MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

January 29, 2013

Ms. Kate Whitney, Administrator
Utility Division
Montana Public Service Commission
1701 Prospect Avenue
Helena, MT 59620

Re: General Gas Rate Application
Docket No. D2012.9.100

Dear Ms. Whitney:

Enclosed please find Montana-Dakota Utilities Co.'s responses to the Montana Public Service Commission data requests dated December 19, 2012, December 21, 2012 and January 18, 2013. Responses to the following requests are attached:

PSC-012	PSC-108
PSC-033	PSC-109
PSC-105	PSC-118
PSC-107	PSC-119

Sincerely,

Rita A. Mulkern

Rita A. Mulkern
Director of Regulatory Affairs

Attachments
cc: Service List

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED DECEMBER 19, 2012
DOCKET NO. D2012.9.100

PSC-012

Regarding: Heating season loads
Witness: Aberle

a. **Please provide MDU's definition of its heating season and summarize any underlying load analysis behind that definition.**

b. **Please identify and discuss any distribution system constraints that affect MDU's seasonal strategy for storing natural gas for heating season use.**

c. **Does MDU ever have to forego using reserved pipeline capacity to inject gas into storage for heating season use in order to instead supply non-heating season load? If so, please describe the frequency and reasons for such situations.**

Response:

a. Montana-Dakota identifies the heating season as the time period from November 1 through March 31. The heating season is commonly identified throughout the energy industry as the period of time when heating demand is greatest. Based on historical normalized temperatures and associated usage, approximately 72 percent of Montana-Dakota's total energy demand is during this five month period.

b. Montana-Dakota does not believe there are any distribution system constraints that affect the strategy for storing natural gas for use during the heating season.

c. No. Montana-Dakota has adequate reserved pipeline capacity to meet the non-heating season demand as well as the amount of gas needed to fill storage prior to the heating season.

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED DECEMBER 21, 2012
DOCKET NO. D2012.9.100

PSC-033

Regarding: AMR
Witness: Skabo

Please itemize the AMR costs of the total project and the portion of that cost allocated to MT natural gas customers.

Response:

	Total Company	Montana Gas
303 - Intangible	$1,627,826	$194,221
381 - Meters	25,015,662	7,460,070
391.3 - Computer Equip. PC	238,145	26,577
393 - Stores Equipment	4,386	0
397.1 - Radio Communication Equip. Fixed	384,486	95,630
397.2 - Radio Communication Equip. Mobile	396,551	76,511
Total	$27,667,056	$7,853,009

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED JANUARY 21, 2013
DOCKET NO. D2012.9.100

PSC-105

Regarding: Plant Retirements
Witness:

a. **Please provide the categorization of retirements for the past 10 years for each account by major category of investment retired within each account.**

b. **Further, categorize the corresponding cost of removal and gross salvage with each type of investment retired by year.**

Response:

a. The requested information is not readily available in Montana-Dakota's fixed asset systems as Montana-Dakota only categorizes the cost of removal by account and vintage year but not by type of investment.

b. Please see Response No. PSC-105a.

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED JANUARY 21, 2013
DOCKET NO. D2012.9.100

PSC-107
RE: Rate case expense
Witness: Unknown

a. **Are the costs of pursuing this rate case recovered as a known or measurable adjustment to MDU's test-year expenses?**

b. **If so, please provide the amount of that adjustment and where it can be found in statement form.**

Response:

a. Rate case expense represents the incremental cost of preparing and processing the rate case and is based on known and measurable costs using current information as well as historical costs. For example, the cost of the return on equity consultant is based on a letter agreement (Statement Workpapers, Statement G, pages G-91through G-96). The cost of other items is based on prior cases.

b. Please see the Statement Workpapers, Statement G, pages G-81 through G-99 for the derivation of the rate case expense. The resulting adjustment, which reflects a three year amortization of rate case expense, is shown on Rule 38.5.157, Statement G, page 12.

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED JANUARY 21, 2013
DOCKET NO. D2012.9.100

PSC-108
RE: Rate case expense
Witness: Unknown

a. **To the extent to which employees of MDU are employed in pursuing this rate case, please identify those employees and quantify the number of hours in 2012 that each of those employees will have spent relative to the matter in D2012.9.100. Absent an exact figure, an estimate may be reasonable.**

b. **Please provide the amount of compensation, including benefits, paid to each of those employees in 2012.**

Response:

a. The requested information is not available as Montana-Dakota does not include employee time in rate case expense, and therefore does not track the employees who spent time to prepare and process the rate case, nor does it track the time spent by employees on the rate case.

b. The requested information is not available.

