 200%   |

| MDU Resources Group, Inc.'s<br>consolidated 2012 earnings per share<br>results (weighted 25%) | Corresponding payment of<br>annual incentive target based on<br>consolidated earnings per share results |
|---|---|
| Less than 100%  | 0%  |
| 100%  | 100%  |
| 103%  | 120%  |
| 106%  | 140%  |
| 109%  | 160%  |
| 112%  | 180%  |
| 115%  | 200%  |

The award opportunity available to Mr. Wells was:

| Exploration and Production's 2012<br>return on invested capital results<br>as a % (weighted 37.5%)<br>of 2012 target | Corresponding payment of<br>annual incentive target based on<br>return on invested capital | Exploration and Production's 2012<br>earnings per share results<br>as a % (weighted 37.5%)<br>of 2012 target | Corresponding payment of<br>annual incentive target based on<br>earnings per share |
|--|--|--|--|
| Less than 85%  | 0%   | Less than 85%  | 0%   |
| 85%  | 25%  | 85%  | 25%  |
| 90%  | 50%  | 90%  | 50%  |
| 95%  | 75%  | 95%  | 75%  |
| 100%   | 100%   | 100%   | 100%   |
| 108%   | 120%   | 103%   | 120%   |
| 116%   | 140%   | 106%   | 140%   |
| 124%   | 160%   | 109%   | 160%   |
| 132%   | 180%   | 112%   | 180%   |
| 140%   | 200%   | 115%   | 200%   |

| MDU Resources Group, Inc.'s<br>consolidated 2012 earnings per share<br>results (weighted 25%) | Corresponding payment of<br>annual incentive target based on<br>consolidated earnings per share results |
|---|---|
| Less than 100%  | 0%  |
| 100%  | 100%  |
| 103%  | 120%  |
| 106%  | 140%  |
| 109%  | 160%  |
| 112%  | 180%  |
| 115%  | 200%  |

For discussion of the specific incentive plan performance targets and results, please see the Compensation Discussion and Analysis.

#### Long-Term Incentive

On February 14, 2012, the compensation committee recommended long-term incentive grants to the named executive officers in the form of performance shares, and the board approved these grants at its meeting on February 16, 2012. These grants are reflected in columns (f), (g), (h), and (i) of the Grants of Plan-Based Awards table and in column (e) of the Summary Compensation Table.

If the company's 2012-2014 total shareholder return is positive, from 0% to 200% of the target grant will be paid out in February 2015, depending on our 2012-2014 total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage is determined as follows:

| The Company's Percentile Rank | Payout Percentage of<br>February 16, 2012 Grant |
|-------------------------------|---|
| 90th or higher                | 200%  |
| 70th                          | 150%  |
| 50th                          | 100%  |
| 40th                          | 10%   |
| Less than 40th                | 0%  |

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2015 at the same time as the performance awards are paid.

If the common stock of a company in the peer group ceases to be traded at any time during the 2012-2014 performance period, the company will be deleted from the peer group. Percentile rank will be calculated without regard to the return of the deleted company. If MDU Resources Group, Inc. or a company in the peer group spins off a segment of its business, the shares of the spun-off entity will be treated as a cash dividend that is reinvested in MDU Resources Group, Inc. or the company in the peer group.

If the company's 2012-2014 total shareholder return is negative, the number of shares otherwise earned, if any, for the performance period will be reduced in accordance with the following table:

| TSR                  | Reduction in Award |
|----------------------|--------------------|
| 0% through -5%       | 50%                |
| -5.01% through -10%  | 60%                |
| -10.01% through -15% | 70%                |
| -15.01% through -20% | 80%                |
| -20.01% through -25% | 90%                |
| -25.01% or below     | 100%               |

### Salary and Bonus in Proportion to Total Compensation

The following table shows the proportion of salary and bonus to total compensation:

| Name                 | Salary<br>(\$) | Bonus<br>(\$) | Total<br>Compensation<br>(\$) | Salary and Bonus<br>as a % of<br>Total Compensation |
|----------------------|----------------|---------------|-------------------------------|---|
| Terry D. Hildestad   | 750,000        | —             | 2,558,778                     | 29.3%   |
| Doran N. Schwartz    | 300,000        | —             | 718,254                       | 41.8%   |
| Steven L. Bietz      | 360,500        | —             | 1,335,091                     | 27.0%   |
| J. Kent Wells        | 550,000        | —             | 1,523,801                     | 36.1%   |
| William E. Schneider | 447,400        | —             | 1,247,788                     | 35.9%   |

### Outstanding Equity Awards at Fiscal Year-End 2012

| Name<br>(a)  | Option Awards  |  |  |  |                                     |   | Stock Awards  |              |              |              |
|--------------|--|--|--|--|-------------------------------------|---|---|--------------|--------------|--------------|
|              | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>Exercisable<br>(#)<br>(b) | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>Unexercisable<br>(#)<br>(c) | Equity<br>Incentive<br>Plan Awards:<br>Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>(#)<br>(d) | Option<br>Exercise<br>Price<br>(\$)<br>(e) | Option<br>Expiration<br>Date<br>(f) | Number<br>of Shares<br>or Units<br>of Stock<br>That<br>Have Not<br>Vested<br>(#)<br>(g) | Market<br>Value of<br>Shares or<br>Units of<br>Stock<br>That<br>Have Not<br>Vested<br>(\$)<br>(h) | Equity       | Equity       | Equity       |
|              |  |  |  |  |                                     |   |   | Incentive    | Incentive    | Incentive    |
|              |  |  |  |  |                                     |   |   | Plan Awards: | Plan Awards: | Plan Awards: |
|              |  |  |  |  |                                     |   |   | Number of    | Number of    | Number of    |
|              |  |  |  |  |                                     |   |   | Shares,      | Shares,      | Shares,      |
|              |  |  |  |  |                                     |   |   | Units or     | Units or     | Units or     |
| Other Rights | Other Rights   | Other Rights   |  |  |                                     |   |   |              |              |              |
| That Have    | That Have  | That Have  |  |  |                                     |   |   |              |              |              |
| Not Vested   | Not Vested   | Not Vested   |  |  |                                     |   |   |              |              |              |
| (#)<br>(i)   | (#)<br>(j)   | (#)<br>(k)   |  |  |                                     |   |   |              |              |              |
| (\$)<br>(l)  | (\$)<br>(m)  | (\$)<br>(n)  |  |  |                                     |   |   |              |              |              |

|                      |   |   |   |   |   |   |   |            |           |
|----------------------|---|---|---|---|---|---|---|------------|-----------|
| Terry D. Hildestad   | — | — | — | — | — | — | — | 111,242(2) | 2,362,780 |
| Doran N. Schwartz    | — | — | — | — | — | — | — | 21,144(2)  | 449,099   |
| Steven L. Bietz      | — | — | — | — | — | — | — | 32,041(2)  | 680,551   |
| J. Kent Wells        | — | — | — | — | — | — | — | 51,067(2)  | 1,084,663 |
| William E. Schneider | — | — | — | — | — | — | — | 39,815(2)  | 845,671   |

(1) Value based on the number of performance shares reflected in column (i) multiplied by \$21.24, the year-end closing price for 2012.

(2) Below is a breakdown by year of the plan awards:

| Named Executive Officer | Award | Shares | End of<br>Performance<br>Period |
|-------------------------|-------|--------|---------------------------------|
| Terry D. Hildestad      | 2010  | 4,771  | 12/31/12                        |
|                         | 2011  | 54,243 | 12/31/13                        |
|                         | 2012  | 52,228 | 12/31/14                        |
| Doran N. Schwartz       | 2010  | 827    | 12/31/12                        |
|                         | 2011  | 9,872  | 12/31/13                        |
|                         | 2012  | 10,445 | 12/31/14                        |
| Steven L. Bietz         | 2010  | 1,336  | 12/31/12                        |
|                         | 2011  | 15,643 | 12/31/13                        |
|                         | 2012  | 15,062 | 12/31/14                        |
| J. Kent Wells           | 2010  | —      | 12/31/12                        |
|                         | 2011  | —      | 12/31/13                        |
|                         | 2012  | 51,067 | 12/31/14                        |
| William E. Schneider    | 2010  | 1,708  | 12/31/12                        |
|                         | 2011  | 19,414 | 12/31/13                        |
|                         | 2012  | 18,693 | 12/31/14                        |

Shares for the 2010 award are shown at the threshold level (10%) based on results for the 2010-2012 performance cycle below threshold.

Shares for the 2011 award are shown at the target level (100%) based on results for the first two years of the 2011-2013 performance cycle below target.

Shares for the 2012 award are shown at the target level (100%) based on results for the first year of the 2012-2014 performance cycle below target.

## Option Exercises and Stock Vested During 2012

| Name<br>(a)          | Option Awards  |  | Stock Awards   |  |
|----------------------|--|--|--|--|
|                      | Number of Shares Acquired<br>on Exercise<br>(#)<br>(b) | Value Realized<br>on Exercise<br>(\$)<br>(c) | Number of Shares Acquired<br>on Vesting<br>(#)<br>(d)(1) | Value Realized<br>on Vesting<br>(\$)<br>(e)(2) |
| Terry D. Hildestad   | —  | —  | —  | —  |
| Doran N. Schwartz    | —  | —  | —  | —  |
| Steven L. Bietz      | —  | —  | —  | —  |
| J. Kent Wells        | —  | —  | 43,103   | 934,042  |
| William E. Schneider | —  | —  | —  | —  |

(1) Reflects the portion of Mr. Wells' additional 2011 annual incentive award that vested on February 16, 2012 and was paid in shares of our common stock determined by dividing \$925,000 by the stock price on December 30, 2011, according to the terms of Mr. Wells' award.

(2) Reflects the value of the portion of Mr. Wells' additional 2011 annual incentive award that was paid in shares of our common stock based on our closing stock price of \$21.67 on February 16, 2012.

## Pension Benefits for 2012

| Name<br>(a)          | Plan Name<br>(b) | Number of<br>Years Credited<br>Service<br>(#)<br>(c) | Present Value<br>of Accumulated<br>Benefit<br>(\$)<br>(d) | Payments<br>During Last<br>Fiscal Year<br>(\$)<br>(e) |
|----------------------|------------------|--|---|---|
| Terry D. Hildestad   | MDU Pension Plan | 35   | 1,662,318   | —   |
|                      | SISP I(1)(3)     | 10   | 2,126,747   | —   |
|                      | SISP II(2)(3)    | 10   | 3,511,576   | —   |
|                      | SISP Excess(4)   | 35   | 378,943   | —   |
| Doran N. Schwartz    | MDU Pension Plan | 4  | 94,002  | —   |
|                      | SISP II(2)(3)    | 5  | 489,028   | —   |
| Steven L. Bietz      | WBI Pension Plan | 28   | 1,154,443   | —   |
|                      | SISP I(1)(3)     | 10   | 799,197   | —   |
|                      | SISP II(2)(3)    | 10   | 768,065   | —   |
|                      | SISP Excess(4)   | 28   | 103,162   | —   |
| J. Kent Wells(5)     | —                | —  | —   | —   |
| William E. Schneider | KR Pension Plan  | 16   | 800,720   | —   |
|                      | SISP I(1)(3)     | 10   | 1,479,910   | —   |
|                      | SISP II(2)(3)    | 10   | 1,748,343   | —   |

(1) Grandfathered under Section 409A.

(2) Not grandfathered under Section 409A.

(3) Years of credited service only affects vesting under SISP I and SISP II. The number of years of credited service in the table reflects the years of vesting service completed in SISP I and SISP II as of December 31, 2012, rather than total years of service with the company. Ten years of vesting service is required to obtain the full benefit under these plans. The present value of accumulated benefits was calculated by assuming the named executive officer would have ten years of vesting service on the assumed benefit commencement date; therefore, no reduction was made to reflect actual vesting levels.

(4) The number of years of credited service under the SISP excess reflects the years of credited benefit service in the appropriate pension plan as of December 31, 2009, when the pension plans were frozen, rather than the years of participation in the SISP excess. We reflect years of credited benefit service in the appropriate pension plan because the SISP excess provides a benefit that is based on benefits that would have been payable under the pension plans absent Internal Revenue Code limitations.

(5) Mr. Wells is not eligible to participate in our pension plan and does not participate in the SISP.

The amounts shown for the pension plan and SISP excess represent the actuarial present values of the executives' accumulated benefits accrued as of December 31, 2012, calculated using a 3.45%, 3.59%, 3.76%, and 3.58% discount rate for the SISP excess, MDU pension plan, WBI pension plan, and KR pension plan, respectively, the 2013 IRS Static Mortality Table for post-retirement mortality, and no recognition of future salary increases or pre-retirement mortality. The assumed retirement ages for these benefits was age 60 for Messrs. Schwartz and Bietz. This is the earliest age at which the executives could begin receiving unreduced benefits. Retirement on December 31, 2012, was assumed for Messrs. Hildestad and Schneider, who were age 63 and 64, respectively, on that date. The amounts shown for the SISP I and SISP II were determined using a 3.45% discount rate and assume benefits commenced at age 65.

PROXY

## Proxy Statement

### Pension Plans

Messrs. Hildestad and Schwartz participate in the MDU Resources Group, Inc. Pension Plan for Non-Bargaining Unit Employees, which we refer to as the MDU pension plan. Mr. Bietz participates in the Williston Basin Interstate Pipeline Company Pension Plan, which we refer to as the WBI pension plan. Mr. Schneider participates in the Knife River Corporation Salaried Employees' Pension Plan, which we refer to as the KR pension plan. Pension benefits under the pension plans are based on the participant's average annual salary over the 60 consecutive month period in which the participant received the highest annual salary during the participant's final 10 years of service. For this purpose, only a participant's salary is considered; incentives and other forms of compensation are not included. Benefits are determined by multiplying (1) the participant's years of credited service by (2) the sum of (a) the average annual salary up to the social security integration level times 1.1% and (b) the average annual salary over the social security integration level times 1.45%. The KR pension plan uses the same formula except that 1.2% and 1.6% are used instead of 1.1% and 1.45%. The maximum years of service recognized when determining benefits under the pension plans is 35. Pension plan benefits are not reduced for social security benefits.

Each of the pension plans was amended to cease benefit accruals as of December 31, 2009, meaning the normal retirement benefit will not change. The years of credited service in the table reflect the named executive officers' years of credited service as of December 31, 2009.

To receive unreduced retirement benefits under the MDU pension plan and the WBI pension plan, participants must either remain employed until age 60 or elect to defer commencement of benefits until age 60. Under the KR pension plan, participants must remain employed until age 62 or elect to defer commencement of benefits until age 62 to receive unreduced benefits. Mr. Hildestad was eligible for unreduced retirement benefits under the MDU pension plan, and Mr. Schneider was eligible for unreduced retirement benefits under the KR pension plan on December 31, 2012. Participants whose employment terminates between the ages of 55 and 60, with 5 years of service under the MDU pension plan and the WBI pension plan are eligible for early retirement benefits. Early retirement benefits are determined by reducing the normal retirement benefit by 0.25% per month for each month before age 60 in the MDU pension plan and the WBI pension plan. If a participant's employment terminates before age 55, the same reduction applies for each month the termination occurs before age 62, with the reduction capped at 21%.

Benefits for single participants under the pension plans are paid as straight life annuities and benefits for married participants are paid as actuarially reduced annuities with a survivor benefit for spouses, unless participants choose otherwise. Participants hired before January 1, 2004, who terminate employment before age 55 may elect to receive their benefits in a lump sum. Mr. Bietz would have been eligible for a lump sum if he had retired on December 31, 2012.

The Internal Revenue Code limits the amounts that may be paid under the pension plans and the amount of compensation that may be recognized when determining benefits. In 2009 when the pension plans were frozen, the maximum annual benefit payable under the pension plans was \$195,000 and the maximum amount of compensation that could be recognized when determining benefits was \$245,000.

### Supplemental Income Security Plan

We also offer key managers and executives, including our named executive officers, except Mr. Wells, benefits under our nonqualified retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. Benefits under the SISP consist of:

- a supplemental retirement benefit intended to augment the retirement income provided under the pension plans – we refer to this benefit as the regular SISP benefit
- an excess retirement benefit relating to Internal Revenue Code limitations on retirement benefits provided under the pension plans – we refer to this benefit as the SISP excess benefit, and
- death benefits – we refer to these benefits as the SISP death benefit.

SISP benefits are forfeited if the participant's employment is terminated for cause.

### Regular SISP Benefits and Death Benefits

Regular SISP benefits and death benefits are determined by reference to one of two schedules attached to the SISP – the original schedule or the amended schedule. Our compensation committee, after receiving recommendations from our chief executive officer, determines the level at which participants are placed in the schedules. A participant's placement is generally, but not always, determined by reference to the participant's annual base salary. Benefit levels in the amended schedule, which became effective on January 1, 2010, are 20% lower than the benefit levels in the original schedule. The amended schedule applies to new participants and participants who receive a benefit level increase on or after January 1, 2010. None of the named executive officers have received a benefit level increase since the amended schedule became effective.

Participants can elect to receive (1) the regular SISP benefit only, (2) the SISP death benefit only, or (3) a combination of both. Regardless of the participant's election, if the participant dies before the regular SISP benefit would commence, only the SISP death benefit is provided. If the participant elects to receive both a regular SISP benefit and a SISP death benefit, each of the benefits is reduced proportionately.

The regular SISP benefits reflected in the table above are based on the assumption that the participant elects to receive only the regular SISP benefit. The present values of the SISP death benefits that would be provided if the named executive officers had died on December 31, 2012, prior to the commencement of regular SISP benefits, are reflected in the table that appears in the section entitled "Potential Payments upon Termination or Change of Control."

Regular SISP benefits that were vested as of December 31, 2004, and were grandfathered under Section 409A of the Internal Revenue Code remain subject to SISP provisions then in effect, which we refer to as SISP I benefits. Regular SISP benefits that are subject to Section 409A of the Internal Revenue Code, which we refer to as SISP II benefits, are governed by amended provisions intended to comply with Section 409A. Participants generally have more discretion with respect to the distributions of their SISP I benefits.

The time and manner in which the regular SISP benefits are paid depend on a variety of factors, including the time and form of benefit elected by the participant and whether the benefits are SISP I or SISP II benefits. Unless the participant elects otherwise, the SISP I benefits are paid over 180 months, with benefits commencing when the participant attains age 65 or, if later, when the participant retires. The SISP II benefits commence when the participant attains age 65 or, if later, when the participant retires, subject to a six-month delay if the participant is subject to the provisions of Section 409A of the Internal Revenue Code that require delayed commencement of these types of retirement benefits. The SISP II benefits are paid over 180 months or, if commencement of payments is delayed for six months, 173 months. If the commencement of benefits is delayed for six months, the first payment includes the payments that would have been paid during the six-month period plus interest equal to one-half of the annual prime interest rate on the participant's last date of employment. If the participant dies after the regular SISP benefits have begun but before receipt of all of the regular SISP benefits, the remaining payments are made to the participant's designated beneficiary.

Rather than receiving their regular SISP I benefits in equal monthly installments over 15 years commencing at age 65, participants can elect a different form and time of commencement of their SISP I benefits. Participants can elect to defer commencement of the regular SISP I benefits. If this is elected, the participant retains the right to receive a monthly SISP death benefit if death occurs prior to the commencement of the regular SISP I benefit.

Participants also can elect to receive their SISP I benefits in one of three actuarially equivalent forms – a life annuity, 100% joint and survivor annuity, or a joint and two-thirds joint and survivor annuity, provided that the cost of providing these actuarial equivalent forms of benefits does not exceed the cost of providing the normal form of benefit. Neither the election to receive an actuarially equivalent benefit nor the administrator's right to pay the regular SISP benefit in the form of an actuarially equivalent lump sum are available with respect to SISP II benefits.

To promote retention, the regular SISP benefits are subject to the following 10-year vesting schedule:

- 0% vesting for less than 3 years of participation
- 20% vesting for 3 years of participation
- 40% vesting for 4 years of participation and
- an additional 10% vesting for each additional year of participation up to 100% vesting for 10 years of participation.

There is an additional vesting requirement on benefit level increases for the regular SISP benefit granted on or after January 1, 2010. The requirement applies only to the increased benefit level. The increased benefit vests after the later of three additional years of participation in the SISP or the end of the regular vesting schedule described above. The additional three-year vesting requirement for benefit level increases is pro-rated for participants who are officers, attain age 65, and, pursuant to the company's bylaws, are required to retire prior to the end of the additional vesting period as follows:

- 33% of the increase vests for participants required to retire at least one year but less than two years after the increase is granted and
- 66% of the increase vests for participants required to retire at least two years but less than three years after the increase is granted.

PROXY

## Proxy Statement

The benefit level increases of participants who attain age 65 and are required to retire pursuant to the company's bylaws will be further reduced to the extent the participants are not fully vested in their regular SISP benefit under the 10-year vesting schedule described above. The additional vesting period associated with a benefit level increase may be waived by the compensation committee.

SISP death benefits become fully vested if the participant dies while actively employed. Otherwise, the SISP death benefits are subject to the same vesting schedules as the regular SISP benefits.

