

MDU RESOURCES GROUP INC  
Form 10-Q  
November 05, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2008

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3480

MDU Resources Group, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation  
or organization)

41-0423660  
(I.R.S. Employer Identification No.)

1200 West Century Avenue  
P.O. Box 5650  
Bismarck, North Dakota 58506-5650  
(Address of principal executive offices)  
(Zip Code)

(701) 530-1000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 29, 2008:  
183,661,012 shares.

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## DEFINITIONS

The following abbreviations and acronyms used in this Form 10-Q are defined below:

Abbreviation or Acronym	
2007 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2007
ALJ	Administrative Law Judge
Anadarko	Anadarko Petroleum Corporation
APB	Accounting Principles Board
APB Opinion No. 28	Interim Financial Reporting
Badger Hills Project	Tongue River-Badger Hills Project
Bbl	Barrel of oil or other liquid hydrocarbons
Bcf	Billion cubic feet
BER	Montana Board of Environmental Review
Big Stone Station	450-MW coal-fired electric generating facility located near Big Stone City, South Dakota (22.7 percent ownership)
Big Stone Station II	Proposed coal-fired electric generating facility located near Big Stone City, South Dakota (the Company anticipates ownership of at least 116 MW)
BLM	Bureau of Land Management
Brazilian Transmission Lines	Centennial Resources' equity method investment in companies owning ECTE, ENTE and ERTE
Btu	British thermal unit
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
CBNG	Coalbed natural gas
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial International	Centennial Energy Resources International, Inc., a direct wholly owned subsidiary of Centennial Resources
Centennial Power	Centennial Power, Inc., a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
Clean Air Act	Federal Clean Air Act
Clean Water Act	Federal Clean Water Act
Colorado Federal District Court	U.S. District Court for the District of Colorado
Company	MDU Resources Group, Inc.
D.C. Appeals Court	U.S. Court of Appeals for the District of Columbia Circuit
dk	Decatherm
DRC	Dakota Resource Council



EBSR	Elk Basin Storage Reservoir, one of Williston Basin's natural gas storage reservoirs, which is located in Montana and Wyoming
ECTE	Empresa Catarinense de Transmissão de Energia S.A.
EIS	Environmental Impact Statement
ENTE	Empresa Norte de Transmissão de Energia S.A.
EPA	U.S. Environmental Protection Agency
ERTE	Empresa Regional de Transmissão de Energia S.A.
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings
FSP	FASB Staff Position
FSP FAS 157-2	Effective Date of FASB Statement No. 157
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Hartwell	Hartwell Energy Limited Partnership, a former equity method investment of the Company (sold in the third quarter of 2007)
Howell	Howell Petroleum Corporation, a wholly owned subsidiary of Anadarko
Indenture	Indenture dated as of December 15, 2003, as supplemented, from the Company to The Bank of New York as Trustee
Innovatum	Innovatum Inc., a former indirect wholly owned subsidiary of WBI Holdings (the stock and Innovatum's assets have been sold)
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital (effective October 1, 2008)
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
kWh	Kilowatt-hour
LWG	Lower Willamette Group
MBbls	Thousands of barrels of oil or other liquid hydrocarbons
MBI	Morse Bros., Inc., an indirect wholly owned subsidiary of Knife River
Mcf	Thousand cubic feet
MDU Brasil	MDU Brasil Ltda., an indirect wholly owned subsidiary of Centennial International
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MEPA	Montana Environmental Policy Act
MMBtu	Million Btu
MMcf	Million cubic feet
MMdk	Million decatherms
MNPUC	Minnesota Public Utilities Commission



Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana BOGC	Montana Board of Oil & Gas Conservation
Montana DEQ	Montana State Department of Environmental Quality
Montana Federal District Court	U.S. District Court for the District of Montana
Montana State District Court	Montana Twenty-Second Judicial District Court, Big Horn County
Mortgage	Indenture of Mortgage dated May 1, 1939, as supplemented, amended and restated, from the Company to The Bank of New York and Douglas J. MacInnes, successor trustees
MPX	MPX Termoceara Ltda. (49 percent ownership, sold in June 2005)
MW	Megawatt
ND Health Department	North Dakota Department of Health
NDPSC	North Dakota Public Service Commission
NEPA	National Environmental Policy Act
Ninth Circuit	U.S. Ninth Circuit Court of Appeals
North Dakota District Court	North Dakota South Central Judicial District Court for Burleigh County
NPRC	Northern Plains Resource Council
NSPS	New Source Performance Standards
OPUC	Oregon Public Utilities Commission
Order on Rehearing	Order on Rehearing and Compliance and Remanding Certain Issues for Hearing
Oregon DEQ	Oregon State Department of Environmental Quality
Prairielands	Prairielands Energy Marketing, Inc., an indirect wholly owned subsidiary of WBI Holdings
PSD	Prevention of Significant Deterioration
ROD	Record of Decision
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SEIS	Supplemental Environmental Impact Statement
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 109	Accounting for Income Taxes
SFAS No. 115	Accounting for Certain Investments in Debt and Equity Securities
SFAS No. 141 (revised)	Business Combinations (revised 2007)
SFAS No. 157	Fair Value Measurements
SFAS No. 159	The Fair Value Option for Financial Assets and Financial Liabilities
SFAS No. 160	Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (Consolidated Financial Statements)
SFAS No. 161	Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133
South Dakota Federal District Court	U.S. District Court for the District of South Dakota



South Dakota SIP	South Dakota State Implementation Plan
TRWUA	Tongue River Water Users' Association
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
Williston Basin	Williston Basin Interstate Pipeline Company, an indirect wholly owned subsidiary of WBI Holdings
WUTC	Washington Utilities and Transportation Commission
WYPSC	Wyoming Public Service Commission

## INTRODUCTION

The Company is a diversified natural resource company, which was incorporated under the laws of the state of Delaware in 1924. Its principal executive offices are at 1200 West Century Avenue, P.O. Box 5650, Bismarck, North Dakota 58506-5650, telephone (701) 530-1000.

Montana-Dakota, through the electric and natural gas distribution segments, 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. Cascade distributes natural gas in Washington and Oregon. These operations also supply related value-added products and services.

On October 1, 2008, the Company acquired Intermountain. For further information, see Note 21.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings (comprised of the pipeline and energy services and the natural gas and oil production segments), Knife River (construction materials and contracting segment), MDU Construction Services (construction services segment), Centennial Resources and Centennial Capital (both reflected in the Other category). For more information on the Company's business segments, see Note 16.

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## PART I -- FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

MDU RESOURCES GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Operating revenues:				
Electric, natural gas distribution and pipeline and energy services	\$ 268,882	\$ 235,562	\$ 1,162,468	\$ 699,063
Construction services, natural gas and oil production, construction materials and contracting, and other	1,064,952	1,009,748	2,545,045	2,316,103
	1,333,834	1,245,310	3,707,513	3,015,166
Operating expenses:				
Fuel and purchased power	19,568	20,331	54,063	52,938
Purchased natural gas sold	65,626	60,887	487,310	200,016
Operation and maintenance:				
Electric, natural gas distribution and pipeline and energy services	59,818	59,650	181,209	150,967
Construction services, natural gas and oil production, construction materials and contracting, and other	845,673	807,139	2,030,770	1,882,769
Depreciation, depletion and amortization	93,226	78,400	270,135	218,246
Taxes, other than income	46,626	39,747	154,666	109,320
	1,130,537	1,066,154	3,178,153	2,614,256
Operating income	203,297	179,156	529,360	400,910
Earnings from equity method investments	1,867	11,782	5,731	17,867
Other income	395	3,456	1,922	5,670
Interest expense	19,921	19,074	57,762	53,928
Income before income taxes	185,638	175,320	479,251	370,519
Income taxes	67,256	70,823	174,311	142,580
Income from continuing operations	118,382	104,497	304,940	227,939
Income from discontinued operations, net of tax (Note 3)	---	96,765	---	109,459
Net income	118,382	201,262	304,940	337,398
Dividends on preferred stocks	171	172	514	513

Earnings on common stock	\$ 118,211	\$ 201,090	\$ 304,426	\$ 336,885
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(continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.

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MDU RESOURCES GROUP, INC.  
 CONSOLIDATED STATEMENTS OF INCOME (continued)  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Earnings per common share -- basic				
Earnings before discontinued operations	\$ .65	\$ .57	\$ 1.66	\$ 1.25
Discontinued operations, net of tax	---	.53	---	.60
Earnings per common share -- basic	\$ .65	\$ 1.10	\$ 1.66	\$ 1.85
Earnings per common share -- diluted				
Earnings before discontinued operations	\$ .64	\$ .57	\$ 1.66	\$ 1.24
Discontinued operations, net of tax	---	---	---	---