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED JANUARY 21, 2013
DOCKET NO. D2012.9.100

PSC-109
RE: Rate case expense
Witness: Unknown

a. Please identify the amounts paid to third parties hired to give testimony or analysis to MDU in connection with the matter in D2012.9.100.

b. Are these costs proposed to be recovered in this or any other docket?

Response:

a. Please see Statement Workpapers, Statement G, page 81.

b. Amounts paid to third parties, as well as other incremental expenses, are proposed to be recovered as rate case expense and amortized over a three year period. The proposed adjustment to regulatory commission expense is shown on Rule 38.5.157, Statement G, page 12 and Statement Workpapers, Statement G, page 81.

MONTANA-DAKOTA UTILITIES CO.
MONTANA PUBLIC SERVICE COMMISSION
DATA REQUEST
DATED JANUARY 21, 2013
DOCKET NO. D2012.9.100

PSC-119

RE: Credit ratings
Witness: Applicable Witness

Please provide any written assessment supporting rating agencies' ratings of MDU issued in the last three years.

Response:

Please see Attachment A for the Fitch Ratings and Attachment B for the Standard & Poor's Ratings.

FitchRatings

Tagging Info

Fitch Affirms MDU, Cascade's Ratings; Centennial Energy Downgraded Ratings

29 Jun 2010 1:53 PM (EDT)

Fitch Ratings-New York-29 June 2010: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc (MDU, IDR 'A-') and regulated utility subsidiary Cascade Natural Gas Company (Cascade, IDR 'A-') and downgraded the Issuer Default Rating (IDR) and long-term senior unsecured rating of Centennial Energy Holdings, Inc. (Centennial IDR 'BBB+'), a holding company for MDU's nonutility operations.

Fitch has taken the following rating actions:

MDU Resources Group, Inc.
--Long-term IDR affirmed at 'A-';
--Short-term IDR affirmed at 'F2';
--Senior unsecured affirmed at 'A';
--Preferred stock affirmed at 'BBB+';
--Commercial paper affirmed at 'F2';
--First mortgage bonds ratings withdrawn from 'A+'.

Cascade Natural Gas Co.
--Long-term IDR affirmed at 'A-';
- Short-term IDR affirmed at 'F2';
- Senior unsecured affirmed at 'A'.

Centennial Energy Holdings, Inc.
--Long-term IDR downgraded to 'BBB+' from 'A-';
--Short-term IDR affirmed at 'F2';
--Senior unsecured downgraded to 'BBB+' from 'A-';
--Commercial paper affirmed at 'F2'.

The Rating Outlook on all entities is revised to Stable from Negative.

The rating actions reflect Fitch's analytical approach to the MDU corporate family which considers the distinct financial and risk profiles of MDU's regulated utility operations apart from its non-regulated businesses conducted through Centennial. Centennial is a holding company for MDU's upstream energy and midstream operations, construction materials, and construction services businesses. In rating assignments, Fitch now considers Centennial as a standalone entity apart from MDU as Centennial finances in its own name and its debts are non-recourse to MDU. In addition, along with the acquisitions of regulated natural gas distribution companies Cascade in 2007 and Intermountain Gas Co. in Idaho in 2008, MDU's utility operations are effectively ring-fenced from the non-regulated businesses.

Centennial exhibits a strong financial profile despite the economic stress of 2008 and 2009 and the recognition of pre-tax impairment charges of $620 million in 2009 from low energy prices. Centennial's financial profile benefits from a modest financial leverage position with debt to total capitalization managed at approximately 30% to 35% and energy hedges covering approximately 50% of expected production over the forward 12 month period. Thus, despite weak natural gas prices in 2009, Centennial realized prices of $5.15 per thousand cubic feet (mcf), approximately 70% above then prevailing market prices. However, in order to preserve cash flows in response to low energy prices, Centennial slashed its exploration budgets with a resultant immediate decline in production. In addition, reserve additions represented only around 62% of production which will necessitate substantially increased capex for energy production in future years.