The SISP also provides that if a participant becomes totally disabled, the participant will continue to receive credit for up to two additional years under the SISP as long as the participant is totally disabled during such time. Since the named executive officers other than Mr. Schwartz are fully vested in their SISP benefits, this would not result in any incremental benefit for the named executive officers other than Mr. Schwartz. The present value of these two additional years of service for Mr. Schwartz is reflected in the table in "Potential Payments upon Termination or Change of Control" below.

**SISP Excess Benefits**

SISP excess benefits are equal to the difference between (1) the monthly retirement benefits that would have been payable to the participant under the pension plans absent the limitations under the Internal Revenue Code and (2) the actual benefits payable to the participant under the pension plans. Participants are only eligible for the SISP excess benefits if (1) the participant is fully vested under the pension plan, (2) the participant's employment terminates prior to age 65, and (3) benefits under the pension plan are reduced due to limitations under the Internal Revenue Code on plan compensation. Effective January 1, 2005, participants who were not then vested in the SISP excess benefits were also required to remain actively employed by the company until age 60. In 2009, the plan was amended to limit eligibility for the SISP excess benefit to current SISP participants (1) who were already vested in the SISP excess benefit or (2) who would become vested in the SISP excess benefits if they remain employed with the company until age 60. The plan was further amended to freeze the SISP excess benefits to a maximum of the benefit level payable based on the participant's years of service and compensation level as of December 31, 2009. Messrs. Hildestad, Bietz, and Schneider would be entitled to the SISP excess benefit if they were to terminate employment prior to age 65. Messrs. Schwartz and Wells are not eligible for this benefit.

Benefits generally commence six months after the participant's employment terminates and continue to age 65 or until the death of the participant, if prior to age 65. If a participant who dies prior to age 65 elected a joint and survivor benefit, the survivor's SISP excess benefit is paid until the date the participant would have attained age 65.

**Nonqualified Deferred Compensation for 2012**

| Name                 | Executive<br>Contributions in<br>Last FY | Registrant<br>Contributions in<br>Last FY | Earnings in<br>Aggregate<br>Last FY | Aggregate<br>Withdrawals/<br>Distributions | Aggregate<br>Balance at<br>Last FYE |
|----------------------|--|---|-------------------------------------|--|-------------------------------------|
| (a)                  | (\$)<br>(b)                              | (\$)<br>(c)                               | (\$)<br>(d)                         | (\$)<br>(e)                                | (\$)<br>(f)                         |
| Terry D. Hildestad   | —  | —   | 53,105                              | —  | 1,001,633                           |
| Doran N. Schwartz    | —  | —   | —                                   | —  | —                                   |
| Steven L. Bietz      | —  | —   | —                                   | —  | —                                   |
| J. Kent Wells        | —  | —   | —                                   | —  | —                                   |
| William E. Schneider | —  | —   | 87,334                              | —  | 1,647,225(1)                        |

(1) Includes \$392,000 which was reported in the Summary Compensation Table for 2006 in column (g) and \$37,805 which is reported for 2010 in column (g) of the Summary Compensation Table in this proxy statement.

Participants in the executive incentive compensation plans may elect to defer up to 100% of their annual incentive awards. Deferred amounts accrue interest at a rate determined annually by the compensation committee. The interest rate in effect for 2012 was 5.46% or the "Moody's Rate," which is the average of (i) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for "A" rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12 and (ii) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for "BBB" rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12. The deferred amount will be paid in accordance with the participant's election, following termination of employment or beginning in the fifth year following the year the award was granted. The amounts will be paid in accordance with the participant's election in a lump sum or in monthly installments not to exceed 120 months. In the event of a change of control, all amounts become immediately payable.

PROXY



A change of control is defined as:

- an acquisition during a 12-month period of 30% or more of the total voting power of our stock
- an acquisition of our stock that, together with stock already held by the acquirer, constitutes more than 50% of the total fair market value or total voting power of our stock
- replacement of a majority of the members of our board of directors during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of our board of directors or
- acquisition of our assets having a gross fair market value at least equal to 40% of the total gross fair market value of all of our assets.

### Potential Payments upon Termination or Change of Control

The following tables show the payments and benefits our named executive officers would receive in connection with a variety of employment termination scenarios and upon a change of control. For the named executive officers, the information assumes the terminations and the change of control occurred on December 31, 2012. All of the payments and benefits described below would be provided by the company or its subsidiaries.

The tables exclude compensation and benefits provided under plans or arrangements that do not discriminate in favor of the named executive officers and that are generally available to all salaried employees, such as benefits under our qualified defined benefit pension plan (for employees hired before 2006), accrued vacation pay, continuation of health care benefits, and life insurance benefits. The tables also do not include the named executive officers' benefits under our nonqualified deferred compensation plans, which are reported in the Nonqualified Deferred Compensation for 2012 table. See the Pension Benefits for 2012 table and the Nonqualified Deferred Compensation for 2012 table, and accompanying narratives, for a description of the named executive officers' accumulated benefits under our qualified defined benefit pension plans and our nonqualified deferred compensation plans.

The calculation of the present value of excess SISP benefits our named executive officers would be entitled to upon termination of employment under the SISP was computed based on calculations assuming an age rounded to the nearest whole year of age. Actual payments may differ. The terms of the excess SISP benefit are described following the Pension Benefits for 2012 table.

We provide disability benefits to some of our salaried employees equal to 60% of their base salary, subject to a cap on the amount of base salary taken into account when calculating benefits. For officers, the limit on base salary is \$200,000. For other salaried employees, the limit is \$100,000. For all salaried employees, disability payments continue until age 65 if disability occurs at or before age 60 and for 5 years if disability occurs between the ages of 60 and 65. Disability benefits are reduced for amounts paid as retirement benefits. The amounts in the tables reflect the present value of the disability benefits attributable to the additional \$100,000 of base salary recognized for executives under our disability program, subject to the 60% limitation, after reduction for amounts that would be paid as retirement benefits. As the tables reflect, the reduction for amounts paid as retirement benefits would eliminate disability benefits assuming a termination of employment on December 31, 2012 for Messrs. Hildestad, Bietz, and Schneider.

Upon a change of control, share-based awards granted under our Long-Term Performance-Based Incentive Plan vest and non-share-based awards are paid in cash. All performance share awards for Messrs. Hildestad, Schwartz, Bietz, Wells, and Schneider and the annual incentives for Messrs. Hildestad, Bietz, Wells, and Schneider, which were awarded under the Long-Term Performance-Based Incentive Plan, would vest at their target levels. For this purpose, the term "change of control" is defined as:

- the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock
- a change in a majority of our board of directors since April 22, 1997, without the approval of a majority of the board members as of April 22, 1997, or whose election was approved by such board members
- consummation of a merger or similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation's outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors or
- stockholder approval of our liquidation or dissolution.

PROXY

Performance share awards will be forfeited if the participant's employment terminates for any reason before the participant has reached age 55 and completed 10 years of service. Performance shares and related dividend equivalents for those participants whose employment is terminated other than for cause after the participant has reached age 55 and completed 10 years of service will be prorated as follows:

- if the termination of employment occurs during the first year of the performance period, the shares are forfeited
- if the termination of employment occurs during the second year of the performance period, the executive receives a prorated portion of any performance shares earned based on the number of months employed during the performance period and
- if the termination of employment occurs during the third year of the performance period, the executive receives the full amount of any performance shares earned.

As of December 31, 2012, Messrs. Schwartz, Bietz, and Wells had not satisfied this requirement. Accordingly, if a December 31, 2012 termination other than for cause without a change of control is assumed, the named executive officers' 2012-2014 performance share awards would be forfeited, any amounts earned under the 2011-2013 performance share awards for Messrs. Hildestad and Schneider would be reduced by one-third and such award for Messrs. Schwartz and Bietz would be forfeited, and any amounts earned under the 2010-2012 performance share awards for Messrs. Hildestad and Schneider would not be reduced and the award for Messrs. Schwartz and Bietz would be forfeited. Mr. Wells had no 2011-2013 or 2010-2012 performance share awards. The number of performance shares earned following a termination depends on actual performance through the full performance period. As actual performance for the 2010-2012 performance share awards has been determined, the amounts for these awards in the event of a termination without a change of control were based on actual performance, which resulted in vesting of 0% of the target award. For the 2011-2013 performance share awards, because we do not know what actual performance through the entire performance period will be, we have assumed target performance will be achieved and, therefore, show two-thirds of the target award. No amounts are shown for the 2012-2014 performance share awards because such awards would be forfeited. Although vesting would only occur after completion of the performance period, the amounts shown in the tables were not reduced to reflect the present value of the performance shares that could vest. Dividend equivalents attributable to earned performance shares would also be paid. Dividend equivalents accrued through December 31, 2012, are included in the amounts shown.

The value of the vesting of performance shares shown in the tables was determined by multiplying the number of performance shares that would vest due to termination or a change of control by the closing price of our stock on December 31, 2012.

The compensation committee may consider providing severance benefits on a case-by-case basis for employment terminations. The compensation committee adopted a checklist of factors in February 2005 to consider when determining whether any such severance benefits should be paid. The tables do not reflect any such severance benefits, as these benefits are made in the discretion of the committee on a case-by-case basis and it is not possible to estimate the severance benefits, if any, that would be paid.

**Terry D. Hildestad**

| Executive Benefits and<br>Payments Upon<br>Termination or<br>Change of Control | Voluntary<br>Termination<br>(\$) | Not for<br>Cause<br>Termination<br>(\$) | For Cause<br>Termination<br>(\$) | Death<br>(\$)     | Disability<br>(\$) | Change of<br>Control<br>(With<br>Termination)<br>(\$) | Change of<br>Control<br>(Without<br>Termination)<br>(\$) |
|--|----------------------------------|---|----------------------------------|-------------------|--------------------|---|--|
| <b>Compensation:</b>   |                                  |   |                                  |                   |                    |   |  |
| Short-term Incentive(1)  |                                  |   |                                  |                   |                    | 750,000   | 750,000  |
| 2010-2012 Performance Shares   |                                  |   |                                  |                   |                    | 1,107,087   | 1,107,087  |
| 2011-2013 Performance Shares   | 816,176                          | 816,176                                 |                                  | 816,176           | 816,176            | 1,224,265   | 1,224,265  |
| 2012-2014 Performance Shares   |                                  |   |                                  |                   |                    | 1,144,577   | 1,144,577  |
| <b>Benefits and Perquisites:</b>   |                                  |   |                                  |                   |                    |   |  |
| Regular SISP(2)  | 5,709,419                        | 5,709,419                               |                                  |                   | 5,709,419          | 5,709,419   |  |
| Excess SISP(3)   | 378,944                          | 378,944                                 |                                  |                   | 378,944            | 378,944   |  |
| SISP Death Benefits(4)   |                                  |   |                                  | 12,024,426        |                    |   |  |
| <b>Total</b>   | <b>6,904,539</b>                 | <b>6,904,539</b>                        |                                  | <b>12,840,602</b> | <b>6,904,539</b>   | <b>10,314,292</b>                                     | <b>4,225,929</b>   |

- (1) Represents the target 2012 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (2) Represents the present value of Mr. Hildestad's vested regular SISP benefit as of December 31, 2012, which was \$42,710 per month for 15 years, commencing at age 65. Present value was determined using a 3.45% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2012 table.
- (3) Represents the present value of all excess SISP benefits Mr. Hildestad would be entitled to upon termination of employment under the SISP. Present value was determined using a 3.45% discount rate. The terms of the excess SISP benefit are described following the Pension Benefits for 2012 table.
- (4) Represents the present value of 180 monthly payments of \$85,420 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 3.45% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2012 table.

PROXY

## Proxy Statement

## Doran N. Schwartz

| Executive Benefits and<br>Payments Upon<br>Termination or<br>Change of Control | Voluntary<br>Termination<br>(\$) | Not for<br>Cause<br>Termination<br>(\$) | For Cause<br>Termination<br>(\$) | Death<br>(\$)    | Disability<br>(\$) | Change of<br>Control<br>(With<br>Termination)<br>(\$) | Change of<br>Control<br>(Without<br>Termination)<br>(\$) |
|--|----------------------------------|---|----------------------------------|------------------|--------------------|---|--|
| <b>Compensation:</b>   |                                  |   |                                  |                  |                    |   |  |
| 2010-2012 Performance Shares   |                                  |   |                                  |                  |                    | 191,882   | 191,882  |
| 2011-2013 Performance Shares   |                                  |   |                                  |                  |                    | 222,811   | 222,811  |
| 2012-2014 Performance Shares   |                                  |   |                                  |                  |                    | 228,902   | 228,902  |
| <b>Benefits and Perquisites:</b>   |                                  |   |                                  |                  |                    |   |  |
| Regular SISP   | 244,273(1)                       | 244,273(1)                              |                                  |                  | 341,982(2)         | 244,273(1)  |  |
| SISP Death Benefits(3)   |                                  |   |                                  | 2,055,217        |                    |   |  |
| Disability Benefits(4)   |                                  |   |                                  |                  | 855,522            |   |  |
| <b>Total</b>   | <b>244,273</b>                   | <b>244,273</b>                          |                                  | <b>2,055,217</b> | <b>1,197,504</b>   | <b>887,868</b>  | <b>643,595</b>   |

- (1) Represents the present value of Mr. Schwartz's vested regular SISP benefit as of December 31, 2012, which was \$3,650 per month for 15 years, commencing at age 65. Present value was determined using a 3.45% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2012 table.
- (2) Represents the present value of Mr. Schwartz's vested SISP benefit described in footnote 1, adjusted to reflect the increase in the present value of his regular SISP benefit that would result from an additional two years of vesting under the SISP. Present value was determined using a 3.45% discount rate.
- (3) Represents the present value of 180 monthly payments of \$14,600 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 3.45% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2012 table.
- (4) Represents the present value of the disability benefit after reduction for amounts that would be paid as retirement benefits. Present value was determined using a 3.59% discount rate.

**Steven L. Bietz**

| Executive Benefits and<br>Payments Upon<br>Termination or<br>Change of Control | Voluntary<br>Termination<br>(\$) | Not for<br>Cause<br>Termination<br>(\$) | For Cause<br>Termination<br>(\$) | Death<br>(\$)    | Disability<br>(\$) | Change of<br>Control<br>(With<br>Termination)<br>(\$) | Change of<br>Control<br>(Without<br>Termination)<br>(\$) |
|--|----------------------------------|---|----------------------------------|------------------|--------------------|---|--|
| <b>Compensation:</b>   |                                  |   |                                  |                  |                    |   |  |
| Short-term Incentive(1)  |                                  |   |                                  |                  |                    | 234,325   | 234,325  |
| 2010-2012 Performance Shares   |                                  |   |                                  |                  |                    | 309,972   | 309,972  |
| 2011-2013 Performance Shares   |                                  |   |                                  |                  |                    | 353,063   | 353,063  |
| 2012-2014 Performance Shares   |                                  |   |                                  |                  |                    | 330,084   | 330,084  |
| <b>Benefits and Perquisites:</b>   |                                  |   |                                  |                  |                    |   |  |
| Regular SISP(2)  | 1,556,929                        | 1,556,929                               |                                  |                  | 1,556,929          | 1,556,929   |  |
| Excess SISP(3)   | 180,597                          | 180,597                                 |                                  |                  | 180,597            | 180,597   |  |
| SISP Death Benefits(4)   |                                  |   |                                  | 4,535,554        |                    |   |  |
| <b>Total</b>   | <b>1,737,526</b>                 | <b>1,737,526</b>                        |                                  | <b>4,535,554</b> | <b>1,737,526</b>   | <b>2,964,970</b>                                      | <b>1,227,444</b>   |

- (1) Represents the target 2012 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (2) Represents the present value of Mr. Bietz's vested regular SISP benefit as of December 31, 2012, which was \$16,110 per month for 15 years, commencing at age 65. Present value was determined using a 3.45% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2012 table.
- (3) Represents the present value of all excess SISP benefits Mr. Bietz would be entitled to upon termination of employment under the SISP. Present value was determined using a 3.45% discount rate. The terms of the excess SISP benefit are described following the Pension Benefits for 2012 table.
- (4) Represents the present value of 180 monthly payments of \$32,220 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 3.45% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2012 table.

PROXY

**J. Kent Wells**

| Executive Benefits and<br>Payments Upon<br>Termination or<br>Change of Control | Voluntary<br>Termination<br>(\$) | Not for<br>Cause<br>Termination<br>(\$) | For Cause<br>Termination<br>(\$) | Death<br>(\$) | Disability<br>(\$) | Change of<br>Control<br>(With<br>Termination)<br>(\$) | Change of<br>Control<br>(Without<br>Termination)<br>(\$) |
|--|----------------------------------|---|----------------------------------|---------------|--------------------|---|--|
| <b>Compensation:</b>   |                                  |   |                                  |               |                    |   |  |
| Short-term Incentive(1)  |                                  |   |                                  |               |                    | 687,500   | 687,500  |
| 2012-2014 Performance Shares   |                                  |   |                                  |               |                    | 1,119,133   | 1,119,133  |
| <b>Benefits and Perquisites:</b>   |                                  |   |                                  |               |                    |   |  |
| Disability Benefits (2)  |                                  |   |                                  |               | 452,506            |   |  |
| <b>Total</b>   |                                  |   |                                  |               | <b>452,506</b>     | <b>1,806,633</b>                                      | <b>1,806,633</b>   |

(1) Represents the target 2012 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.

(2) Represents the present value of the disability benefit. Present value was determined using a 3.76% discount rate.

**William E. Schneider**

| Executive Benefits and<br>Payments Upon<br>Termination or<br>Change of Control | Voluntary<br>Termination<br>(\$) | Not for<br>Cause<br>Termination<br>(\$) | For Cause<br>Termination<br>(\$) | Death<br>(\$)    | Disability<br>(\$) | Change of<br>Control<br>(With<br>Termination)<br>(\$) | Change of<br>Control<br>(Without<br>Termination)<br>(\$) |
|--|----------------------------------|---|----------------------------------|------------------|--------------------|---|--|
| <b>Compensation:</b>   |                                  |   |                                  |                  |                    |   |  |
| Short-term Incentive(1)  |                                  |   |                                  |                  |                    | 290,810   | 290,810  |
| 2010-2012 Performance Shares   |                                  |   |                                  |                  |                    | 396,249   | 396,249  |
| 2011-2013 Performance Shares   | 292,124                          | 292,124                                 |                                  | 292,124          | 292,124            | 438,174   | 438,174  |
| 2012-2014 Performance Shares   |                                  |   |                                  |                  |                    | 409,657   | 409,657  |
| <b>Benefits and Perquisites:</b>   |                                  |   |                                  |                  |                    |   |  |
| Regular SISP(2)  | 3,161,624                        | 3,161,624                               |                                  |                  | 3,161,624          | 3,161,624   |  |
| SISP Death Benefits(3)   |                                  |   |                                  | 6,433,110        |                    |   |  |
| <b>Total</b>   | <b>3,453,748</b>                 | <b>3,453,748</b>                        |                                  | <b>6,725,234</b> | <b>3,453,748</b>   | <b>4,696,514</b>                                      | <b>1,534,890</b>   |

- (1) Represents the target 2012 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (2) Represents the present value of Mr. Schneider's vested regular SISP benefit as of December 31, 2012, which was \$22,850 per month for 15 years, commencing at age 65. Present value was determined using a 3.45% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2012 table.
- (3) Represents the present value of 180 monthly payments of \$45,700 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 3.45% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2012 table.

PROXY

## Proxy Statement

## Director Compensation for 2012

| Name<br>(a)       | Fees<br>Earned<br>or Paid<br>in Cash<br>(\$)<br>(b) | Stock<br>Awards<br>(\$)<br>(c)(1) | Option<br>Awards<br>(\$)<br>(d) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$)<br>(e) | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$)<br>(f) | All Other<br>Compensation<br>(\$)<br>(g)(2) | Total<br>(\$)<br>(h) |
|-------------------|---|-----------------------------------|---------------------------------|---|--|---|----------------------|
| Thomas Everist    | 65,000  | 110,000                           | —                               | —   | —  | 174   | 175,174              |
| Karen B. Fagg     | 65,000  | 110,000                           | —                               | —   | —  | 174   | 175,174              |
| A. Bart Holaday   | 55,000(3)   | 110,000                           | —                               | —   | —  | 174   | 165,174              |
| Dennis W. Johnson | 70,000  | 110,000                           | —                               | —   | —  | 174   | 180,174              |
| Thomas C. Knudson | 55,000  | 110,000                           | —                               | —   | —  | 674   | 165,674              |
| Richard H. Lewis  | 55,000  | 110,000                           | —                               | —   | —  | 174   | 165,174              |
| Patricia L. Moss  | 55,000(4)   | 110,000                           | —                               | —   | —  | 174   | 165,174              |
| Harry J. Pearce   | 130,000   | 110,000                           | —                               | —   | —  | 174   | 240,174              |
| John K. Wilson    | 55,000(5)   | 110,000                           | —                               | —   | —  | 174   | 165,174              |

(1) This column reflects the aggregate grant date fair value of 5,467 shares of MDU Resources Group, Inc. stock purchased for our non-employee directors measured in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock based compensation in FASB Accounting Standards Codification Topic 718. The grant date fair value is based on the purchase price of our common stock on the grant date on November 19, 2012, which was \$20.118. The \$14.89 in cash paid to each director for the fractional shares is included in the amounts reported in column (c) to this table.