In 2010, Centennial announced several acquisitions of oil and natural gas properties, including additional acreage in the Bakken play. Oil production has become an increasingly larger component of energy production, and along with acreage acquisitions in the Niobrara Oil Shale, oil will likely become an increasingly large component. The prospects for Centennial's other businesses are mixed with construction services remaining weak with exposure to the Las Vegas markets and construction materials benefiting from infrastructure investments as part of the federal economic recovery programs.

The affirmation of the ratings of MDU and Cascade reflect the stable operating performance and low risk business profile of MDU's portfolio of regulated utilities which serve parts of eight contiguous states from Minnesota to Washington. With approximately 950,000, including approximately 825,000 natural gas customers, the regional footprint has been relatively strong through the recent economic downturn. The tariff mechanisms generally provide for full recovery of commodity and purchased power costs that minimize cash flow volatility. MDU has several small renewable power generation projects coming on-line over the near term that will be added to rate base, but otherwise does not face any significant capex needs.

On a consolidated basis, key credit metrics at December 2009, including EBITDA to interest at 9.4 times (x) and debt to EBITDA at1.9x, while below the 11.8x and 1.9x, respectively, posted in 2008, still compare well to rating category peers and Fitch rating guidelines. Fitch expects these credit metrics to stabilize at current levels. Liquidity is considered satisfactory and MDU generates strong cash flows. MDU does not face any significant near term debt maturities, although at times it has been an active user of commercial paper to fund its varied businesses. Both MDU and Centennial maintain commercial paper programs.

Glen Grabelsky +1-212-908-0577 or Karima Omar +1-212-908-0592, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at www.fitchratings.com.

Global Power
North America
Full Rating Report

MDU Resources Group, Inc.

Centennial Energy Holdings, Inc.

Ratings

Security Class	Current Rating
MDU Resources Group, Inc.	
Long-Term IDR	A–
Senior Unsecured Notes	A
First Mortgage Bonds	NR
Preferred Stock	BBB+
Short-Term IDR	F2
Commercial Paper	F2
Centennial Energy Holdings, Inc.	
Long-Term IDR	BBB+
Senior Unsecured	BBB+
Short-Term IDR	F2
Commercial Paper	F2

IDR – Issuer default rating. NR – Not rated.

Rating Outlook

Stable

Financial Data

MDU Resources Group, Inc.
($ Mil.)

	LTM 6/30/10	2009
Revenues	3,867	4,177
Cash from Operations	653	847
Operating EBITDA	778	798
Total Debt	1,590	1,514
Total Capitalization	4,214	4,082
Debt/Capital (%)	37.7	37.1
Capex/ Depreciation (%)	129.8	135.6

Analysts

Glen Grabelsky
+1 212 908-0577
glen.grabelsky@fitchratings.com

Kathleen Connelly
+1 212 908-0290
kathleen.connelly@fitchratings.com

Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*

Rating Rationale

- Fitch affirmed the long-term ratings of MDU Resources Group, Inc. (MDU, issuer default rating [IDR] 'A–') and lowered the long-term ratings of its nonregulated subsidiary holding company, Centennial Energy Holdings, Inc. (Centennial or CEH, IDR 'BBB+') in June 2010. The short-term IDRs and commercial paper program ratings for both entities were affirmed at 'F2'. The long-term Rating Outlook is Stable for both MDU and CEH.
- The rating actions reflect Fitch's analytical approach to the MDU corporate family, which considers both the corporate structure, as MDU does not have a traditional holding company, and the distinct financial and risk profiles of MDU's regulated utility operations apart from its nonregulated businesses conducted through CEH. CEH is a holding company for MDU's upstream energy and midstream operations, construction materials, and construction services businesses. In rating assignments, Fitch now considers Centennial as a stand-alone entity apart from MDU, as CEH finances in its own name and its debts are nonrecourse to MDU. In addition, along with the acquisitions of regulated natural gas distribution companies Cascade Natural Gas Company in 2007 and Intermountain Gas Co. in Idaho in 2008, most of MDU's utility operations are effectively ringfenced from CEH.
- Centennial has experienced a greater level of income and cash flow volatility than Fitch had previously factored into its financial models. Lower energy prices resulted in dramatic cutbacks in exploration and production capital expenditure budgets, which resulted in lower production levels that more than offset energy hedges resulting in realization of prices above market levels. Additionally, the construction materials business segment has proven to be more economically sensitive and dependent on government infrastructure funding than previously assumed.
- Despite weak energy prices and related ceiling test impairment charges, MDU and CEH exhibit strong financial profiles. Consolidated leverage for MDU is relatively modest, with debt to capital of 38% as of June 30, 2010. This level has been maintained at 40% or under in recent years. Similarly, CEH exhibits a conservative leverage profile with debt to total debt plus equity in the 30%–35% range. These leverage measures have been maintained despite recognition of pretax ceiling test impairment charges of $136 million ($84 million after tax) in 2008 and $620 million ($384 million after tax) in 2009. The impairment charges themselves and resultant reporting of net losses are not material to Fitch's analysis or rating assignments.
- MDU has historically generated robust operating income and strong cash flow levels, reflecting the benefits of a successful diversification program that has extended the legacy utility operations, Montana-Dakota Utilities and Great Plains Natural Gas Co., into natural gas and oil production, pipeline and midstream services, construction materials as a producer of aggregates and related products, and construction services as contractors for infrastructure and wiring and building systems.
- Operating results have been pressured, reflecting weak energy prices and reduced volumes and activity in MDU's economically sensitive construction materials and construction services business lines. The company's EBITDA declined approximately 21% from $1.01 billion in 2008 to $798 million in 2009 and has stabilized in the