(2) Group life insurance premium of \$174 and a matching charitable contribution of \$500 for Mr. Knudson.

(3) Includes \$14,999 that Mr. Holaday received in our common stock in lieu of cash.

(4) Includes \$27,481 that Ms. Moss received in our common stock in lieu of cash.

(5) Includes \$54,982 that Mr. Wilson received in our common stock in lieu of cash.

The following table shows the cash and stock retainers payable to our non-employee directors.

|  |          |
|--|----------|
| Base Retainer                                | \$55,000 |
| Additional Retainers:                        |          |
| Non-Executive Chairman                       | 75,000   |
| Lead Director, if any                        | 33,000   |
| Audit Committee Chairman                     | 15,000   |
| Compensation Committee Chairman              | 10,000   |
| Nominating and Governance Committee Chairman | 10,000   |
| Annual Stock Grant(1)                        | 110,000  |

(1) The annual stock grant is a grant of shares equal in value to \$110,000.

There are no meeting fees.

In addition to liability insurance, we maintain group life insurance in the amount of \$100,000 on each non-employee director for the benefit of each director's beneficiaries during the time each director serves on the board. The annual cost per director is \$174.

Directors may defer all or any portion of the annual cash retainer and any other cash compensation paid for service as a director pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

Directors are reimbursed for all reasonable travel expenses including spousal expenses in connection with attendance at meetings of the board and its committees. All amounts together with any other perquisites were below the disclosure threshold for 2012.

Our post-retirement income plan for directors was terminated in May 2001 for current and future directors. The net present value of each director's benefit was calculated and converted into phantom stock. Payment is deferred pursuant to the Deferred Compensation Plan for Directors and will be made in cash over a five-year period after the director's retirement from the board.

PROXY



Our director stock ownership policy contained in our corporate governance guidelines requires each director to own our common stock equal in value to five times the director's annual cash base retainer. Shares acquired through purchases on the open market and participation in our director stock plans will be considered in ownership calculations as will ownership of our common stock by a spouse. A director is allowed five years commencing January 1 of the year following the year of that director's initial election to the board to meet the requirements. The level of common stock ownership is monitored with an annual report made to the compensation committee of the board. For stock ownership, please see "Security Ownership."

## Narrative Disclosure of our Compensation Policies and Practices as They Relate to Risk Management

The human resources department has conducted an assessment of the risks arising from our compensation policies and practices for all employees and concluded that none of these risks is reasonably likely to have a material adverse effect on the company. Based on the human resources department's assessment and taking into account information received from the risk identification process, senior management and our management policy committee concluded that risks arising from our compensation policies and practices for all employees are not reasonably likely to have a material adverse effect on the company. After review and discussion with senior management, the compensation committee concurred with this assessment.

As part of its assessment of the risks arising from our compensation policies and practices for all employees, the human resources department identified the principal areas of risk faced by the company that may be affected by our compensation policies and practices for all employees, including any risks resulting from our operating businesses' compensation policies and practices. In assessing the risks arising from our compensation policies and practices, the human resources department identified the following practices designed to prevent excessive risk taking:

### Business management and governance practices

- risk management is a specific performance competency to annual performance assessment of Section 16 officers
- board oversight on capital expenditure and operating plans that promotes careful consideration of financial assumptions
- limitation on business acquisitions without board approval
- employee integrity training programs and anonymous reporting systems
- quarterly risk assessment reports at audit committee meetings and
- prohibitions on holding company stock in an account that is subject to a margin call, pledging company stock as collateral for a loan, and hedging of company stock by Section 16 officers and directors.

### Compensation practices

- active compensation committee review of executive compensation, including comparison of executive compensation to total stockholder return ratio to the ratio for the performance graph peer group (PEER Analysis)
- the initial determination of a position's salary grade to be at or near the 50th percentile of base salaries paid to similar positions at peer group companies and/or relevant industry companies
- consideration of peer group and/or relevant industry practices to establish appropriate compensation target amounts
- a balanced compensation mix of fixed salary and annual or long-term incentives tied to the company's financial performance
- use of interpolation for annual and long-term incentive awards to avoid payout cliffs
- negative discretion to adjust any annual or long-term incentive award payment downward
- use of caps on annual incentive awards and long-term incentive stock grant awards (200% of target for awards granted in 2012)
- discretionary clawbacks on incentive payments in the event of a financial restatement
- use of performance shares, rather than stock options or stock appreciation rights, as equity component of incentive compensation
- use of performance shares with a relative, rather than an absolute, total stockholder return performance goal and mandatory reduction in award if total stockholder return is negative
- use of three-year performance periods to discourage short-term risk-taking

PROXY

## BALANCE SHEET

Year: 2012

|    | Account Number & Title                               | Last Year              | This Year              | % Change      |
|----|--|------------------------|------------------------|---------------|
| 1  | <b>Assets and Other Debits</b>                       |                        |                        |               |
| 2  | Utility Plant  |                        |                        |               |
| 3  | 101 Gas Plant in Service                             | \$333,770,850          | \$360,511,605          | 8.01%         |
| 4  | 101.1 Property Under Capital Leases                  |                        |                        |               |
| 5  | 102 Gas Plant Purchased or Sold                      |                        |                        |               |
| 6  | 104 Gas Plant Leased to Others                       |                        |                        |               |
| 7  | 105 Gas Plant Held for Future Use                    |                        |                        |               |
| 8  | 105.1 Production Properties Held for Future Use      |                        |                        |               |
| 9  | 106 Completed Constr. Not Classified - Gas           |                        |                        |               |
| 10 | 107 Construction Work in Progress - Gas              | 2,626,272              | 14,649,404             | 457.80%       |
| 11 | 108 (Less) Accumulated Depreciation                  | (183,602,702)          | (190,780,799)          | 3.91%         |
| 12 | 111 (Less) Accumulated Amortization & Depletion      | (1,304,859)            | (1,375,827)            | 5.44%         |
| 13 | 114 Gas Plant Acquisition Adjustments                | 97,266                 | 97,266                 | 0.00%         |
| 14 | 115 (Less) Accum. Amort. Gas Plant Acq. Adj.         | (52,392)               | (55,211)               | 5.38%         |
| 15 | 116 Other Gas Plant Adjustments                      |                        |                        |               |
| 16 | 117 Gas Stored Underground - Noncurrent              | 3,551,913              | 2,968,462              | -16.43%       |
| 17 | 118 Other Utility Plant                              | 1,112,249,369          | 1,201,932,822          | 8.06%         |
| 18 | 119 Accum. Depr. and Amort. - Other Util. Plant      | (514,132,722)          | (527,319,523)          | 2.56%         |
| 19 | <b>TOTAL Utility Plant</b>                           | <b>\$753,202,995</b>   | <b>\$860,628,199</b>   | <b>14.26%</b> |
| 20 | <b>Other Property &amp; Investments</b>              |                        |                        |               |
| 21 | 121 Nonutility Property                              | \$4,345,368            | \$4,584,951            | 5.51%         |
| 22 | 122 (Less) Accum. Depr. & Amort. of Nonutil. Prop.   | (1,460,122)            | (1,636,553)            | 12.08%        |
| 23 | 123 Investments in Associated Companies              |                        |                        |               |
| 24 | 123.1 Investments in Subsidiary Companies            | 2,402,890,906          | 2,253,293,721          | -6.23%        |
| 25 | 124 Other Investments                                | 47,834,766             | 52,122,735             | 8.96%         |
| 26 | 125 Sinking Funds                                    |                        |                        |               |
| 27 | <b>TOTAL Other Property &amp; Investments</b>        | <b>\$2,453,610,918</b> | <b>\$2,308,364,854</b> | <b>-5.92%</b> |
| 28 | <b>Current &amp; Accrued Assets</b>                  |                        |                        |               |
| 29 | 131 Cash   | \$6,845,910            | \$3,444,688            | -49.68%       |
| 30 | 132-134 Special Deposits                             | 1,200                  | 255,310                | 21175.83%     |
| 31 | 135 Working Funds                                    | 54,764                 | 150,850                | 175.45%       |
| 32 | 136 Temporary Cash Investments                       |                        |                        |               |
| 33 | 141 Notes Receivable                                 |                        |                        |               |
| 34 | 142 Customer Accounts Receivable                     | 26,202,128             | 24,120,553             | -7.94%        |
| 35 | 143 Other Accounts Receivable                        | 2,785,945              | 20,937,588             | 651.54%       |
| 36 | 144 (Less) Accum. Provision for Uncollectible Accts. | (237,599)              | (275,241)              | 15.84%        |
| 37 | 145 Notes Receivable - Associated Companies          |                        |                        |               |
| 38 | 146 Accounts Receivable - Associated Companies       | 28,733,840             | 2,957,114              | -89.71%       |
| 39 | 151 Fuel Stock                                       | 5,921,977              | 5,129,837              | -13.38%       |
| 40 | 152 Fuel Stock Expenses Undistributed                |                        |                        |               |
| 41 | 153 Residuals and Extracted Products                 |                        |                        |               |
| 42 | 154 Plant Materials and Operating Supplies           | 14,611,115             | 18,983,774             | 29.93%        |
| 43 | 155 Merchandise                                      | 915,028                | 451,882                | -50.62%       |
| 44 | 156 Other Material & Supplies                        |                        |                        |               |
| 45 | 163 Stores Expense Undistributed                     |                        |                        |               |
| 46 | 164.1 Gas Stored Underground - Current               | 21,147,886             | 16,903,055             | -20.07%       |
| 47 | 165 Prepayments                                      | 4,929,924              | 4,829,235              | -2.04%        |
| 48 | 166 Advances for Gas Explor., Devl. & Production     |                        |                        |               |
| 49 | 171 Interest & Dividends Receivable                  |                        |                        |               |
| 50 | 172 Rents Receivable                                 |                        |                        |               |
| 51 | 173 Accrued Utility Revenues                         | 31,824,896             | 39,447,024             | 23.95%        |
| 52 | 174 Miscellaneous Current & Accrued Assets           |                        |                        |               |
| 53 | <b>TOTAL Current &amp; Accrued Assets</b>            | <b>\$143,737,014</b>   | <b>\$137,335,669</b>   | <b>-4.45%</b> |

## BALANCE SHEET

|    | Account Number & Title                              | Last Year              | This Year              | % Change      |
|----|---|------------------------|------------------------|---------------|
| 1  | <b>Assets and Other Debits (cont.)</b>              |                        |                        |               |
| 2  |   |                        |                        |               |
| 3  | <b>Deferred Debits</b>                              |                        |                        |               |
| 4  |   |                        |                        |               |
| 5  | 181 Unamortized Debt Expense                        | \$1,046,963            | \$1,407,362            | 34.42%        |
| 6  | 182.1 Extraordinary Property Losses                 |                        |                        |               |
| 7  | 182.2 Unrecovered Plant & Regulatory Study Costs    | 8,953,457              | 4,959,490              | -44.61%       |
| 8  | 182.3 Other Regulatory Assets                       | 123,145,685            | 115,340,807            | -6.34%        |
| 9  | 183 Prelim. Electric Survey & Investigation Chrg.   | 1,311,495              | 431,776                | -67.08%       |
| 10 | 183.1 Prelim. Nat. Gas Survey & Investigation Chrg. |                        |                        |               |
| 11 | 183.2 Other Prelim. Nat. Gas Survey & Invtg. Chrgs. |                        |                        |               |
| 12 | 184 Clearing Accounts                               | 141,904                | (18,477)               | -113.02%      |
| 13 | 185 Temporary Facilities                            |                        |                        |               |
| 14 | 186 Miscellaneous Deferred Debits                   | 28,845,868             | 27,076,963             | -6.13%        |
| 15 | 187 Deferred Losses from Disposition of Util. Plant |                        |                        |               |
| 16 | 188 Research, Devel. & Demonstration Expend.        |                        |                        |               |
| 17 | 189 Unamortized Loss on Reacquired Debt             | 8,846,102              | 8,126,591              | -8.13%        |
| 18 | 190 Accumulated Deferred Income Taxes               | 65,712,445             | 68,164,363             | 3.73%         |
| 19 | 191 Unrecovered Purchased Gas Costs                 | 2,622,263              | 2,915,460              | 11.18%        |
| 20 | 192.1 Unrecovered Incremental Gas Costs             |                        |                        |               |
| 21 | 192.2 Unrecovered Incremental Surcharges            |                        |                        |               |
| 22 | <b>TOTAL Deferred Debits</b>                        | <b>\$240,626,182</b>   | <b>\$228,404,335</b>   | <b>-5.08%</b> |
| 23 |   |                        |                        |               |
| 24 | <b>TOTAL ASSETS &amp; OTHER DEBITS</b>              | <b>\$3,591,177,109</b> | <b>\$3,534,733,057</b> | <b>-1.57%</b> |
|    | Account Number & Title                              | This Year              | This Year              | % Change      |
| 25 | <b>Liabilities and Other Credits</b>                |                        |                        |               |
| 26 |   |                        |                        |               |
| 27 | <b>Proprietary Capital</b>                          |                        |                        |               |
| 28 |   |                        |                        |               |
| 29 | 201 Common Stock Issued                             | \$189,332,485          | \$189,369,450          | 0.02%         |
| 30 | 202 Common Stock Subscribed                         |                        |                        |               |
| 31 | 204 Preferred Stock Issued                          | 15,000,000             | 15,000,000             | 0.00%         |
| 32 | 205 Preferred Stock Subscribed                      |                        |                        |               |
| 33 | 207 Premium on Capital Stock                        | 1,039,849,252          | 1,043,190,134          | 0.32%         |
| 34 | 211 Miscellaneous Paid-In Capital                   |                        |                        |               |
| 35 | 213 (Less) Discount on Capital Stock                |                        |                        |               |
| 36 | 214 (Less) Capital Stock Expense                    | (4,110,305)            | (4,110,305)            | 0.00%         |
| 37 | 216 Appropriated Retained Earnings                  | 505,281,931            | 520,210,825            | 2.95%         |
| 38 | 216.1 Unappropriated Retained Earnings              | 1,080,840,155          | 936,934,577            | -13.31%       |
| 39 | 217 (Less) Reacquired Capital Stock                 | (3,625,813)            | (3,625,813)            | 0.00%         |
| 40 | 219 Accumulated Other Comprehensive Income          | (47,000,996)           | (48,720,612)           | -3.66%        |
| 41 | <b>TOTAL Proprietary Capital</b>                    | <b>\$2,775,566,709</b> | <b>\$2,648,248,256</b> | <b>-4.59%</b> |
| 42 |   |                        |                        |               |
| 43 | <b>Long Term Debt</b>                               |                        |                        |               |
| 44 |   |                        |                        |               |
| 45 | 221 Bonds   | \$280,000,000          | \$280,000,000          | 0.00%         |
| 46 | 222 (Less) Reacquired Bonds                         |                        |                        |               |
| 47 | 223 Advances from Associated Companies              |                        |                        |               |
| 48 | 224 Other Long Term Debt                            | 888,853                | 76,867,452             | 8547.94%      |
| 49 | 225 Unamortized Premium on Long Term Debt           |                        |                        |               |
| 50 | 226 (Less) Unamort. Discount on Long Term Debt-Dr.  |                        |                        |               |
| 51 | <b>TOTAL Long Term Debt</b>                         | <b>\$280,888,853</b>   | <b>\$356,867,452</b>   | <b>27.05%</b> |

**BALANCE SHEET**

|    | Account Number & Title                              | Last Year              | This Year              | % Change       |
|----|---|------------------------|------------------------|----------------|
| 1  |   |                        |                        |                |
| 2  | <b>Total Liabilities and Other Credits (cont.)</b>  |                        |                        |                |
| 3  |   |                        |                        |                |
| 4  | <b>Other Noncurrent Liabilities</b>                 |                        |                        |                |
| 5  |   |                        |                        |                |
| 6  | 227 Obligations Under Cap. Leases - Noncurrent      |                        |                        |                |
| 7  | 228.1 Accumulated Provision for Property Insurance  |                        |                        |                |
| 8  | 228.2 Accumulated Provision for Injuries & Damages  | \$568,573              | \$1,064,262            | 87.18%         |
| 9  | 228.3 Accumulated Provision for Pensions & Benefits | 73,404,001             | 59,754,547             | -18.59%        |
| 10 | 228.4 Accumulated Misc. Operating Provisions        |                        |                        |                |
| 11 | 229 Accumulated Provision for Rate Refunds          | 640,000                | 4,364,636              | 581.97%        |
| 12 | 230 Asset Retirement Obligations                    | 6,645,275              | 6,789,483              | 2.17%          |
| 13 | <b>TOTAL Other Noncurrent Liabilities</b>           | <b>\$81,257,849</b>    | <b>\$71,972,928</b>    | <b>-11.43%</b> |
| 14 |   |                        |                        |                |
| 15 | <b>Current &amp; Accrued Liabilities</b>            |                        |                        |                |
| 16 |   |                        |                        |                |
| 17 | 231 Notes Payable                                   |                        |                        |                |
| 18 | 232 Accounts Payable                                | 36,325,957             | 41,180,110             | 13.36%         |
| 19 | 233 Notes Payable to Associated Companies           |                        |                        |                |
| 20 | 234 Accounts Payable to Associated Companies        | 4,867,683              | 6,422,842              | 31.95%         |
| 21 | 235 Customer Deposits                               | 1,926,012              | 1,593,246              | -17.28%        |
| 22 | 236 Taxes Accrued                                   | 18,303,603             | 12,398,861             | -32.26%        |
| 23 | 237 Interest Accrued                                | 4,928,205              | 4,926,930              | -0.03%         |
| 24 | 238 Dividends Declared                              | 31,794,172             | 170,817                | -99.46%        |
| 25 | 239 Matured Long Term Debt                          |                        |                        |                |
| 26 | 240 Matured Interest                                |                        |                        |                |
| 27 | 241 Tax Collections Payable                         | 1,660,047              | 968,815                | -41.64%        |
| 28 | 242 Miscellaneous Current & Accrued Liabilities     | 21,988,799             | 22,283,490             | 1.34%          |
| 29 | 243 Obligations Under Capital Leases - Current      |                        |                        |                |
| 30 | <b>TOTAL Current &amp; Accrued Liabilities</b>      | <b>\$121,794,478</b>   | <b>\$89,945,111</b>    | <b>-26.15%</b> |
| 31 |   |                        |                        |                |
| 32 | <b>Deferred Credits</b>                             |                        |                        |                |
| 33 |   |                        |                        |                |
| 34 | 252 Customer Advances for Construction              | \$8,440,494            | \$13,769,060           | 63.13%         |
| 35 | 253 Other Deferred Credits                          | 108,892,007            | 106,324,544            | -2.36%         |
| 36 | 254 Other Regulatory Liabilities                    | 10,003,775             | 9,543,392              | -4.60%         |
| 37 | 255 Accumulated Deferred Investment Tax Credits     | 871,217                | 813,836                | -6.59%         |
| 38 | 256 Deferred Gains from Disposition Of Util. Plant  |                        |                        |                |
| 39 | 257 Unamortized Gain on Reacquired Debt             |                        |                        |                |
| 40 | 281-283 Accumulated Deferred Income Taxes           | 203,461,727            | 237,248,478            | 16.61%         |
| 41 | <b>TOTAL Deferred Credits</b>                       | <b>\$331,669,220</b>   | <b>\$367,699,310</b>   | <b>10.86%</b>  |
| 42 |   |                        |                        |                |
| 43 | <b>TOTAL LIABILITIES &amp; OTHER CREDITS</b>        | <b>\$3,591,177,109</b> | <b>\$3,534,733,057</b> | <b>-1.57%</b>  |

| Name of Respondent                        | This Report is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr) | Year/Period of Report |
|---|---|--------------------------------|-----------------------|
| MDU Resources Group, Inc.                 |   | 12/31/2012                     | 2012/Q4               |
| 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  |
| Big Stone Station   | 450-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership) |
| Centennial          | Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company                         |
| Company             | MDU Resources Group, Inc.   |
| EBITDA              | Earnings before interest, taxes, depreciation and amortization  |
| EPA                 | U.S. Environmental Protection Agency  |
| 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                                    |
| IFRS                | International Financial Reporting Standards   |
| 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:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>12/31/2012 | Year/Period of Report<br>2012/Q4 |
| MDU Resources Group, Inc.                 |   |  |                                  |
| 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.