Profile

MDU is a diversified utility and natural resource company with interests in regulated electric and gas operations, oil and natural gas production, pipeline and midstream energy businesses, construction materials and aggregates, and construction services. MDU's utilities serve more than 950,000 customers across an eight-state contiguous region from Minnesota to Washington.

latest 12 months (LTM) ended June 30, 2010. Still, credit metrics, including EBITDA/interest remained strong at 9.4x and 9.3x at Dec. 31, 2009, and the LTM June 30, 2010, respectively.

- Rating concerns relate to the economic sensitivity of MDU's nonregulated businesses and exposure to volatile energy prices, as oil and natural gas production has been the largest contributor to earnings and cash flow in recent years.

Key Rating Drivers

- Conservative financial policies, including consolidated leverage targets under 40% and energy hedging policy that moderates energy price volatility.
- Historically strong earnings and cash flow levels. Coverage measures remain healthy despite being below levels achieved in 2008.
- Diversified business portfolio that balances regulated utility and pipeline predictable cash flows with commodity and economically sensitive energy and construction businesses.
- A period of sustained low energy prices. To date, MDU has been able to take advantage of the forward curve (contango) through its hedging policy, which captures higher expected energy prices in the future.
- A change in financial management policies. Fitch considers the following features as credit supportive: MDU has typically operated with low levels of consolidated balance sheet leverage (debt to capital measure less than 40%) and nonutility debt to capital at 30%–35%; a hedging program to minimize energy price volatility with up to 50% of estimated annual natural gas and oil output hedged; and the absence of treasury share repurchases.
- A more aggressive acquisition program. A large acquisition could alter MDU's credit and risk profile, particularly if financed through debt.

Corporate Structure

MDU, headquartered in Bismarck, ND, operates a diversified portfolio of businesses in power, energy, aggregates, and infrastructure and interior contracting. MDU operates through a divisional structure; the parent company is, in fact, the utility, Montana-Dakota Utilities. Consequently, MDU carries Fitch's typical notching convention for regulated utilities that assigns one- and two-notch uplifts to the IDR for senior unsecured and secured debt ratings, respectively. The ratings for Centennial, the holding company for non-utility assets, on the other hand, reflects typical rating notching for nonregulated corporates with the senior unsecured rating equal to the IDR. With the acquisitions of Cascade in 2007 and Intermountain in 2008, separate holding companies were formed for each of these regulated utilities. Their direct holdings companies are in turn held by a second-tier holding company, MDU Energy Capital LLC. A simplified version of MDU's organization is depicted in the chart on page 3.