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

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 \$1.4 billion; current and accrued assets would increase by \$990.7 million; deferred debits would increase by \$723.9 million; long-term debt would increase by \$1.3 billion; other noncurrent liabilities and current and accrued liabilities would increase by \$688.2 million; and deferred credits would increase by \$1.2 billion as of December 31, 2012. Furthermore, operating revenues would increase by \$3.6 billion and operating expenses, excluding income taxes, would increase by \$3.7 billion for the twelve months ended December 31, 2012. In addition, net cash provided by operating activities would increase by \$357.5 million; net cash used in investing activities would increase by \$741.1 million; net cash provided by financing activities would increase by \$273.3 million; the effect of exchange rate changes on cash would decrease by \$146,000; and the net change in cash and cash equivalents would be a decrease of \$110.4 million for the twelve months ended December 31, 2012. 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 Note 3 for more information regarding the nature and amounts of these regulatory deferrals.

|   |   |  |                                  |
|---|---|--|----------------------------------|
| Name of Respondent                        | This Report is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>12/31/2012 | Year/Period of Report<br>2012/Q4 |
| MDU Resources Group, Inc.                 |   |  |                                  |
| NOTES TO FINANCIAL STATEMENTS (Continued) |   |  |                                  |

Management has also evaluated the impact of events occurring after December 31, 2012, 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 \$92,000 and \$273,000 as of December 31, 2012 and 2011, 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, 2012 and 2011, was \$275,000 and \$238,000, 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:

|  | 2012             | 2011             |
|--|------------------|------------------|
|  | (In thousands)   |                  |
| Plant materials and operating supplies | \$ 18,984        | \$ 14,611        |
| Gas stored underground-current         | 16,903           | 21,148           |
| Fuel stock                             | 5,130            | 5,922            |
| Merchandise                            | 452              | 915              |
| <b>Total</b>                           | <b>\$ 41,469</b> | <b>\$ 42,596</b> |

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was \$3.0 million and \$3.6 million at December 31, 2012 and 2011, respectively.

#### Investments

The Company's investments include its investment in subsidiary companies, the cash surrender value of life insurance policies, an insurance investment contract, and other miscellaneous investments. The Company has elected to measure its investment in the insurance investment 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 \$4.8 million and \$3.2 million in 2012 and 2011, respectively. Property, plant and equipment are depreciated on a straight-line basis over the average useful lives of the assets. The Company collects removal costs for plant

|   |   |  |                                  |
|---|---|--|----------------------------------|
| Name of Respondent                        | This Report is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>12/31/2012 | Year/Period of Report<br>2012/Q4 |
| MDU Resources Group, Inc.                 |   |  |                                  |
| NOTES TO FINANCIAL STATEMENTS (Continued) |   |  |                                  |

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:

|   | 2012       | 2011       | Weighted<br>Average<br>Depreciable<br>Life in<br>Years |
|---|------------|------------|--|
| (Dollars in thousands, where applicable)                  |            |            |  |
| Electric:   |            |            |  |
| Generation  | \$ 580,567 | \$ 546,783 | 47   |
| Distribution  | 282,424    | 255,232    | 36   |
| Transmission  | 190,311    | 179,580    | 44   |
| Other   | 93,374     | 83,261     | 14   |
| Natural gas distribution:                                 |            |            |  |
| Distribution  | 321,824    | 284,465    | 40   |
| Other   | 108,691    | 99,422     | 14   |
| Less accumulated depreciation, depletion and amortization | 719,531    | 699,092    |  |
| Net utility plant   | \$ 857,660 | \$ 749,651 |  |
| Nonutility property                                       | \$ 4,585   | \$ 4,345   |  |
| Less accumulated depreciation, depletion and amortization | 1,637      | 1,460      |  |
| Net nonutility property                                   | \$ 2,948   | \$ 2,885   |  |

#### 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 2012 and 2011. 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 the Company's chief executive officer and other management regularly review 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 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



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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, 2012 and 2011, there were no impairment losses recorded. At December 31, 2012, 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 6 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 2012. 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 in 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 \$39.4 million and \$31.8 million at December 31, 2012 and 2011, 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.

#### Legal costs

The Company expenses external legal fees as they are incurred.

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**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 within a period ranging from 12 to 28 months from the time such costs are paid. Natural gas costs recoverable or refundable, as applicable, through rate adjustments were \$2.9 million and \$2.6 million at December 31, 2012 and 2011, 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 first-made and reported basis beyond the retained levels. The Company is retaining losses up to its retentions accrued 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. 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 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.

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**Cash flow information**

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

|                                     | 2012           | 2011        |
|-------------------------------------|----------------|-------------|
|                                     | (In thousands) |             |
| Interest, net of amount capitalized | \$ 15,802      | \$ 16,927   |
| Income taxes refunded, net          | \$ (10,137)    | \$ (35,599) |

Noncash investing transactions at December 31 were as follows:

|   | 2012           | 2011     |
|---|----------------|----------|
|   | (In thousands) |          |
| Property, plant and equipment additions in accounts payable | \$ 14,323      | \$ 6,346 |

**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 (loss) was \$396,000 and \$(1.5 million), respectively, net of tax of \$(245,000) and \$838,000 for the years ended December 31, 2012 and 2011, respectively.

The after-tax components of accumulated other comprehensive loss as of December 31, 2012 and 2011, were as follows:

|   | Postretirement<br>Liability<br>Adjustment | Subsidiary<br>Other<br>Comprehensive<br>Loss | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|---|--|--|
|   | (In thousands)                            |  |  |
| Balance at December 31, 2011                        | \$ (5,309)                                | \$ (41,692)                                  | \$ (47,001)  |
| Current-period other<br>comprehensive (income) loss | 396                                       | (2,116)                                      | (1,720)  |
| <b>Balance at December 31, 2012</b>                 | <b>\$ (4,913)</b>                         | <b>\$ (43,808)</b>                           | <b>\$ (48,721)</b>                                     |

**Note 2 - Goodwill and Other Intangible Assets**

The carrying amount of goodwill, which is related to the natural gas distribution business, remained unchanged at \$4,812 for the years ended December 31, 2012 and 2011. 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<br>Period* | 2012           | 2011    |
|---|-------------------------------|----------------|---------|
|   |                               | (In thousands) |         |
| Regulatory assets:  |                               |                |         |
| Pension and postretirement benefits (a)                     | (f) \$                        | 103,937 \$     | 107,262 |
| Deferred income taxes                                       | **                            | 2,990          | (2,585) |
| Plant costs (a)   | Up to 4 years                 | 9,194          | 9,496   |
| Unamortized loss on reaquired debt                          | Up to 14 years                | 8,127          | 8,846   |
| Costs related to identifying generation development (a) (e) | Up to 14 years                | 5,773          | 9,817   |
| Unrecovered purchased gas costs                             | Up to 12 months               | 2,915          | 2,622   |
| Other (a) (b) (g)   | Largely within 1 year         | 5,912          | 9,938   |
| Total regulatory assets                                     |                               | 138,848        | 145,396 |
| Regulatory liabilities:                                     |                               |                |         |
| Plant removal and decommissioning costs (c)                 |                               | 106,858        | 101,688 |
| Deferred income taxes**                                     |                               | 9,219          | 10,820  |
| Taxes refundable to customers (d)                           |                               | 9,020          | 10,004  |
| Accumulated provision for rate refunds                      |                               | 4,365          | 640     |
| Other (h)   |                               | 1,058          | 301     |
| Total regulatory liabilities                                |                               | 130,520        | 123,453 |
| Net regulatory position                                     | \$                            | 8,328 \$       | 21,943  |

\* 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, other regulatory assets, and unrecovered purchased gas costs 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, 2012 and 2011, approximately \$122.6 million and \$129.4 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 investment 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 \$32.6 million and \$29.1 million as of December 31, 2012 and 2011, respectively, are classified as Other Investments on the Comparative Balance Sheet. The net unrealized gain on these investments for the year ended December 31, 2012 was \$3.5 million. The net unrealized loss on these investments for the year ended December 31, 2011 was \$1.2 million. 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.

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 investment 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, 2012 and 2011, there were no transfers between Levels 1 and 2.

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

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

\* The insurance investment 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 and other investments.

| Fair Value Measurements at<br>December 31, 2011, Using                     |   |  |                                    |
|--|---|--|------------------------------------|
| Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31,<br>2011 |
| (In thousands)   |   |  |                                    |
| Assets:  |   |  |                                    |
| Available-for-sale securities:   |   |  |                                    |
| Insurance investment contract*   | \$ —  | \$ 29,133  | \$ 29,133                          |
| Total assets measured at fair value  | \$ —  | \$ 29,133  | \$ 29,133                          |

\* The insurance investment contract invests approximately 33 percent in common stock of mid-cap companies, 34 percent in common stock of small-cap companies, 32 percent in common stock of large-cap companies and 1 percent in cash and cash equivalents.

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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:

|                | 2012            |            | 2011            |            |
|----------------|-----------------|------------|-----------------|------------|
|                | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|                | (In thousands)  |            |                 |            |
| Long-term debt | \$ 356,867      | \$ 411,210 | \$ 280,889      | \$ 340,646 |

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

#### 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, all of which the Company, as applicable, was in compliance with at December 31, 2012. 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 credit facilities of the Company:

| Company                   | Facility  | Facility Limit | Amount Outstanding at December 31, 2012 | Amount Outstanding at December 31, 2011 | Letters of Credit at December 31, 2012 | Expiration Date |
|---------------------------|---|----------------|---|---|--|-----------------|
| (Dollars in millions)     |   |                |   |   |  |                 |
| MDU Resources Group, Inc. | Commercial paper/Revolving credit agreement (a) | \$ 125.0       | \$ 76.0 (b)                             | \$ - (b)                                | \$ -                                   | 10/4/17         |

- (a) The \$125 million commercial paper program is supported by a revolving credit agreement with various banks totaling \$125 million (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.

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.** On October 4, 2012, the Company amended the revolving credit agreement to increase the borrowing limit to \$125.0 million and extend the termination date to October 4, 2017. 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

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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:

|   | 2012              | 2011              |
|---|-------------------|-------------------|
|   | (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 .51%, due on dates ranging from January 1, 2015 to November 30, 2038 | 76,867            | 889               |
| <b>Total long-term debt</b>   | <b>\$ 356,867</b> | <b>\$ 280,889</b> |

The amounts of scheduled long-term debt maturities for the five years and thereafter following December 31, 2012, aggregate \$108,000 in 2013 and 2014; \$109,000 in 2015; \$50.1 million in 2016; \$76.0 million in 2017 and \$230.5 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:

|                               | 2012            | 2011            |
|-------------------------------|-----------------|-----------------|
|                               | (In thousands)  |                 |
| Balance at beginning of year  | \$ 6,645        | \$ 6,314        |
| Liabilities settled           | (10)            | —               |
| Revisions in estimates        | (195)           | —               |
| Accretion expense             | 349             | 331             |
| <b>Balance at end of year</b> | <b>\$ 6,789</b> | <b>\$ 6,645</b> |

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.



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**Note 7 - Preferred Stocks**

Preferred stocks at December 31 were as follows:

|   | 2012  | 2011      |
|---|---|-----------|
|   | (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 2012 and 2011, 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.

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**

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 2011 through December 2012, purchases of shares of common stock on the open market were used to fund the Stock Purchase Plan and K-Plan. At December 31,

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2012, there were 23.2 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 most restrictive limitations are discussed below.

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 \$2.0 billion of the net assets of the Company's subsidiaries were restricted from being used to transfer funds to the Company at December 31, 2012. 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 \$177 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, 2012. 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.

#### 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, 2012, 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, excluding the amount recognized by the Company's subsidiaries, was \$548,000, net of income taxes of \$351,000 in 2012 and \$514,000, net of income taxes of \$329,000 in 2011.

As of December 31, 2012, total remaining unrecognized compensation expense, excluding the amount to be recognized by the Company's subsidiaries, related to stock-based compensation was approximately \$745,000 (before income taxes) which will be amortized over a weighted average period of 1.5 years.

#### Stock options

The Company had granted stock options to directors, key employees and employees. The Company has not granted stock options since 2003. Options granted to key employees automatically vested after nine years, but the plan provided for accelerated vesting based on the attainment of certain performance goals or upon a change in control of the Company, and expired ten years after the date of grant. Options granted to employees vested three years after the date of grant and expired ten years after the date of grant. Options granted to directors vested at the date of grant and expired ten years after the date of grant.

The fair value of each option outstanding was estimated on the date of grant using the Black-Scholes option-pricing model.

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| NOTES TO FINANCIAL STATEMENTS (Continued) |   |                                |                       |

A summary of the status of the stock option plans at December 31, 2012, and changes during the year then ended was as follows:

|                              | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|------------------------------|---------------------|---------------------------------------|
| Balance at beginning of year | 6,750               | 13.03                                 |
| Exercised                    | (6,750)             | 13.03                                 |
| Balance at end of year       |                     |                                       |

The Company received cash of \$88,000 and \$5.7 million from the exercise of stock options for the years ended December 31, 2012 and 2011, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2012 and 2011, was \$60,000 and \$3.3 million, respectively.

#### 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 53,888 shares with a fair value of \$1.1 million and 55,141 shares with a fair value of \$1.1 million issued under this plan during the years ended December 31, 2012 and 2011, 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, 2012, were as follows:

| Grant Date    | Performance Period | Target Grant of Shares |
|---------------|--------------------|------------------------|
| March 2010    | 2010-2012          | 213,432                |
| February 2011 | 2011-2013          | 261,029                |
| February 2012 | 2012-2014          | 311,675                |

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 2012 and 2011 were:

|                                | 2012            | 2011            |
|--------------------------------|-----------------|-----------------|
| Grant-date fair value          | \$ 17.18        | \$ 19.99        |
| Blended volatility range       | 24.29% - 25.81% | 23.20% - 32.18% |
| Risk-free interest rate range  | .10% - .35%     | .09% - 1.34%    |
| Discounted dividends per share | \$ 1.19         | \$ 1.23         |

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There were no performance shares that vested in 2012 or 2011.

A summary of the status of the performance share awards for the year ended December 31, 2012, was as follows:

|                                  | Number of<br>Shares | Weighted<br>Average Grant-<br>Date Fair<br>Value |
|----------------------------------|---------------------|--|
| Nonvested at beginning of period | 762,154             | \$ 19.35   |
| Granted                          | 320,692             | 17.18  |
| Vested                           | —                   | —  |
| Forfeited                        | (296,710)           | 20.13  |
| Nonvested at end of period       | 786,136             | \$ 18.17   |

#### Note 10 - Income Taxes

Income before income taxes for the years ended December 31, 2012 and 2011, respectively was \$53,891 and \$51,958.

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

|                             | 2012           | 2011        |
|-----------------------------|----------------|-------------|
|                             | (In thousands) |             |
| Current:                    |                |             |
| Federal*                    | \$ (15,719)    | \$ (22,311) |
| State                       | (2,476)        | (2,394)     |
| Deferred:                   |                |             |
| Income taxes:               |                |             |
| Federal                     | 27,118         | 32,346      |
| State                       | 2,988          | 2,981       |
| Investment tax credit - net | (57)           | 73          |
| Total income tax expense    | \$ 11,854      | \$ 10,695   |

\* Includes \$252 related to the change in uncertain tax benefits for the year ended December 31, 2011. There was no change in uncertain tax benefits for the year ended December 31, 2012.

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

|   | 2012           | 2011         |
|---|----------------|--------------|
|   | (In thousands) |              |
| Deferred tax assets:  |                |              |
| Regulatory matters  | \$ 2,990       | \$ (2,585)   |
| Accrued pension costs   | 41,955         | 48,137       |
| Compensation-related  | 9,009          | 8,260        |
| Legal and environmental contingencies                               | 407            | —            |
| Other   | 13,803         | 11,900       |
| Total deferred tax assets   | 68,164         | 65,712       |
| Deferred tax liabilities:   |                |              |
| Depreciation and basis differences on property, plant and equipment | 226,833        | 191,610      |
| Regulatory matters  | 9,219          | 10,820       |
| Other   | 1,196          | 1,031        |
| Total deferred tax liabilities                                      | 237,248        | 203,461      |
| Net deferred income tax liability                                   | \$ (169,084)   | \$ (137,749) |

As of December 31, 2012 and 2011, 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, 2011, to December 31, 2012, to deferred income tax expense:

|  | 2012           |
|--|----------------|
|  | (In thousands) |
| Change in net deferred income tax liability from the preceding table | \$ 31,335      |
| Deferred taxes associated with other comprehensive loss              | (245)          |
| Other  | (1,041)        |
| Deferred income tax expense for the period                           | \$ 30,049      |

|   |   |  |                                  |
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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,  | 2012      |       | 2011      |       |
|---|-----------|-------|-----------|-------|
|   | Amount    | %     | Amount    | %     |
| (Dollars in thousands)  |           |       |           |       |
| Computed tax at federal statutory rate                          | \$ 18,862 | 35.0  | \$ 18,185 | 35.0  |
| Increases (reductions) resulting from:                          |           |       |           |       |
| Federal renewable energy credit                                 | (3,401)   | (6.3) | (3,485)   | (6.7) |
| Deductible K-Plan dividends                                     | (1,529)   | (2.8) | (1,216)   | (2.4) |
| AFUDC equity  | (1,084)   | (2.0) | (720)     | (1.4) |
| Amortization and deferral of investment tax credit              | (57)      | (0.1) | 73        | 0.1   |
| State income taxes, net of federal income tax benefit (expense) | 1,449     | 2.7   | 1,477     | 2.9   |
| Resolution of tax matters and uncertain tax positions           | —         | —     | (356)     | (0.7) |
| Other   | (2,386)   | (4.5) | (3,263)   | (6.2) |
| Total income tax expense (benefit)                              | \$ 11,854 | 22.0  | \$ 10,695 | 20.6  |

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.

A reconciliation of the unrecognized tax benefits (excluding interest) for the years ended December 31 was as follows:

|                              | 2012           | 2011   |
|------------------------------|----------------|--------|
|                              | (In thousands) |        |
| Balance at beginning of year | \$ 95          | \$ 347 |
| Settlements                  | —              | (252)  |
| Balance at end of year       | \$ 95          | \$ 95  |

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$95,000 at December 31, 2012 and December 31, 2011, respectively.

It is likely that substantially all of the unrecognized tax benefits, as well as interest, at December 31, 2012, will be settled in the next twelve months due to the anticipated settlement of federal and state audits.

For the years ended December 31, 2012 and 2011, the Company recognized approximately \$4,000 and \$43,000, respectively, in interest expense. Penalties were not material in 2012 and 2011. The Company recognized interest income of approximately \$60,000 and \$219,000 for the years ended December 31, 2012 and 2011, respectively. The Company had accrued assets of approximately \$267,000 and \$210,000 at December 31, 2012 and 2011, respectively, for the receipt of interest.

#### Note 11 - Employee Benefit Plans

##### Pension and other postretirement benefit plans

The Company has noncontributory defined benefit pension plans and other postretirement

|   |   |  |                                  |
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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. Employees that would have been eligible for defined pension plan benefits are eligible to receive additional defined contribution plan benefits. Effective January 1, 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, 2012 and 2011, and amounts recognized in the Balance Sheets at December 31, 2012 and 2011, were as follows:

|   | Pension Benefits |             | Other Postretirement Benefits |             |
|---|------------------|-------------|-------------------------------|-------------|
|   | 2012             | 2011        | 2012                          | 2011        |
|   | (In thousands)   |             |                               |             |
| Change in benefit obligation:   |                  |             |                               |             |
| Benefit obligation at beginning of year   | \$ 249,823       | \$ 230,271  | \$ 57,161                     | \$ 45,546   |
| Service cost  | —                | 1,056       | 881                           | 746         |
| Interest cost   | 10,127           | 11,446      | 2,080                         | 2,406       |
| Plan participants' contributions  | —                | —           | 1,767                         | 1,711       |
| Amendments  | —                | —           | (9,227)                       | —           |
| Actuarial loss  | 18,532           | 35,719      | 1,276                         | 10,734      |
| Curtailment gain  | —                | (13,939)    | —                             | —           |
| Benefits paid   | (15,572)         | (14,730)    | (4,345)                       | (3,982)     |
| Benefit obligation at end of year   | 262,910          | 249,823     | 49,593                        | 57,161      |
| Change in net plan assets:  |                  |             |                               |             |
| Fair value of plan assets at beginning of year  | 161,284          | 164,852     | 38,975                        | 40,182      |
| Actual gain (loss) on plan assets   | 20,050           | (2,595)     | 3,696                         | (506)       |
| Employer contribution   | 12,039           | 13,757      | 3,318                         | 1,570       |
| Plan participants' contributions  | —                | —           | 1,767                         | 1,711       |
| Benefits paid   | (15,572)         | (14,730)    | (4,345)                       | (3,982)     |
| Fair value of net plan assets at end of year  | 177,801          | 161,284     | 43,411                        | 38,975      |
| Funded status – under   | \$ (85,109)      | \$ (88,539) | \$ (6,182)                    | \$ (18,186) |
| Amounts recognized in the Comparative Balance Sheets at December 31:  |                  |             |                               |             |
| Accumulated provision for pensions and benefits   | \$ —             | \$ —        | \$ (6,182)                    | \$ (18,186) |
| Other deferred credits  | (85,109)         | (88,539)    | —                             | —           |
| Net amount recognized   | \$ (85,109)      | \$ (88,539) | \$ (6,182)                    | \$ (18,186) |
| Amounts recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities) consist of: |                  |             |                               |             |
| Actuarial loss  | \$ 111,617       | \$ 102,269  | \$ 19,133                     | \$ 19,271   |
| Prior service cost (credit)   | —                | —           | (13,108)                      | (4,461)     |
| Transition obligation   | —                | —           | —                             | 3,284       |
| Total   | \$ 111,617       | \$ 102,269  | \$ 6,025                      | \$ 18,094   |

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

|                                | 2012           | 2011       |
|--------------------------------|----------------|------------|
|                                | (In thousands) |            |
| Projected benefit obligation   | \$ 262,910     | \$ 249,823 |
| Accumulated benefit obligation | \$ 262,910     | \$ 249,823 |
| Fair value of plan assets      | \$ 177,801     | \$ 161,284 |

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 |           |
|---|------------------|-----------|-------------------------------|-----------|
|   | 2012             | 2011      | 2012                          | 2011      |
|   | (In thousands)   |           |                               |           |
| Components of net periodic benefit cost (credit):   |                  |           |                               |           |
| Service cost  | \$ —             | \$ 1,056  | \$ 881                        | \$ 746    |
| Interest cost   | 10,126           | 11,446    | 2,079                         | 2,406     |
| Expected return on assets   | (13,667)         | (13,712)  | (2,895)                       | (2,974)   |
| Amortization of prior service cost (credit)   | —                | 129       | (580)                         | (294)     |
| Recognized net actuarial loss   | 2,801            | 1,473     | 613                           | —         |
| Curtailment loss  | —                | 1,218     | —                             | —         |
| Amortization of net transition obligation   | —                | —         | 3,284                         | 1,671     |
| Net periodic benefit cost (credit)  | (740)            | 1,610     | 3,382                         | 1,555     |
| Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive (income) loss:               |                  |           |                               |           |
| Net loss  | 12,149           | 38,087    | 475                           | 14,214    |
| Prior service credit  | —                | —         | (9,227)                       | —         |
| Amortization of actuarial loss  | (2,801)          | (1,473)   | (613)                         | —         |
| Amortization of prior service (cost) credit   | —                | (1,347)   | 580                           | 294       |
| Amortization of net transition obligation   | —                | —         | (3,284)                       | (1,671)   |
| Total recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities)                               | 9,348            | 35,267    | (12,069)                      | 12,837    |
| Total recognized in net periodic benefit cost and accumulated other comprehensive (income) loss/regulatory assets (liabilities) | \$ 8,608         | \$ 36,877 | \$ (8,687)                    | \$ 14,392 |

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 2013 is \$4.0 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 2013 are \$952,000 and \$976,000, respectively.

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

|                                | Pension Benefits |        | Other Postretirement Benefits |        |
|--------------------------------|------------------|--------|-------------------------------|--------|
|                                | 2012             | 2011   | 2012                          | 2011   |
| Discount rate                  | 3.63 %           | 4.18 % | 3.65 %                        | 4.12 % |
| Expected return on plan assets | 7.00 %           | 7.75 % | 6.00 %                        | 6.75 % |

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

|                                | Pension Benefits |        | Other Postretirement Benefits |        |
|--------------------------------|------------------|--------|-------------------------------|--------|
|                                | 2012             | 2011   | 2012                          | 2011   |
| Discount rate                  | 4.18 %           | 5.25 % | 4.12 %                        | 5.20 % |
| Expected return on plan assets | 7.75 %           | 7.75 % | 6.75 %                        | 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:

|  | 2012  | 2011  |
|--|-------|-------|
| 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, 2012:

|   | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|-----------------------------|-----------------------------|
|   | (In thousands)              |                             |
| Effect on total of service and interest cost components | \$ 47                       | \$ (42)                     |
| Effect on postretirement benefit obligation             | \$ 1,188                    | \$ (1,064)                  |

|   |   |  |                                  |
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The Company's pension assets are managed by 14 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 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 plan 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 and mortgage-backed 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,

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2012 and 2011, there were no transfers between Levels 1 and 2.

The fair value of the Company's pension net plan assets by class is as follows:

| Fair Value Measurements at<br>December 31, 2012, Using |  |   |  |                                    |
|--|--|---|--|------------------------------------|
|  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31,<br>2012 |
| (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.

| Fair Value Measurements at<br>December 31, 2011, Using |  |   |  |                                    |
|--|--|---|--|------------------------------------|
|  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31,<br>2011 |
| (In thousands)   |  |   |  |                                    |
| Assets:  |  |   |  |                                    |
| Cash equivalents                                       | \$ 1,308   | \$ 10,173   | \$ —   | \$ 11,481                          |
| Equity securities:                                     |  |   |  |                                    |
| U.S. companies   | 57,619   | —   | —  | 57,619                             |
| International companies                                | 20,510   | —   | —  | 20,510                             |
| Collective and mutual funds *                          | 25,071   | 9,016   | —  | 34,087                             |
| Corporate bonds  | —  | 13,679  | 168  | 13,847                             |
| Mortgage-backed securities                             | —  | 13,336  | —  | 13,336                             |
| Municipal bonds  | —  | 5,390   | —  | 5,390                              |
| U.S. Treasury securities                               | —  | 5,014   | —  | 5,014                              |
| Total assets measured at fair value                    | \$ 104,508   | \$ 56,608   | \$ 168   | \$ 161,284                         |

\*Collective and mutual funds invest approximately 26 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, 6 percent in corporate bonds and 29 percent in other investments.

|   |  |                            |                       |
|---|--|----------------------------|-----------------------|
| Name of Respondent                        | This Report is:  | Date of Report             | Year/Period of Report |
| MDU Resources Group, Inc.                 | (1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | (Mo, Da, Yr)<br>12/31/2012 | 2012/Q4               |
| NOTES TO FINANCIAL STATEMENTS (Continued) |  |                            |                       |

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<br>(Level 3) |                 |   |       |
|--|-----------------|---|-------|
|  | Corporate Bonds | Collateral Held on<br>Loaned Securities | Total |
|  | (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 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, 2011:

| Fair Value Measurements Using Significant Unobservable Inputs<br>(Level 3) |                 |   |       |
|--|-----------------|---|-------|
|  | Corporate Bonds | Collateral Held on<br>Loaned Securities | Total |
|  | (In thousands)  |   |       |
| Balance at beginning of year   | \$ —            | \$ 402                                  | 402   |
| Total realized/unrealized losses   | (1)             | (150)                                   | (151) |
| Purchases, issuances and settlements (net)                                 | 169             | (252)                                   | (83)  |
| Balance at end of year   | \$ 168          | \$ —                                    | 168   |

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

The estimated fair value of the other postretirement benefit plan's 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 plan's 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 plan's Level 2 insurance investment 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, 2012 and 2011, there were no transfers between Levels 1 and 2.

| Name of Respondent                        | This Report is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr) | Year/Period of Report |
|---|---|--------------------------------|-----------------------|
| MDU Resources Group, Inc.                 |   | 12/31/2012                     | 2012/Q4               |
| NOTES TO FINANCIAL STATEMENTS (Continued) |   |                                |                       |

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

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

\* The insurance investment 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.

|                                     | Fair Value Measurements<br>at December 31, 2011, Using                     |   |  |                                    |
|-------------------------------------|--|---|--|------------------------------------|
|                                     | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31,<br>2011 |
|                                     | (In thousands)   |   |  |                                    |
| Assets:                             |  |   |  |                                    |
| Cash equivalents                    | \$ —   | \$ 1,013  | \$ —   | \$ 1,013                           |
| Equity securities:                  |  |   |  |                                    |
| U.S. companies                      | 615  | —   | —  | 615                                |
| International companies             | —  | —   | —  | —                                  |
| Insurance investment contract*      | —  | 37,347  | —  | 37,347                             |
| Total assets measured at fair value | \$ 615   | \$ 38,360   | \$ —   | \$ 38,975                          |

\* The insurance investment contract invests approximately 49 percent in common stock of large-cap U.S. companies, 15 percent in U.S. Treasuries, 12 percent in mortgage-backed securities, 11 percent in corporate bonds, and 13 percent in other investments.

The Company expects to contribute approximately \$9.9 million to its defined benefit pension plans and approximately \$333,000 to its postretirement benefit plans in 2013.

|   |  |                            |                       |
|---|--|----------------------------|-----------------------|
| Name of Respondent                        | This Report is:  | Date of Report             | Year/Period of Report |
| MDU Resources Group, Inc.                 | (1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | (Mo, Da, Yr)<br>12/31/2012 | 2012/Q4               |
| 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) |                  |                               |                                  |
| 2013           | \$ 13,760        | \$ 3,059                      | \$ 202                           |
| 2014           | 13,821           | 3,046                         | 196                              |
| 2015           | 14,020           | 2,999                         | 189                              |
| 2016           | 14,182           | 2,960                         | 181                              |
| 2017           | 14,405           | 2,956                         | 172                              |
| 2018 – 2022    | 75,106           | 14,094                        | 714                              |

#### 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 had investments of \$51.9 million and \$47.6 million at December 31, 2012 and 2011, respectively, consisting of equity securities of \$28.0 million and \$25.6 million, respectively, life insurance carried on plan participants (payable upon the employee's death) of \$18.7 million and \$17.9 million, respectively, and other investments of \$5.2 million and \$4.1 million, respectively. The Company anticipates using these investments to satisfy obligations under these plans. The Company's net periodic benefit cost for these plans was \$4.6 million in both 2012 and 2011. The total projected benefit obligation for these plans was \$64.7 million and \$65.7 million at December 31, 2012 and 2011, respectively. The accumulated benefit obligation for these plans was \$61.1 million and \$60.3 million at December 31, 2012 and 2011, respectively. A weighted average discount rate of 3.45 percent and 4.00 percent at December 31, 2012 and 2011, respectively, and a rate of compensation increase of 3.00 percent and 4.00 percent at December 31, 2012 and 2011, respectively, were used to determine benefit obligations. A discount rate of 4.00 percent and 5.12 percent at December 31, 2012 and 2011, respectively, and a rate of compensation increase of 4.00 percent and 4.00 percent at December 31, 2012 and 2011, 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 both 2013 and 2014; \$3.8 million in 2015; \$3.7 million in 2016; \$3.8 million in 2017 and \$21.3 million for the years 2018 through 2022.

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

#### Defined contribution plans

The Company sponsors various defined contribution plans for eligible employees, and costs incurred under these plans were \$10.0 million in 2012 and \$9.4 million in 2011.

#### Note 12 - Jointly Owned Facilities

The financial statements include the Company's 22.7 percent, 25.0 percent and 25.0 percent ownership interests in the assets, liabilities and expenses of the Big Stone Station, Coyote Station and Wygen III, respectively. Each owner of the stations is responsible for financing its investment in the jointly owned facilities.

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

|   |   |  |                                  |
|---|---|--|----------------------------------|
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| MDU Resources Group, Inc.                 |   |  |                                  |
| NOTES TO FINANCIAL STATEMENTS (Continued) |   |  |                                  |

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:

|                               | 2012           | 2011       |
|-------------------------------|----------------|------------|
|                               | (In thousands) |            |
| Big Stone Station:            |                |            |
| Utility plant in service      | \$ 63,146      | \$ 63,715  |
| Less accumulated depreciation | 40,859         | 42,475     |
|                               | \$ 22,287      | \$ 21,240  |
| Coyote Station:               |                |            |
| Utility plant in service      | \$ 135,073     | \$ 131,719 |
| Less accumulated depreciation | 87,524         | 86,788     |
|                               | \$ 47,549      | \$ 44,931  |
| Wygen III:                    |                |            |
| Utility plant in service      | \$ 63,462      | \$ 63,300  |
| Less accumulated depreciation | 3,368          | 2,106      |
|                               | \$ 60,094      | \$ 61,194  |

#### 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, the landfill gas production facility, a region 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 approximately \$850,000 annually to be effective with service rendered April 15, 2013, subject to refund.

On December 21, 2012, Montana-Dakota filed an application with the SDPUC for a natural gas rate increase. Montana-Dakota requested a total increase of \$1.5 million annually or approximately 3.3 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, the landfill gas production facility, an operations building, automated meter reading and a new customer billing system.

#### 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, where feasible, an estimate of the possible loss. The Company had accrued liabilities of \$1.1 million and \$569,000 for contingencies related to litigation as of December 31, 2012 and 2011, respectively.



|   |   |  |                                  |
|---|---|--|----------------------------------|
| Name of Respondent                        | This Report is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>12/31/2012 | Year/Period of Report<br>2012/Q4 |
| MDU Resources Group, Inc.                 |   |  |                                  |
| NOTES TO FINANCIAL STATEMENTS (Continued) |   |  |                                  |

**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, 2012, were \$3.9 million in 2013, \$3.9 million in 2014, \$2.7 million in 2015, \$2.6 million in 2016, \$1.1 million in 2017 and \$20.7 million thereafter. Rent expense was \$2.8 million and \$2.7 million for the years ended December 31, 2012 and 2011, 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. These commitments range from one to 12 years. The commitments under these contracts as of December 31, 2012, were \$151.4 million in 2013, \$54.8 million in 2014, \$46.9 million in 2015, \$35.4 million in 2016, \$13.6 million in 2017 and \$12.5 million thereafter. These commitments were not reflected in the Company's financial statements. Amounts purchased under various commitments for the years ended December 31, 2012 and 2011, were \$241.5 million and \$237.7 million.

## MONTANA PLANT IN SERVICE (ASSIGNED &amp; ALLOCATED)

Year: 2012

|    | Account Number & Title                        | Last Year   | This Year      | % Change |
|----|---|-------------|----------------|----------|
| 1  | <b>Intangible Plant</b>                       |             |                |          |
| 2  |   |             |                |          |
| 3  | 301 Organization                              |             |                |          |
| 4  | 302 Franchises & Consents                     |             |                |          |
| 5  | 303 Miscellaneous Intangible Plant            | \$2,876,903 | \$3,105,031    | 7.93%    |
| 6  |   |             |                |          |
| 7  | <b>TOTAL Intangible Plant</b>                 | \$2,876,903 | \$3,105,031    | 7.93%    |
| 8  |   |             |                |          |
| 9  | <b>Production Plant</b>                       |             |                |          |
| 10 |   |             |                |          |
| 11 | Production & Gathering Plant                  |             |                |          |
| 12 |   |             |                |          |
| 13 | 325.1 Producing Lands                         |             |                |          |
| 14 | 325.2 Producing Leaseholds                    |             |                |          |
| 15 | 325.3 Gas Rights                              |             |                |          |
| 16 | 325.4 Rights-of-Way                           |             |                |          |
| 17 | 325.5 Other Land & Land Rights                |             |                |          |
| 18 | 326 Gas Well Structures                       |             |                |          |
| 19 | 327 Field Compressor Station Structures       |             |                |          |
| 20 | 328 Field Meas. & Reg. Station Structures     |             |                |          |
| 21 | 329 Other Structures                          |             |                |          |
| 22 | 330 Producing Gas Wells-Well Construction     |             |                |          |
| 23 | 331 Producing Gas Wells-Well Equipment        |             |                |          |
| 24 | 332 Field Lines                               |             |                |          |
| 25 | 333 Field Compressor Station Equipment        | \$3,096,756 | \$3,159,309    | 2.02%    |
| 26 | 334 Field Meas. & Reg. Station Equipment      |             |                |          |
| 27 | 335 Drilling & Cleaning Equipment             |             |                |          |
| 28 | 336 Purification Equipment                    |             |                |          |
| 29 | 337 Other Equipment                           |             |                |          |
| 30 | 338 Unsuccessful Exploration & Dev. Costs     |             |                |          |
| 31 |   |             |                |          |
| 32 | <b>Total Production &amp; Gathering Plant</b> | \$3,096,756 | \$3,159,309    | 2.02%    |
| 33 |   |             |                |          |
| 34 | Products Extraction Plant                     |             |                |          |
| 35 |   |             |                |          |
| 36 | 340 Land & Land Rights                        |             |                |          |
| 37 | 341 Structures & Improvements                 |             |                |          |
| 38 | 342 Extraction & Refining Equipment           |             |                |          |
| 39 | 343 Pipe Lines                                |             |                |          |
| 40 | 344 Extracted Products Storage Equipment      |             |                |          |
| 41 | 345 Compressor Equipment                      |             |                |          |
| 42 | 346 Gas Measuring & Regulating Equipment      |             |                |          |
| 43 | 347 Other Equipment                           |             |                |          |
| 44 |   |             |                |          |
| 45 | <b>Total Products Extraction Plant</b>        |             | NOT APPLICABLE |          |
| 46 |   |             |                |          |
| 47 | <b>TOTAL Production Plant</b>                 | 3,096,756   | 3,159,309      | 2.02%    |

**MONTANA PLANT IN SERVICE (ASSIGNED & ALLOCATED)**

Year: 2012

|    | Account Number & Title                                | Last Year | This Year | % Change |
|----|---|-----------|-----------|----------|
| 1  |   |           |           |          |
| 2  | <b>Natural Gas Storage and Processing Plant</b>       |           |           |          |
| 3  |   |           |           |          |
| 4  | Underground Storage Plant                             |           |           |          |
| 5  |   |           |           |          |
| 6  | 350.1 Land  |           |           |          |
| 7  | 350.2 Rights-of-Way                                   |           |           |          |
| 8  | 351 Structures & Improvements                         |           |           |          |
| 9  | 352 Wells   |           |           |          |
| 10 | 352.1 Storage Leaseholds & Rights                     |           |           |          |
| 11 | 352.2 Reservoirs                                      |           |           |          |
| 12 | 352.3 Non-Recoverable Natural Gas                     |           |           |          |
| 13 | 353 Lines   |           |           |          |
| 14 | 354 Compressor Station Equipment                      |           |           |          |
| 15 | 355 Measuring & Regulating Equipment                  |           |           |          |
| 16 | 356 Purification Equipment                            |           |           |          |
| 17 | 357 Other Equipment                                   |           |           |          |
| 18 |   |           |           |          |
| 19 | <b>Total Underground Storage Plant</b>                |           |           |          |
| 20 |   |           |           |          |
| 21 | Other Storage Plant                                   |           |           |          |
| 22 |   |           |           |          |
| 23 | 360 Land & Land Rights                                |           |           |          |
| 24 | 361 Structures & Improvements                         |           |           |          |
| 25 | 362 Gas Holders                                       |           |           |          |
| 26 | 363 Purification Equipment                            |           |           |          |
| 27 | 363.1 Liquification Equipment                         |           |           |          |
| 28 | 363.2 Vaporizing Equipment                            |           |           |          |
| 29 | 363.3 Compressor Equipment                            |           |           |          |
| 30 | 363.4 Measuring & Regulating Equipment                |           |           |          |
| 31 | 363.5 Other Equipment                                 |           |           |          |
| 32 |   |           |           |          |
| 33 | <b>Total Other Storage Plant</b>                      |           |           |          |
| 34 |   |           |           |          |
| 35 | <b>TOTAL Natural Gas Storage and Processing Plant</b> |           |           |          |
| 36 |   |           |           |          |
| 37 | <b>Transmission Plant</b>                             |           |           |          |
| 38 |   |           |           |          |
| 39 | 365.1 Land & Land Rights                              |           |           |          |
| 40 | 365.2 Rights-of-Way                                   |           |           |          |
| 41 | 366 Structures & Improvements                         |           |           |          |
| 42 | 367 Mains   |           |           |          |
| 43 | 368 Compressor Station Equipment                      |           |           |          |
| 44 | 369 Measuring & Reg. Station Equipment                |           |           |          |
| 45 | 370 Communication Equipment                           |           |           |          |
| 46 | 371 Other Equipment                                   |           |           |          |
| 47 |   |           |           |          |
| 48 | <b>TOTAL Transmission Plant</b>                       |           |           |          |

## MONTANA PLANT IN SERVICE (ASSIGNED &amp; ALLOCATED)

Year: 2012

|    | Account Number & Title                        | Last Year           | This Year            | % Change      |
|----|---|---------------------|----------------------|---------------|
| 1  |   |                     |                      |               |
| 2  | <b>Distribution Plant</b>                     |                     |                      |               |
| 3  |   |                     |                      |               |
| 4  | 374 Land & Land Rights                        | \$38,808            | \$38,808             | 0.00%         |
| 5  | 375 Structures & Improvements                 | 195,164             | 197,314              | 1.10%         |
| 6  | 376 Mains                                     | 28,903,239          | 30,218,131           | 4.55%         |
| 7  | 377 Compressor Station Equipment              |                     |                      |               |
| 8  | 378 Meas. & Reg. Station Equipment-General    | 577,021             | 591,698              | 2.54%         |
| 9  | 379 Meas. & Reg. Station Equipment-City Gate  | 128,222             | 125,755              | -1.92%        |
| 10 | 380 Services                                  | 21,208,457          | 23,531,457           | 10.95%        |
| 11 | 381 Meters                                    | 18,493,911          | 19,302,755           | 4.37%         |
| 12 | 382 Meter Installations                       |                     |                      |               |
| 13 | 383 House Regulators                          | 2,130,129           | 2,328,180            | 9.30%         |
| 14 | 384 House Regulator Installations             |                     |                      |               |
| 15 | 385 Industrial Meas. & Reg. Station Equipment | 187,825             | 187,825              | 0.00%         |
| 16 | 386 Other Prop. on Customers' Premises        | 148,673             | 148,674              | 0.00%         |
| 17 | 387 Other Equipment                           | 1,238,827           | 1,290,561            | 4.18%         |
| 18 |   |                     |                      |               |
| 19 | <b>TOTAL Distribution Plant</b>               | <b>\$73,250,276</b> | <b>\$77,961,158</b>  | <b>6.43%</b>  |
| 20 |   |                     |                      |               |
| 21 | <b>General Plant</b>                          |                     |                      |               |
| 22 |   |                     |                      |               |
| 23 | 389 Land & Land Rights                        | \$7,131             | \$7,131              | 0.00%         |
| 24 | 390 Structures & Improvements                 | 449,416             | 449,417              | 0.00%         |
| 25 | 391 Office Furniture & Equipment              | 114,001             | 94,113               | -17.45%       |
| 26 | 392 Transportation Equipment                  | 2,373,101           | 2,427,996            | 2.31%         |
| 27 | 393 Stores Equipment                          | 14,254              | 14,253               | -0.01%        |
| 28 | 394 Tools, Shop & Garage Equipment            | 686,193             | 676,451              | -1.42%        |
| 29 | 395 Laboratory Equipment                      | 32,303              | 32,352               | 0.15%         |
| 30 | 396 Power Operated Equipment                  | 1,941,611           | 1,915,324            | -1.35%        |
| 31 | 397 Communication Equipment                   | 377,589             | 343,861              | -8.93%        |
| 32 | 398 Miscellaneous Equipment                   | 15,109              | 15,106               | -0.02%        |
| 33 | 399 Other Tangible Property                   |                     |                      |               |
| 34 |   |                     |                      |               |
| 35 | <b>TOTAL General Plant</b>                    | <b>\$6,010,708</b>  | <b>\$5,976,004</b>   | <b>-0.58%</b> |
| 36 |   |                     |                      |               |
| 37 | <b>Common Plant</b>                           |                     |                      |               |
| 38 |   |                     |                      |               |
| 39 | 389 Land & Land Rights                        | \$988,648           | \$976,528            | -1.23%        |
| 40 | 390 Structures & Improvements                 | 6,978,927           | 7,057,783            | 1.13%         |
| 41 | 391 Office Furniture & Equipment              | 901,341             | 1,068,309            | 18.52%        |
| 42 | 392 Transportation Equipment                  | 1,074,612           | 1,166,468            | 8.55%         |
| 43 | 393 Stores Equipment                          | 10,773              | 9,801                | -9.02%        |
| 44 | 394 Tools, Shop & Garage Equipment            | 125,817             | 104,454              | -16.98%       |
| 45 | 396 Power Operated Equipment                  |                     |                      |               |
| 46 | 397 Communication Equipment                   | 360,021             | 340,574              | -5.40%        |
| 47 | 398 Miscellaneous Equipment                   | 112,540             | 157,499              | 39.95%        |
| 48 |   |                     |                      |               |
| 49 | <b>TOTAL Common Plant</b>                     | <b>\$10,552,679</b> | <b>\$10,881,416</b>  | <b>3.12%</b>  |
| 50 |   |                     |                      |               |
| 51 | <b>TOTAL Gas Plant in Service</b>             | <b>\$95,787,322</b> | <b>\$101,082,918</b> | <b>5.53%</b>  |

**MONTANA DEPRECIATION SUMMARY**

Year: 2012

|   | Functional Plant Classification | Plant Cost           | Accumulated Depreciation |                     | Current Avg. Rate |
|---|---------------------------------|----------------------|--------------------------|---------------------|-------------------|
|   |                                 |                      | Last Year Bal.           | This Year Bal.      |                   |
| 1 | Production & Gathering          | \$3,159,309          | \$101,594                | \$207,073           | 3.31%             |
| 2 | Products Extraction             |                      |                          |                     |                   |
| 3 | Underground Storage             |                      |                          |                     |                   |
| 4 | Other Storage                   |                      |                          |                     |                   |
| 5 | Transmission                    |                      |                          |                     |                   |
| 6 | Distribution                    | 77,961,158           | 43,776,099               | 45,649,926          | 3.23%             |
| 7 | General                         | 6,030,669            | 3,129,071                | 3,028,010           | 1.62%             |
| 8 | Common                          | 13,931,782           | 5,215,031                | 5,446,219           | 2.84%             |
| 9 | <b>TOTAL</b>                    | <b>\$101,082,918</b> | <b>\$52,221,795</b>      | <b>\$54,331,228</b> | <b>3.09%</b>      |

**MONTANA MATERIALS & SUPPLIES (ASSIGNED & ALLOCATED)**

SCHEDULE 21

|    | Account                                   | Last Year Bal.   | This Year Bal.   | %Change       |
|----|---|------------------|------------------|---------------|
| 1  |   |                  |                  |               |
| 2  | 151 Fuel Stock                            |                  |                  |               |
| 3  | 152 Fuel Stock Expenses - Undistributed   |                  |                  |               |
| 4  | 153 Residuals & Extracted Products        |                  |                  |               |
| 5  | 154 Plant Materials & Operating Supplies: |                  |                  |               |
| 6  | Assigned to Construction (Estimated)      |                  |                  |               |
| 7  | Assigned to Operations & Maintenance      |                  |                  |               |
| 8  | Production Plant (Estimated)              |                  |                  |               |
| 9  | Transmission Plant (Estimated)            |                  |                  |               |
| 10 | Distribution Plant (Estimated)            | \$557,694        | \$777,633        | 39.44%        |
| 11 | Assigned to Other                         |                  |                  |               |
| 12 | 155 Merchandise                           |                  |                  |               |
| 13 | 156 Other Materials & Supplies            |                  |                  |               |
| 14 | 163 Stores Expense Undistributed          |                  |                  |               |
| 15 |   |                  |                  |               |
| 16 | <b>TOTAL Materials &amp; Supplies</b>     | <b>\$557,694</b> | <b>\$777,633</b> | <b>39.44%</b> |

**MONTANA REGULATORY CAPITAL STRUCTURE & COSTS**

SCHEDULE 22

|    | Commission Accepted - Most Recent | % Cap. Str.     | % Cost Rate | Weighted Cost  |
|----|-----------------------------------|-----------------|-------------|----------------|
| 1  | Docket Number <u>D95.7.90</u>     |                 |             |                |
| 2  | Order Number <u>5856b</u>         |                 |             |                |
| 3  |                                   |                 |             |                |
| 4  | Common Equity                     | 44.810%         | 12.000%     | 5.377%         |
| 5  | Preferred Stock                   | 1.810%          | 4.653%      | 0.084%         |
| 6  | Long Term Debt                    | 53.390%         | 10.212%     | 5.452%         |
| 7  |                                   |                 |             |                |
| 8  | <b>TOTAL</b>                      |                 |             | <b>10.913%</b> |
| 9  |                                   |                 |             |                |
| 10 | <u>Actual at Year End</u>         |                 |             |                |
| 11 |                                   |                 |             |                |
| 12 | Common Equity                     | 54.122%         | 12.000%     | 6.495%         |
| 13 | Preferred Stock                   | 2.192%          | 4.585%      | 0.101%         |
| 14 | Long Term Debt                    | 39.953%         | 6.846%      | 2.735%         |
| 15 | Short Term Debt                   | 3.733%          | 1.406%      | 0.052%         |
| 16 | <b>TOTAL</b>                      | <b>100.000%</b> |             | <b>9.383%</b>  |

## STATEMENT OF CASH FLOWS

Year: 2012

|    | Description   | Last Year              | This Year              | % Change        |
|----|---|------------------------|------------------------|-----------------|
| 1  | Increase/(decrease) in Cash & Cash Equivalents:                     |                        |                        |                 |
| 2  |   |                        |                        |                 |
| 3  | <b>Cash Flows from Operating Activities:</b>                        |                        |                        |                 |
| 4  | Net Income  | \$213,026,346          | (\$754,434)            | -100.35%        |
| 5  | Depreciation  | 43,254,010             | 44,085,955             | 1.92%           |
| 6  | Amortization  | 799,169                | 359,112                | -55.06%         |
| 7  | Deferred Income Taxes - Net   | 33,443,170             | 30,106,065             | -9.98%          |
| 8  | Investment Tax Credit Adjustments - Net                             | 73,338                 | (57,381)               | -178.24%        |
| 9  | Change in Operating Receivables - Net                               | 3,880,302              | 27,095,103             | 598.27%         |
| 10 | Change in Materials, Supplies & Inventories - Net                   | (8,012,994)            | 1,127,458              | 114.07%         |
| 11 | Change in Operating Payables & Accrued Liabilities - Net            | 10,633,165             | (6,116,385)            | -157.52%        |
| 12 | Change in Other Regulatory Assets                                   | (38,067,475)           | 8,529,038              | 122.41%         |
| 13 | Change in Other Regulatory Liabilities                              | 2,245,939              | (316,175)              | -114.08%        |
| 14 | Allowance for Other Funds Used During Construction (AFUDC)          | (2,056,639)            | (3,097,868)            | -50.63%         |
| 15 | Change in Other Assets & Liabilities - Net                          | 36,086,437             | (17,630,258)           | -148.86%        |
| 16 | Less Undistributed Earnings from Subsidiary Companies               | (75,909,717)           | 143,869,235            | 289.53%         |
| 17 | Other Operating Activities (explained on attached page)             |                        |                        |                 |
| 18 | <b>Net Cash Provided by/(Used in) Operating Activities</b>          | <b>\$219,395,051</b>   | <b>\$227,199,465</b>   | <b>3.56%</b>    |
| 19 |   |                        |                        |                 |
| 20 | <b>Cash Inflows/Outflows From Investment Activities:</b>            |                        |                        |                 |
| 21 | Construction/Acquisition of Property, Plant and Equipment           |                        |                        |                 |
| 22 | (net of AFUDC & Capital Lease Related Acquisitions)                 | (\$77,793,567)         | (\$150,633,728)        | -93.63%         |
| 23 | Acquisition of Other Noncurrent Assets                              | 203,053                | 11,802                 | -94.19%         |
| 24 | Proceeds from Disposal of Noncurrent Assets                         |                        |                        |                 |
| 25 | Investments In and Advances to Affiliates                           |                        |                        |                 |
| 26 | Contributions and Advances from Affiliates                          | (3,006,643)            | 3,612,427              | 220.15%         |
| 27 | Disposition of Investments in and Advances to Affiliates            |                        |                        |                 |
| 28 | Other Investing Activities: Depreciation & RWIP on Nonutility Plant | 174,706                | 184,926                | 5.85%           |
| 29 | <b>Net Cash Provided by/(Used in) Investing Activities</b>          | <b>(\$80,422,451)</b>  | <b>(\$146,824,573)</b> | <b>-82.57%</b>  |
| 30 |   |                        |                        |                 |
| 31 | <b>Cash Flows from Financing Activities:</b>                        |                        |                        |                 |
| 32 | Proceeds from Issuance of:  |                        |                        |                 |
| 33 | Long-Term Debt  |                        |                        |                 |
| 34 | Preferred Stock   |                        |                        |                 |
| 35 | Common Stock  | 5,743,321              | 87,945                 | -98.47%         |
| 36 | Other:  | 359,820                | 22,423                 | -93.77%         |
| 37 | Net Increase in Short-Term Debt                                     |                        |                        |                 |
| 38 | Other: Commercial Paper   |                        | 76,000,000             | 100.00%         |
| 39 | Payment for Retirement of:  |                        |                        |                 |
| 40 | Long-Term Debt  | (107,074)              | (21,401)               | 80.01%          |
| 41 | Preferred Stock   |                        |                        |                 |
| 42 | Common Stock  |                        |                        |                 |
| 43 | Other: Adjustment to Retained Earnings                              | 1,798                  |                        | -100.00%        |
| 44 | Net Decrease in Short-Term Debt                                     | (20,000,000)           |                        | 100.00%         |
| 45 | Dividends on Preferred Stock  | (685,003)              | (685,003)              | 0.00%           |
| 46 | Dividends on Common Stock   | (123,659,801)          | (159,083,992)          | -28.65%         |
| 47 | <b>Net Cash Provided by (Used in) Financing Activities</b>          | <b>(\$138,346,939)</b> | <b>(\$83,680,028)</b>  | <b>39.51%</b>   |
| 48 |   |                        |                        |                 |
| 49 | <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>         | <b>\$625,661</b>       | <b>(\$3,305,136)</b>   | <b>-628.26%</b> |
| 50 | <b>Cash and Cash Equivalents at Beginning of Year</b>               | <b>\$6,275,013</b>     | <b>\$6,900,674</b>     | <b>9.97%</b>    |
| 51 | <b>Cash and Cash Equivalents at End of Year</b>                     | <b>\$6,900,674</b>     | <b>\$3,595,538</b>     | <b>-47.90%</b>  |

## LONG TERM DEBT

Year: 2012

|    | Description         | Issue Date<br>Mo./Yr. | Maturity Date<br>Mo./Yr. | Principal Amount     | Net Proceeds         | Outstanding Per Balance Sheet | Yield to Maturity | Annual Net Cost Inc. Prem/Disc. | Total Cost % 1/ |
|----|---------------------|-----------------------|--------------------------|----------------------|----------------------|-------------------------------|-------------------|---------------------------------|-----------------|
| 1  | 6.61% Senior Notes  | 09/09                 | 09/16                    | \$25,000,000         | \$24,423,218         | \$25,000,000                  | 6.61%             | \$1,780,000                     | 7.12%           |
| 2  | 6.66% Senior Notes  | 10/09                 | 09/16                    | 25,000,000           | 24,423,218           | 25,000,000                    | 6.66%             | 1,793,000                       | 7.17%           |
| 3  | 5.98% Senior Notes  | 12/03                 | 12/33                    | 30,000,000           | 29,456,832           | 30,000,000                    | 5.98%             | 1,861,500                       | 6.21%           |
| 4  | 6.33 % Senior Notes | 08/06                 | 08/26                    | 100,000,000          | 89,123,930           | 100,000,000                   | 6.33%             | 7,514,000                       | 7.51%           |
| 5  | 6.04 % Senior Notes | 09/08                 | 09/18                    | 100,000,000          | 99,637,568           | 100,000,000                   | 6.04%             | 6,181,000                       | 6.18%           |
| 6  |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 7  |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 8  |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 9  |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 10 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 11 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 12 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 13 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 14 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 15 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 16 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 17 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 18 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 19 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 20 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 21 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 22 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 23 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 24 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 25 |                     |                       |                          |                      |                      |                               |                   |                                 |                 |
| 26 | <b>TOTAL</b>        |                       |                          | <b>\$280,000,000</b> | <b>\$267,064,766</b> | <b>\$280,000,000</b>          |                   | <b>\$19,129,500</b>             | <b>6.83%</b>    |

1/ Includes interest expense, bond discount expense, debt issuance expense and loss on bond reacquisition and redemption.

## PREFERRED STOCK

Year: 2012

|    | Series               | Issue Date Mo./Yr. | Shares Issued | Par Value | Call Price 1/ | Net Proceeds | Cost of Money | Principal Outstanding | Annual Cost | Embed. Cost % |
|----|----------------------|--------------------|---------------|-----------|---------------|--------------|---------------|-----------------------|-------------|---------------|
| 1  | 4.50 % Cumulative    | 01/51              | 100,000       | \$100     | \$105         | \$10,000,000 | 4.50%         | \$10,000,000          | \$450,000   | 4.50%         |
| 2  | 4.70 % Cumulative    | 12/55              | 50,000        | 100       | 102           | 5,000,000    | 4.70%         | 5,000,000             | 235,000     | 4.70%         |
| 3  | 5.10 % Cumulative 2/ | 05/61              | 50,000        | 100       | 102           | 4,947,548    | 5.28%         | 386,100               | 20,400      | 5.28%         |
| 4  |                      |                    |               |           |               |              |               |                       |             |               |
| 5  |                      |                    |               |           |               |              |               |                       |             |               |
| 6  |                      |                    |               |           |               |              |               |                       |             |               |
| 7  |                      |                    |               |           |               |              |               |                       |             |               |
| 8  |                      |                    |               |           |               |              |               |                       |             |               |
| 9  |                      |                    |               |           |               |              |               |                       |             |               |
| 10 |                      |                    |               |           |               |              |               |                       |             |               |
| 11 |                      |                    |               |           |               |              |               |                       |             |               |
| 12 |                      |                    |               |           |               |              |               |                       |             |               |
| 13 |                      |                    |               |           |               |              |               |                       |             |               |
| 14 |                      |                    |               |           |               |              |               |                       |             |               |
| 15 |                      |                    |               |           |               |              |               |                       |             |               |
| 16 |                      |                    |               |           |               |              |               |                       |             |               |
| 17 |                      |                    |               |           |               |              |               |                       |             |               |
| 18 |                      |                    |               |           |               |              |               |                       |             |               |
| 19 |                      |                    |               |           |               |              |               |                       |             |               |
| 20 |                      |                    |               |           |               |              |               |                       |             |               |
| 21 |                      |                    |               |           |               |              |               |                       |             |               |
| 22 |                      |                    |               |           |               |              |               |                       |             |               |
| 23 |                      |                    |               |           |               |              |               |                       |             |               |
| 24 |                      |                    |               |           |               |              |               |                       |             |               |
| 25 |                      |                    |               |           |               |              |               |                       |             |               |
| 26 |                      |                    |               |           |               |              |               |                       |             |               |
| 27 |                      |                    |               |           |               |              |               |                       |             |               |
| 28 |                      |                    |               |           |               |              |               |                       |             |               |
| 29 |                      |                    |               |           |               |              |               |                       |             |               |
| 30 |                      |                    |               |           |               |              |               |                       |             |               |
| 31 |                      |                    |               |           |               |              |               |                       |             |               |
| 32 | <b>TOTAL</b>         |                    |               |           |               | \$19,947,548 |               | \$15,386,100          | \$705,400   | 4.58%         |

1/ Plus accrued dividends

2/ Per GAAP, classified as long-term debt



## COMMON STOCK

Year: 2012

|    |                | Avg. Number<br>of Shares<br>Outstanding 1/ | Book<br>Value<br>Per Share | Earnings<br>Per<br>Share 2/ | Dividends<br>Per<br>Share | Retention<br>Ratio | Market<br>Price |         | Price/<br>Earnings<br>Ratio 3/ |
|----|----------------|--|----------------------------|-----------------------------|---------------------------|--------------------|-----------------|---------|--------------------------------|
|    |                |  |                            |                             |                           |                    | High            | Low     |                                |
| 1  | January        | 188,830,529                                | \$14.61                    | \$0.19                      | \$0.1675                  | 11.84%             | \$22.50         | \$21.14 | 20.7                           |
| 2  |                |  |                            |                             |                           |                    |                 |         |                                |
| 3  | February       |  |                            |                             |                           |                    |                 |         |                                |
| 4  |                |  |                            |                             |                           |                    |                 |         |                                |
| 5  | March          |  |                            |                             |                           |                    |                 |         |                                |
| 6  |                | 188,830,529                                | 14.86                      | 0.29                        | 0.1675                    | 42.24%             | 23.21           | 20.76   | 19.1                           |
| 7  | April          |  |                            |                             |                           |                    |                 |         |                                |
| 8  |                |  |                            |                             |                           |                    |                 |         |                                |
| 9  | May            |  |                            |                             |                           |                    |                 |         |                                |
| 10 |                |  |                            |                             |                           |                    |                 |         |                                |
| 11 | June           | 188,830,529                                | 14.45                      | (0.16)                      | 0.1675                    | -204.69%           | 23.11           | 21.42   | 4/                             |
| 12 |                |  |                            |                             |                           |                    |                 |         |                                |
| 13 | July           |  |                            |                             |                           |                    |                 |         |                                |
| 14 |                |  |                            |                             |                           |                    |                 |         |                                |
| 15 | August         |  |                            |                             |                           |                    |                 |         |                                |
| 16 |                | 188,830,529                                | 13.95                      | (0.32)                      | 0.1725                    | -153.91%           | 22.23           | 19.59   | 4/                             |
| 17 | September      |  |                            |                             |                           |                    |                 |         |                                |
| 18 |                |  |                            |                             |                           |                    |                 |         |                                |
| 19 | October        |  |                            |                             |                           |                    |                 |         |                                |
| 20 |                |  |                            |                             |                           |                    |                 |         |                                |
| 21 | November       | 188,830,529                                | 13.95                      | (0.32)                      | 0.1725                    | -153.91%           | 22.23           | 19.59   | 4/                             |
| 22 |                |  |                            |                             |                           |                    |                 |         |                                |
| 23 | December       |  |                            |                             |                           |                    |                 |         |                                |
| 24 |                |  |                            |                             |                           |                    |                 |         |                                |
| 30 | TOTAL Year End | 188,830,529                                | \$13.95                    | \$0.00                      | \$0.6750                  | 0.00%              |                 |         | 4/                             |

1/ Basic shares

2/ Basic earnings per share.

3/ Calculated on 12 months ended using closing stock price.

4/ Not meaningful due to the effects of write-down(s) of oil and gas properties.

## MONTANA EARNED RATE OF RETURN

Year: 2012

|    | Description  | Last Year           | This Year           | % Change       |
|----|--|---------------------|---------------------|----------------|
|    | Rate Base  |                     |                     |                |
| 1  |  |                     |                     |                |
| 2  | 101 Plant in Service   | \$95,787,322        | \$101,082,918       | 5.53%          |
| 3  | 108 (Less) Accumulated Depreciation                          | 52,221,795          | 54,331,228          | 4.04%          |
| 4  |  |                     |                     |                |
| 5  | <b>NET Plant in Service</b>                                  | <b>\$43,565,527</b> | <b>\$46,751,690</b> | <b>7.31%</b>   |
| 6  | CWIP in Service Pending Reclassification                     | \$500,474           | \$787,827           | 57.42%         |
| 7  |  |                     |                     |                |
| 8  | Additions  |                     |                     |                |
| 9  | 154, 156 Materials & Supplies                                | \$557,694           | \$777,633           | 39.44%         |
| 10 | 165 Prepayments  | 28,741              | 25,381              | -11.69%        |
| 11 | Prepaid Demand/Commodity Charges                             | 1,213,615           | 1,020,999           | -15.87%        |
| 12 | Gas in Underground Storage                                   | 7,566,845           | 6,125,083           | -19.05%        |
| 13 | 189 Unamortized Loss on Debt                                 | 538,504             | 523,523             | -2.78%         |
| 14 | 182 Other Regulatory Assets                                  | 109,558             | 70,890              | -35.29%        |
| 15 |  |                     |                     |                |
| 16 | <b>TOTAL Additions</b>                                       | <b>\$10,014,957</b> | <b>\$8,543,509</b>  | <b>-14.69%</b> |
| 17 | Deductions   |                     |                     |                |
| 18 | 190 Accumulated Deferred Income Taxes                        | \$10,230,508        | \$13,007,478        | 27.14%         |
| 19 | 252 Customer Advances for Construction                       | 683,775             | 748,283             | 9.43%          |
| 20 | 255 Accumulated Def. Investment Tax Credits                  | 1,191               | 0                   | -100.00%       |
| 21 |  |                     |                     |                |
| 22 | <b>TOTAL Deductions</b>                                      | <b>\$10,915,474</b> | <b>\$13,755,761</b> | <b>26.02%</b>  |
| 23 | <b>TOTAL Rate Base</b>                                       | <b>\$43,165,484</b> | <b>\$42,327,265</b> | <b>-1.94%</b>  |
| 24 |  |                     |                     |                |
| 25 | <b>Net Earnings</b>  | <b>\$3,628,300</b>  | <b>\$1,730,186</b>  | <b>-52.31%</b> |
| 26 |  |                     |                     |                |
| 27 | <b>Rate of Return on Average Rate Base</b>                   | <b>8.40%</b>        | <b>4.05%</b>        | <b>-51.79%</b> |
| 28 |  |                     |                     |                |
| 29 | <b>Rate of Return on Average Equity</b>                      | <b>9.76%</b>        | <b>2.15%</b>        | <b>-77.97%</b> |
| 30 | Major Normalizing Adjustments & Commission                   |                     |                     |                |
| 31 | <u>Ratemaking Adjustments to Utility Operations</u>          |                     |                     |                |
| 32 | <u>Adjustments to Operating Revenues 1/</u>                  |                     |                     |                |
| 33 | Weather Normalization  | (\$649,024)         | \$631,716           | 197.33%        |
| 34 | Late Payment Revenue   | 27,791              | 20,036              | -27.90%        |
| 35 | Gain from Disposition of Utility Plant 2/                    | 17,264              | 10,768              | -37.63%        |
| 36 | Penalty Revenue 3/   | (9,901)             | 3,801               | 138.39%        |
| 37 |  |                     |                     |                |
| 38 | <u>Adjustments to Operating Expenses 1/</u>                  |                     |                     |                |
| 39 | Elimination of Promotional & Institutional Advertising       | (18,646)            | (19,143)            | -2.67%         |
| 40 | Elimination of Supplemental Insurance                        | (120,747)           | 0                   | 100.00%        |
| 41 |  |                     |                     |                |
| 42 | <u>Adjustments to Tax Deductions</u>                         |                     |                     |                |
| 43 | Elimination of 401K Tax Deduction                            | 207,785             | 0                   | -100.00%       |
| 44 |  |                     |                     |                |
| 45 | <u>Other Adjustments to Federal &amp; State Income Taxes</u> |                     |                     |                |
| 46 | Federal & State Out of Period & Closing/Filing               | 1,560,882           | 1,664,319           | 6.63%          |
| 47 | Deferred Federal & State Out of Period & Closing/Filing      | (1,302,970)         | (1,566,941)         | -20.26%        |
| 48 |  |                     |                     |                |
| 49 | Total Adjustments to Operating Income                        | (\$940,174)         | \$588,086           | 162.55%        |
| 50 |  |                     |                     |                |
| 51 | <b>Adjusted Rate of Return on Average Rate Base</b>          | <b>6.22%</b>        | <b>5.42%</b>        | <b>-12.86%</b> |
| 52 |  |                     |                     |                |
| 53 | <b>Adjusted Rate of Return on Average Equity</b>             | <b>5.76%</b>        | <b>4.68%</b>        | <b>-18.75%</b> |

1/ Updated amounts, net of taxes.

2/ Amortized over five years.

3/ Adjusted to reflect a three year average.

## MONTANA COMPOSITE STATISTICS

Year: 2012

|    | Description   | Amount          |
|----|---|-----------------|
| 1  |   |                 |
| 2  | Plant (Intrastate Only) (000 Omitted)   |                 |
| 3  |   |                 |
| 4  | 101 Plant in Service  | \$102,373       |
| 5  | 107 Construction Work in Progress   | 733             |
| 6  | 114 Plant Acquisition Adjustments   |                 |
| 7  | 104 Plant Leased to Others  |                 |
| 8  | 105 Plant Held for Future Use   |                 |
| 9  | 154, 156 Materials & Supplies   | 778             |
| 10 | (Less):   |                 |
| 11 | 108, 111 Depreciation & Amortization Reserves   | 54,331          |
| 12 | 252 Contributions in Aid of Construction  | 748             |
| 13 |   |                 |
| 14 | <b>NET BOOK COSTS</b>   | <b>\$48,805</b> |
| 15 |   |                 |
| 16 | Revenues & Expenses (000 Omitted)   |                 |
| 17 |   |                 |
| 18 | 400 Operating Revenues  | \$57,141        |
| 19 |   |                 |
| 20 | 403 - 407 Depreciation & Amortization Expenses  | \$3,119         |
| 21 | Federal & State Income Taxes  | 291             |
| 22 | Other Taxes   | 3,739           |
| 23 | Other Operating Expenses  | 48,262          |
| 24 | TOTAL Operating Expenses  | \$55,411        |
| 25 |   |                 |
| 26 | Net Operating Income  | \$1,730         |
| 27 |   |                 |
| 28 | Other Income  | 657             |
| 29 | Other Deductions  | 932             |
| 30 |   |                 |
| 31 | <b>NET INCOME</b>   | <b>\$1,455</b>  |
| 32 |   |                 |
| 33 | Customers (Intrastate Only)   |                 |
| 34 |   |                 |
| 35 | Year End Average:   |                 |
| 36 | Residential   | 70,548          |
| 37 | Firm General  | 8,716           |
| 38 | Small Interruptible   | 45              |
| 39 | Large Interruptible   | 5               |
| 40 |   |                 |
| 41 | <b>TOTAL NUMBER OF CUSTOMERS</b>  | <b>79,314</b>   |
| 42 |   |                 |
| 43 | Other Statistics (Intrastate Only)  |                 |
| 44 |   |                 |
| 45 | Average Annual Residential Use (Dkt))   | 73              |
| 46 | Average Annual Residential Cost per (Dkt) (\$) * 1/   | \$6.61          |
| 47 | * Avg annual cost = [(cost per Dkt x annual use) +<br>(monthly service charge x 12)]/annual use |                 |
| 48 | Average Residential Monthly Bill  | \$40.21         |
| 49 | Gross Plant per Customer  | \$1,291         |

## MONTANA CUSTOMER INFORMATION

Year: 2012

|    | City/Town                      | Population<br>(Includes Rural) 1/ | Residential<br>Customers | Commercial<br>Customers | Industrial<br>& Other<br>Customers | Total<br>Customers |
|----|--------------------------------|-----------------------------------|--------------------------|-------------------------|------------------------------------|--------------------|
| 1  | Belfry                         | 218                               | 125                      | 17                      |                                    | 142                |
| 2  | Billings                       | 104,170                           | 45,926                   | 4,599                   |                                    | 50,525             |
| 3  | Bridger                        | 708                               | 419                      | 63                      |                                    | 482                |
| 4  | Crow Agency                    | 1,616                             | 293                      | 77                      |                                    | 370                |
| 5  | Edgar                          | 114                               | 106                      | 6                       |                                    | 112                |
| 6  | Fromberg                       | 438                               | 275                      | 17                      |                                    | 292                |
| 7  | Hardin                         | 3,505                             | 1,240                    | 201                     |                                    | 1,441              |
| 8  | Joliet                         | 595                               | 365                      | 43                      |                                    | 408                |
| 9  | Laurel                         | 6,718                             | 3,881                    | 280                     |                                    | 4,161              |
| 10 | Park City                      | 983                               | 647                      | 28                      |                                    | 675                |
| 11 | Pryor                          | 618                               | 90                       | 14                      |                                    | 104                |
| 12 | Rockvale                       | Not Available                     | 69                       | 4                       |                                    | 73                 |
| 13 | Silesia                        | 96                                | 32                       | 2                       |                                    | 34                 |
| 14 | Warren                         | Not Available                     | 0                        | 2                       |                                    | 2                  |
| 15 | Alzada                         | 29                                | 10                       | 8                       |                                    | 18                 |
| 16 | Baker                          | 1,741                             | 817                      | 191                     |                                    | 1,008              |
| 17 | Carlyle                        | Not Available                     | 8                        | 1                       |                                    | 9                  |
| 18 | Fort Peck                      | 233                               | 136                      | 10                      |                                    | 146                |
| 19 | Fairview                       | 840                               | 394                      | 58                      |                                    | 452                |
| 20 | Forsyth                        | 1,777                             | 866                      | 155                     |                                    | 1,021              |
| 21 | Frazer                         | 362                               | 100                      | 16                      |                                    | 116                |
| 22 | Glasgow                        | 3,250                             | 1,620                    | 332                     |                                    | 1,952              |
| 23 | Glendive                       | 4,935                             | 3,131                    | 438                     |                                    | 3,569              |
| 24 | Hinsdale                       | 217                               | 114                      | 23                      |                                    | 137                |
| 25 | Ismay                          | 19                                | 11                       | 5                       |                                    | 16                 |
| 26 | Malta                          | 1,997                             | 996                      | 206                     |                                    | 1,202              |
| 27 | Miles City                     | 8,410                             | 3,922                    | 572                     |                                    | 4,494              |
| 28 | Nashua                         | 290                               | 163                      | 24                      |                                    | 187                |
| 29 | Poplar                         | 810                               | 839                      | 131                     |                                    | 970                |
| 30 | Richey                         | 177                               | 119                      | 25                      |                                    | 144                |
| 31 | Rosebud                        | 111                               | 43                       | 7                       |                                    | 50                 |
| 32 | Saco                           | 197                               | 39                       | 6                       |                                    | 45                 |
| 33 | Savage                         | Not Available                     | 154                      | 22                      |                                    | 176                |
| 34 | Sidney                         | 5,191                             | 2,478                    | 454                     |                                    | 2,932              |
| 35 | Terry                          | 605                               | 317                      | 60                      |                                    | 377                |
| 36 | St. Marie                      | 264                               | 258                      | 11                      |                                    | 269                |
| 37 | Wibaux                         | 589                               | 219                      | 53                      |                                    | 272                |
| 38 | Whitewater                     | 64                                | 26                       | 9                       |                                    | 35                 |
| 39 | Wolf Point                     | 2,621                             | 1,357                    | 201                     |                                    | 1,558              |
| 40 | MT Oil Fields                  | Not Available                     | 1                        | 3                       |                                    | 4                  |
| 41 | <b>TOTAL Montana Customers</b> | 154,508                           | 71,606                   | 8,374                   | 0                                  | 79,980             |

## MONTANA EMPLOYEE COUNTS 1/

Year: 2012

|    | Department                         | Year Beginning | Year End       | Average        |
|----|------------------------------------|----------------|----------------|----------------|
| 1  | Electric                           | 20             | 21 (1)         | 20 (1)         |
| 2  | Gas                                | 40 (1)         | 42             | 41             |
| 3  | Accounting                         | 7              | 4              | 6              |
| 4  | Management                         | 4              | 4              | 4              |
| 5  | Service                            | 29             | 31             | 30             |
| 6  | Communications/Substation/Training | 2              | 1              | 2              |
| 7  | Power Production                   | 33             | 35             | 34             |
| 8  |                                    |                |                |                |
| 9  |                                    |                |                |                |
| 10 |                                    |                |                |                |
| 11 |                                    |                |                |                |
| 12 |                                    |                |                |                |
| 13 |                                    |                |                |                |
| 14 |                                    |                |                |                |
| 15 |                                    |                |                |                |
| 16 |                                    |                |                |                |
| 17 |                                    |                |                |                |
| 18 |                                    |                |                |                |
| 19 |                                    |                |                |                |
| 20 |                                    |                |                |                |
| 21 |                                    |                |                |                |
| 22 |                                    |                |                |                |
| 23 |                                    |                |                |                |
| 24 |                                    |                |                |                |
| 25 |                                    |                |                |                |
| 26 |                                    |                |                |                |
| 27 |                                    |                |                |                |
| 28 |                                    |                |                |                |
| 29 |                                    |                |                |                |
| 30 |                                    |                |                |                |
| 31 |                                    |                |                |                |
| 32 |                                    |                |                |                |
| 33 |                                    |                |                |                |
| 34 |                                    |                |                |                |
| 35 |                                    |                |                |                |
| 36 |                                    |                |                |                |
| 37 |                                    |                |                |                |
| 38 |                                    |                |                |                |
| 39 |                                    |                |                |                |
| 40 |                                    |                |                |                |
| 41 |                                    |                |                |                |
| 42 |                                    |                |                |                |
| 43 |                                    |                |                |                |
| 44 | <b>TOTAL Montana Employees</b>     | <b>135 (1)</b> | <b>138 (1)</b> | <b>137 (1)</b> |

1/ Parentheses denotes part-time.

## MONTANA CONSTRUCTION BUDGET (ASSIGNED &amp; ALLOCATED)

Year: 2012

|    | Project Description   | Total Company | Total Montana |    |
|----|---|---------------|---------------|----|
| 1  | <u>Projects&gt;\$1,000,000</u>                              |               |               |    |
| 2  | <u>Common-General</u>                                       |               |               |    |
| 3  | Construct District Office in Williston, ND                  | \$5,179,162   | \$0           |    |
| 4  | <u>Common-Intangible</u>                                    |               |               |    |
| 5  | Replace Customer Information System                         | 3,041,036     | 844,889       | 1/ |
| 6  | <u>Electric-Steam Production</u>                            |               |               |    |
| 7  | Upgrade Material Handling System for Coal/Limestone-Heskett | 8,045,599     | 1,820,750     | 1/ |
| 8  | Purchase Baghouse-Lewis & Clark                             | 1,866,536     | 422,025       | 1/ |
| 9  | Install Technology for Air Quality Control-Big Stone        | 6,646,515     | 1,504,378     | 1/ |
| 10 | <u>Electric-Other Production</u>                            |               |               |    |
| 11 | Install 88MW Combustion Turbine in ND                       | 47,395,690    | 10,695,230    | 1/ |
| 12 | <u>Electric-Transmission</u>                                |               |               |    |
| 13 | Construct 115/41.6KV W junction substation-Dickinson, ND    | 4,657,791     | 0             |    |
| 14 | Construct 115KV Little Muddy substation-Williston, ND       | 4,237,342     | 958,065       | 1/ |
| 15 | Install 115/69KV bay in Stanley, ND substation              | 1,931,769     | 0             |    |
| 16 | Replace 115/57KV transformer in Kenmare, ND                 | 1,437,309     | 0             |    |
| 17 | Extend 60KV line-Little Muddy Substation to Williston, ND   | 2,173,620     | 0             |    |
| 18 | Construct 345KV line-Big Stone to Ellendale, ND             | 3,586,266     | 810,857       | 1/ |
| 19 | Extend 60KV line-Ray to Epping, ND                          | 2,243,055     | 0             |    |
| 20 | Raise 115KV line-Beulah to Dickinson, ND                    | 1,410,042     | 318,811       | 1/ |
| 21 | Raise 115KV line-Williston to Tioga, ND                     | 1,091,179     | 246,716       | 1/ |
| 22 | Reroute 115KV line loop-Dickinson, ND                       | 1,613,315     | 0             |    |
| 23 | Install 115KV line loop-Kenmare to Lignite, ND              | 1,208,526     | 0             |    |
| 24 | Install optical ground wire-Heskett to Wishek, ND           | 1,701,921     | 384,805       | 1/ |
| 25 | <u>Gas-Distribution</u>                                     |               |               |    |
| 26 | Install 12" main loop line extension-Williston, ND          | 2,684,825     | 0             |    |
| 27 | <u>Other Projects&lt;\$1,000,000</u>                        |               |               |    |
| 28 | <u>Electric</u>   |               |               |    |
| 29 | Production  | 11,478,786    | 2,555,273     | 1/ |
| 30 | Integrated Transmission                                     | 4,113,955     | 1,551,325     | 1/ |
| 31 | Direct Transmission   | 7,723,422     | 315,905       | 2/ |
| 32 | Distribution  | 29,442,921    | 4,196,597     | 2/ |
| 33 | General   | 3,223,599     | 656,488       | 1/ |
| 34 | Common:   |               |               |    |
| 35 | General Office  | 2,530,756     | 527,594       | 1/ |
| 36 | Other Direct  | 626,729       | 77,129        | 2/ |
| 37 | Total Electric  | 59,140,168    | 9,880,311     |    |
| 38 | <u>Gas</u>  |               |               |    |
| 39 | Production  | 0             | 0             |    |
| 40 | Distribution  | 19,476,843    | 6,220,912     | 1/ |
| 41 | General   | 1,867,887     | 550,024       | 2/ |
| 42 | Intangible  | 141,546       | 40,976        | 2/ |
| 43 | Common:   |               |               |    |
| 44 | General Office  | 1,775,385     | 520,703       | 1/ |
| 45 | Other Direct  | 265,485       | 67,846        | 2/ |
| 46 | Total Gas   | 23,527,146    | 7,400,461     |    |
| 47 | TOTAL   | \$184,818,812 | \$35,287,298  |    |

1/ Allocated to Montana.

2/ Directly assigned to Montana.

## TRANSMISSION SYSTEM - TOTAL COMPANY &amp; MONTANA

Year: 2012

| Total Company |              |                      |                                |                                     |
|---------------|--------------|----------------------|--------------------------------|-------------------------------------|
|               |              | Peak<br>Day of Month | Peak Day Volumes<br>Mcf or Dkt | Total Monthly Volumes<br>Mcf or Dkt |
| 1             | January      | NOT APPLICABLE       |                                |                                     |
| 2             | February     |                      |                                |                                     |
| 3             | March        |                      |                                |                                     |
| 4             | April        |                      |                                |                                     |
| 5             | May          |                      |                                |                                     |
| 6             | June         |                      |                                |                                     |
| 7             | July         |                      |                                |                                     |
| 8             | August       |                      |                                |                                     |
| 9             | September    |                      |                                |                                     |
| 10            | October      |                      |                                |                                     |
| 11            | November     |                      |                                |                                     |
| 12            | December     |                      |                                |                                     |
| 13            | <b>TOTAL</b> |                      |                                |                                     |

| Montana |              |                      |                                |                                     |
|---------|--------------|----------------------|--------------------------------|-------------------------------------|
|         |              | Peak<br>Day of Month | Peak Day Volumes<br>Mcf or Dkt | Total Monthly Volumes<br>Mcf or Dkt |
| 14      | January      | NOT APPLICABLE       |                                |                                     |
| 15      | February     |                      |                                |                                     |
| 16      | March        |                      |                                |                                     |
| 17      | April        |                      |                                |                                     |
| 18      | May          |                      |                                |                                     |
| 19      | June         |                      |                                |                                     |
| 20      | July         |                      |                                |                                     |
| 21      | August       |                      |                                |                                     |
| 22      | September    |                      |                                |                                     |
| 23      | October      |                      |                                |                                     |
| 24      | November     |                      |                                |                                     |
| 25      | December     |                      |                                |                                     |
| 26      | <b>TOTAL</b> |                      |                                |                                     |

## DISTRIBUTION SYSTEM - TOTAL COMPANY &amp; MONTANA

Year: 2012

| Total Company |              |                      |                         |                              |
|---------------|--------------|----------------------|-------------------------|------------------------------|
|               |              | Peak<br>Day of Month | Peak Day Volumes<br>Dkt | Total Monthly Volumes<br>Dkt |
| 1             | January      | 18                   | 324,453                 | 5,901,327                    |
| 2             | February     | 10                   | 272,922                 | 5,391,789                    |
| 3             | March        | 2                    | 204,571                 | 3,390,648                    |
| 4             | April        | 16                   | 130,932                 | 2,844,654                    |
| 5             | May          | 25                   | 100,114                 | 2,160,215                    |
| 6             | June         | 11                   | 69,921                  | 1,700,629                    |
| 7             | July         | 5                    | 65,310                  | 1,622,611                    |
| 8             | August       | 16                   | 62,924                  | 1,681,874                    |
| 9             | September    | 22                   | 81,045                  | 1,899,242                    |
| 10            | October      | 25                   | 185,501                 | 3,662,679                    |
| 11            | November     | 11                   | 241,720                 | 4,833,147                    |
| 12            | December     | 26                   | 274,229                 | 6,510,872                    |
| 13            | <b>TOTAL</b> |                      |                         | 41,599,687                   |

| Montana |              |                      |                         |                              |
|---------|--------------|----------------------|-------------------------|------------------------------|
|         |              | Peak<br>Day of Month | Peak Day Volumes<br>Dkt | Total Monthly Volumes<br>Dkt |
| 1       | January      | 18                   | 105,802                 | 1,884,563                    |
| 2       | February     | 10                   | 80,708                  | 1,654,915                    |
| 3       | March        | 1                    | 59,387                  | 1,058,974                    |
| 4       | April        | 15                   | 43,670                  | 971,419                      |
| 5       | May          | 25                   | 36,944                  | 729,694                      |
| 6       | June         | 10                   | 27,854                  | 628,472                      |
| 7       | July         | 5                    | 28,866                  | 601,997                      |
| 8       | August       | 17                   | 23,959                  | 588,033                      |
| 9       | September    | 11                   | 26,912                  | 625,271                      |
| 10      | October      | 25                   | 56,703                  | 1,112,505                    |
| 11      | November     | 10                   | 74,463                  | 1,433,590                    |
| 12      | December     | 25                   | 87,174                  | 2,023,456                    |
| 26      | <b>TOTAL</b> |                      |                         | 13,312,889                   |



## STORAGE SYSTEM - TOTAL COMPANY &amp; MONTANA

Year: 2012

|    |              | Total Company     |            |                        |            |                             |            |        |
|----|--------------|-------------------|------------|------------------------|------------|-----------------------------|------------|--------|
|    |              | Peak Day of Month |            | Peak Day Volumes (Dkt) |            | Total Monthly Volumes (Dkt) |            |        |
|    |              | Injection         | Withdrawal | Injection              | Withdrawal | Injection                   | Withdrawal | Losses |
| 1  | January      | 4                 | 18         | 2,106                  | 181,989    | 13,740                      | 2,476,498  |        |
| 2  | February     | 10                | 10         | 1,268                  | 141,488    | 2,195                       | 2,169,907  |        |
| 3  | March        | 31                | 2          | 46,309                 | 77,629     | 551,933                     | 613,970    |        |
| 4  | April        | 24                | 16         | 46,807                 | 17,812     | 665,896                     | 199,814    |        |
| 5  | May          | 14                | 9          | 54,291                 | 3,087      | 1,196,572                   | 51,936     |        |
| 6  | June         | 22                | 7          | 56,362                 | 1,099      | 1,467,173                   | 14,344     |        |
| 7  | July         | 28                | 25         | 58,223                 | 3,749      | 1,518,691                   | 20,547     |        |
| 8  | August       | 18                | 16         | 58,793                 | 8,120      | 1,647,158                   | 68,710     |        |
| 9  | September    | 15                | 28         | 58,959                 | 7,167      | 1,533,084                   | 65,858     |        |
| 10 | October      | 1                 | 25         | 46,735                 | 67,574     | 351,229                     | 611,036    |        |
| 11 | November     | 5                 | 11         | 16,444                 | 104,087    | 115,202                     | 1,164,992  |        |
| 12 | December     | 1                 | 24         | 6,043                  | 139,724    | 26,079                      | 2,703,005  |        |
| 13 | <b>TOTAL</b> |                   |            |                        |            | 9,088,952                   | 10,160,617 |        |

|    |              | Montana           |            |                        |            |                             |            |        |
|----|--------------|-------------------|------------|------------------------|------------|-----------------------------|------------|--------|
|    |              | Peak Day of Month |            | Peak Day Volumes (Dkt) |            | Total Monthly Volumes (Dkt) |            |        |
|    |              | Injection         | Withdrawal | Injection              | Withdrawal | Injection                   | Withdrawal | Losses |
| 14 | January      |                   |            |                        |            |                             |            |        |
| 15 | February     |                   |            |                        |            |                             |            |        |
| 16 | March        |                   |            |                        |            |                             |            |        |
| 17 | April        |                   |            |                        |            |                             |            |        |
| 18 | May          |                   |            |                        |            |                             |            |        |
| 19 | June         | NOT AVAILABLE     |            |                        |            |                             |            |        |
| 20 | July         |                   |            |                        |            |                             |            |        |
| 21 | August       |                   |            |                        |            |                             |            |        |
| 22 | September    |                   |            |                        |            |                             |            |        |
| 23 | October      |                   |            |                        |            |                             |            |        |
| 24 | November     |                   |            |                        |            |                             |            |        |
| 25 | December     |                   |            |                        |            |                             |            |        |
| 26 | <b>TOTAL</b> |                   |            |                        |            |                             |            |        |

## SOURCES OF GAS SUPPLY

Year: 2012

|    | Name of Supplier 1/                                      | Last Year<br>Volumes<br>Dkt | This Year<br>Volumes<br>Dkt | Last Year<br>Avg. Commodity<br>Cost | This Year<br>Avg. Commodity<br>Cost |
|----|--|-----------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| 1  |  |                             |                             |                                     |                                     |
| 2  |  |                             |                             |                                     |                                     |
| 3  |  |                             |                             |                                     |                                     |
| 4  |  |                             |                             |                                     |                                     |
| 5  |  |                             |                             |                                     |                                     |
| 6  |  |                             |                             |                                     |                                     |
| 7  |  |                             |                             |                                     |                                     |
| 8  |  |                             |                             |                                     |                                     |
| 9  |  |                             |                             |                                     |                                     |
| 10 |  |                             |                             |                                     |                                     |
| 11 |  |                             |                             |                                     |                                     |
| 12 |  |                             |                             |                                     |                                     |
| 13 |  |                             |                             |                                     |                                     |
| 14 |  |                             |                             |                                     |                                     |
| 15 |  |                             |                             |                                     |                                     |
| 16 |  |                             |                             |                                     |                                     |
| 17 |  |                             |                             |                                     |                                     |
| 18 |  |                             |                             |                                     |                                     |
| 19 |  |                             |                             |                                     |                                     |
| 20 |  |                             |                             |                                     |                                     |
| 21 |  |                             |                             |                                     |                                     |
| 22 |  |                             |                             |                                     |                                     |
| 23 |  |                             |                             |                                     |                                     |
| 24 |  |                             |                             |                                     |                                     |
| 25 |  |                             |                             |                                     |                                     |
| 26 |  |                             |                             |                                     |                                     |
| 27 |  |                             |                             |                                     |                                     |
| 28 |  |                             |                             |                                     |                                     |
| 29 |  |                             |                             |                                     |                                     |
| 30 |  |                             |                             |                                     |                                     |
| 31 | 1/ Supplier information is proprietary and confidential. |                             |                             |                                     |                                     |
| 32 |  |                             |                             |                                     |                                     |
| 33 |  |                             |                             |                                     |                                     |
| 34 |  |                             |                             |                                     |                                     |
| 35 |  |                             |                             |                                     |                                     |
| 36 |  |                             |                             |                                     |                                     |
| 37 | <b>Total Gas Supply Volumes</b>                          | 36,349,510                  | 30,732,871                  | \$3.803                             | \$2.593                             |

## MONTANA CONSERVATION &amp; DEMAND SIDE MANAGEMENT PROGRAMS

Year: 2012

|    | Program Description  | Current Year<br>Expenditures | Last Year<br>Expenditures | % Change | Planned<br>Savings<br>(Mcf or Dkt) | Achieved<br>Savings<br>(Mcf or Dkt) | Difference |
|----|--|------------------------------|---------------------------|----------|------------------------------------|-------------------------------------|------------|
| 1  | MT Conservation & DSM Program<br>(As Detailed on Schedule 36B) | \$49,744                     | \$98,929                  | -49.72%  | N/A                                | 3,785                               | N/A        |
| 2  |  |                              |                           |          |                                    |                                     |            |
| 3  |  |                              |                           |          |                                    |                                     |            |
| 4  |  |                              |                           |          |                                    |                                     |            |
| 5  |  |                              |                           |          |                                    |                                     |            |
| 6  |  |                              |                           |          |                                    |                                     |            |
| 7  |  |                              |                           |          |                                    |                                     |            |
| 8  |  |                              |                           |          |                                    |                                     |            |
| 9  |  |                              |                           |          |                                    |                                     |            |
| 10 |  |                              |                           |          |                                    |                                     |            |
| 11 |  |                              |                           |          |                                    |                                     |            |
| 12 |  |                              |                           |          |                                    |                                     |            |
| 13 |  |                              |                           |          |                                    |                                     |            |
| 14 |  |                              |                           |          |                                    |                                     |            |
| 15 |  |                              |                           |          |                                    |                                     |            |
| 16 |  |                              |                           |          |                                    |                                     |            |
| 17 |  |                              |                           |          |                                    |                                     |            |
| 18 |  |                              |                           |          |                                    |                                     |            |
| 19 |  |                              |                           |          |                                    |                                     |            |
| 20 |  |                              |                           |          |                                    |                                     |            |
| 21 |  |                              |                           |          |                                    |                                     |            |
| 22 |  |                              |                           |          |                                    |                                     |            |
| 23 |  |                              |                           |          |                                    |                                     |            |
| 24 |  |                              |                           |          |                                    |                                     |            |
| 25 |  |                              |                           |          |                                    |                                     |            |
| 26 |  |                              |                           |          |                                    |                                     |            |
| 27 |  |                              |                           |          |                                    |                                     |            |
| 28 |  |                              |                           |          |                                    |                                     |            |
| 29 |  |                              |                           |          |                                    |                                     |            |
| 30 |  |                              |                           |          |                                    |                                     |            |
| 31 |  |                              |                           |          |                                    |                                     |            |
| 32 | TOTAL  | \$49,744                     | \$98,929                  | -49.72%  | N/A                                | 3,785                               | N/A        |

## MONTANA CONSUMPTION AND REVENUES

Year: 2012

|    | Sales of Gas          | Operating Revenues |               | DK Sold         |               | Avg. No. of Customers |               |
|----|-----------------------|--------------------|---------------|-----------------|---------------|-----------------------|---------------|
|    |                       | Current Year       | Previous Year | Current Year    | Previous Year | Current Year          | Previous Year |
| 1  | Residential           | \$33,696,141       | \$45,522,909  | 5,176,954       | 6,268,127     | 70,548                | 69,976        |
| 2  | Firm General          | 19,452,468         | 26,717,946    | 3,173,326       | 3,814,965     | 8,716                 | 8,558         |
| 3  | Small Interruptible   | 1,106,271          | 1,382,090     | 288,135         | 278,444       | 14                    | 9             |
| 4  | Large Interruptible   | 17,112             | 107,192       | 3,973           | 23,609        | 0                     | 0             |
| 5  |                       |                    |               |                 |               |                       |               |
| 6  |                       |                    |               |                 |               |                       |               |
| 7  |                       |                    |               |                 |               |                       |               |
| 8  |                       |                    |               |                 |               |                       |               |
| 9  |                       |                    |               |                 |               |                       |               |
| 10 |                       |                    |               |                 |               |                       |               |
| 11 | <b>TOTAL</b>          | \$54,271,992       | \$73,730,137  | 8,642,388       | 10,385,145    | 79,278                | 78,543        |
| 12 |                       |                    |               |                 |               |                       |               |
| 13 |                       |                    |               |                 |               |                       |               |
| 14 | Transportation of Gas | Operating Revenues |               | BCF Transported |               | Avg. No. of Customers |               |
| 15 |                       | Current Year       | Previous Year | Current Year    | Previous Year | Current Year          | Previous Year |
| 16 |                       |                    |               |                 |               |                       |               |
| 17 |                       |                    |               |                 |               |                       |               |
| 18 | Small Interruptible   | \$556,109          | \$619,197     | 0.6             | 0.7           | 31                    | 35            |
| 19 | Large Interruptible   | 654,131            | 647,477       | 4.6             | 4.6           | 5                     | 5             |
| 20 |                       |                    |               |                 |               |                       |               |
| 21 |                       |                    |               |                 |               |                       |               |
| 22 |                       |                    |               |                 |               |                       |               |
| 23 |                       |                    |               |                 |               |                       |               |
| 24 | <b>TOTAL</b>          | \$1,210,240        | \$1,266,674   | 5.2             | 5.3           | 36                    | 40            |

## NATURAL GAS UNIVERSAL SYSTEM BENEFITS PROGRAMS

Year: 2012

|    | Program Description   | Actual Current<br>Year<br>Expenditures | Contracted or<br>Committed<br>Current Year<br>Expenditures | Total Current<br>Year<br>Expenditures | Expected<br>savings (Mcf or<br>Dkt) | Most recent<br>program<br>evaluation |
|----|---|--|--|---------------------------------------|-------------------------------------|--------------------------------------|
| 1  | Local Conservation  |  |  |                                       |                                     |                                      |
| 2  |   |  |  |                                       |                                     |                                      |
| 3  |   |  |  |                                       |                                     |                                      |
| 4  |   |  |  |                                       |                                     |                                      |
| 5  |   |  |  |                                       |                                     |                                      |
| 6  |   |  |  |                                       |                                     |                                      |
| 7  |   |  |  |                                       |                                     |                                      |
| 8  | Market Transformation                                       |  |  |                                       |                                     |                                      |
| 9  |   |  |  |                                       |                                     |                                      |
| 10 |   |  |  |                                       |                                     |                                      |
| 11 |   |  |  |                                       |                                     |                                      |
| 12 |   |  |  |                                       |                                     |                                      |
| 13 |   |  |  |                                       |                                     |                                      |
| 14 |   |  |  |                                       |                                     |                                      |
| 15 | Research & Development                                      |  |  |                                       |                                     |                                      |
| 16 |   |  |  |                                       |                                     |                                      |
| 17 |   |  |  |                                       |                                     |                                      |
| 18 |   |  |  |                                       |                                     |                                      |
| 19 |   |  |  |                                       |                                     |                                      |
| 20 |   |  |  |                                       |                                     |                                      |
| 21 |   |  |  |                                       |                                     |                                      |
| 22 | Low Income  |  |  |                                       |                                     |                                      |
| 23 | Discounts   | \$521,184                              | \$0  | \$521,184                             |                                     | 2012                                 |
| 24 | Furnace Safety/Repair                                       | 0                                      | 10,000   | 10,000                                |                                     | 2012                                 |
| 25 | Bill Assistance   | 0                                      | 23,000   | 23,000                                |                                     | 2012                                 |
| 26 |   |  |  |                                       |                                     |                                      |
| 27 |   |  |  |                                       |                                     |                                      |
| 28 |   |  |  |                                       |                                     |                                      |
| 29 | Other   |  |  |                                       |                                     |                                      |
| 30 |   |  |  |                                       |                                     |                                      |
| 31 |   |  |  |                                       |                                     |                                      |
| 32 |   |  |  |                                       |                                     |                                      |
| 33 |   |  |  |                                       |                                     |                                      |
| 34 |   |  |  |                                       |                                     |                                      |
| 35 |   |  |  |                                       |                                     |                                      |
| 36 |   |  |  |                                       |                                     |                                      |
| 37 |   |  |  |                                       |                                     |                                      |
| 38 |   |  |  |                                       |                                     |                                      |
| 39 |   |  |  |                                       |                                     |                                      |
| 40 |   |  |  |                                       |                                     |                                      |
| 41 |   |  |  |                                       |                                     |                                      |
| 42 | Total   | \$521,184                              | \$33,000   | \$554,184                             |                                     | 2012                                 |
| 43 | Number of customers that received low income rate discounts |  |  | (Average)                             | 4,649                               |                                      |
| 44 | Average monthly bill discount amount (\$/mo)                |  |  |                                       | \$9.34                              |                                      |
| 45 | Average LIEAP-eligible household income                     |  |  |                                       | N/A                                 |                                      |
| 46 | Number of customers that received weatherization assistance |  |  |                                       | N/A                                 |                                      |
| 47 | Expected average annual bill savings from weatherization    |  |  |                                       | N/A                                 |                                      |
| 48 | Number of residential audits performed                      |  |  |                                       | N/A                                 |                                      |

**MONTANA CONSERVATION & DEMAND SIDE MANAGEMENT PROGRAMS**

Year: 2012

|    | Program Description     | Actual Current<br>Year<br>Expenditures | Contracted or<br>Committed<br>Current Year<br>Expenditures | Total Current<br>Year<br>Expenditures | Expected<br>savings (Mcf or<br>Dkt) | Most recent<br>program<br>evaluation |
|----|-------------------------|--|--|---------------------------------------|-------------------------------------|--------------------------------------|
| 1  | Local Conservation      |  |  |                                       |                                     |                                      |
| 2  | High Efficiency Furnace | \$41,946                               | \$0  | \$41,946                              | 3,119                               | 2012                                 |
| 3  |                         |  |  |                                       |                                     |                                      |
| 4  | Programmable Thermostat | 7,798                                  | 0  | 7,798                                 | 666                                 | 2012                                 |
| 5  |                         |  |  |                                       |                                     |                                      |
| 6  |                         |  |  |                                       |                                     |                                      |
| 7  |                         |  |  |                                       |                                     |                                      |
| 8  |                         |  |  |                                       |                                     |                                      |
| 9  | Demand Response         |  |  |                                       |                                     |                                      |
| 10 |                         |  |  |                                       |                                     |                                      |
| 11 |                         |  |  |                                       |                                     |                                      |
| 12 |                         |  |  |                                       |                                     |                                      |
| 13 |                         |  |  |                                       |                                     |                                      |
| 14 |                         |  |  |                                       |                                     |                                      |
| 15 |                         |  |  |                                       |                                     |                                      |
| 16 | Market Transformation   |  |  |                                       |                                     |                                      |
| 17 |                         |  |  |                                       |                                     |                                      |
| 18 |                         |  |  |                                       |                                     |                                      |
| 19 |                         |  |  |                                       |                                     |                                      |
| 20 |                         |  |  |                                       |                                     |                                      |
| 21 |                         |  |  |                                       |                                     |                                      |
| 22 |                         |  |  |                                       |                                     |                                      |
| 23 | Research & Development  |  |  |                                       |                                     |                                      |
| 24 |                         |  |  |                                       |                                     |                                      |
| 25 |                         |  |  |                                       |                                     |                                      |
| 26 |                         |  |  |                                       |                                     |                                      |
| 27 |                         |  |  |                                       |                                     |                                      |
| 28 |                         |  |  |                                       |                                     |                                      |
| 29 |                         |  |  |                                       |                                     |                                      |
| 30 | Low Income              |  |  |                                       |                                     |                                      |
| 31 |                         |  |  |                                       |                                     |                                      |
| 32 |                         |  |  |                                       |                                     |                                      |
| 33 |                         |  |  |                                       |                                     |                                      |
| 34 |                         |  |  |                                       |                                     |                                      |
| 35 |                         |  |  |                                       |                                     |                                      |
| 36 | Other                   |  |  |                                       |                                     |                                      |
| 37 |                         |  |  |                                       |                                     |                                      |
| 38 |                         |  |  |                                       |                                     |                                      |
| 39 |                         |  |  |                                       |                                     |                                      |
| 40 |                         |  |  |                                       |                                     |                                      |
| 41 |                         |  |  |                                       |                                     |                                      |
| 42 |                         |  |  |                                       |                                     |                                      |
| 43 |                         |  |  |                                       |                                     |                                      |
| 44 |                         |  |  |                                       |                                     |                                      |
| 45 |                         |  |  |                                       |                                     |                                      |
| 46 |                         |  |  |                                       |                                     |                                      |
| 47 | Total                   | \$49,744                               | \$0  | \$49,744                              | 3,785                               | 2012                                 |