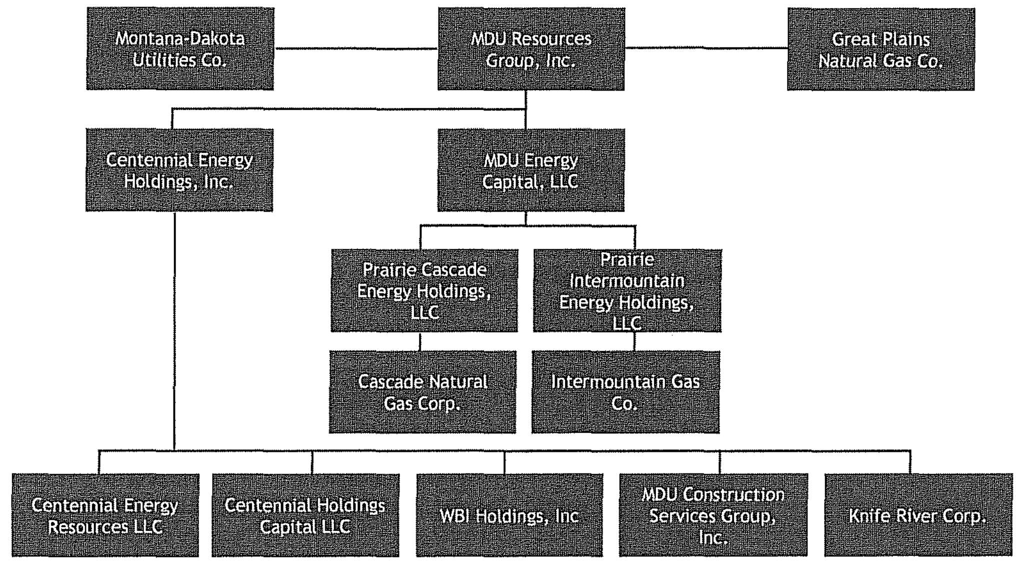
Recent Events

Acquisitions and Capital Expenditures

Acquisitions continue to play an important component in MDU's business plan, and Fitch expects MDU to continue to pursue acquisitions within its current business lines to compliment its existing portfolio of businesses. In the first half of 2010, MDU completed three acquisitions in its energy business:

- 40,000 net acres in the Three Forks play in western North Dakota in the Bakken shale region;

MDU Resources Group, Inc. Organizational Chart as of June 30, 2010



Source: Company filings, Fitch research.

- 80,000 net acres in the Niobrara shale play in southeastern Wyoming and north-central Colorado; and
- Wyoming gas assets in the Green River Basin with proven reserves more than 60 billion cubic feet equivalent (bcfe).

MDU also announced several organic projects in its pipeline and midstream business, including expansion of its Bakken natural gas pipeline capacity by 33% and more than doubling of existing deliverable gas volumes from its Baker storage facility.

In its regulated utility operations, MDU purchased a 25 MW ownership interest in Wygen III, a new coal-fired generating facility that came on line in second-quarter 2010. Fitch expects acquisitions and capital-expenditure projects to be financed in a manner that preserves MDU's current leverage position with debt to debt plus equity remaining at or below 40%.

MDU Capital Expenditures

($ Mil.)

	2009	2008	2007
Utility — Electric	115	73	91
Utility — Gas[a]	44	398	500
Energy[b]	183	711	284
Pipeline/Midstream	70	43	39
Construction Materials[c]	27	128	190
Construction Services and Other	16	25	20
Total	**455**	**1,378**	**1,124**

[a]Includes the following acquisitions: Intermountain in 2008 for $328 million and Cascade in 2007 for $475 million. [b]Includes acquisition of East Texas properties in 2008 for $235 million. [c]Includes several small acquisitions in 2007 and 2008.
Source: Dec. 31, 2009 10-K.

Business Line Summary — Revenues and Operating Income
($ Mil.)

	12 Months Ending June 30, 2010		2009		2008		2007	
	Revenues	Op. Inc.	Revenues	Op. Inc.	Revenues	Op. Inc.	Revenues	Op. Inc.
Regulated Electric	196	41	196	37	208	35	193	32
Regulated Natural Gas	935	82	1,073	77	1,036	77	533	33
Pipeline/Midstream	324	72	308	69	532	50	447	58
Energy Production	447	169	440	(473)	712	203	515	228
Aggregates and Related	1,454	71	1,515	93	1,641	63	1,761	139
Construction Services	695	25	819	44	1,257	81	1,103	76

Source: Company filings, Fitch research.

Business Line Summary

Regulated Utilities

Regulated utility operations are conducted in eight states — Montana, North Dakota, South Dakota, Minnesota, Wyoming, Idaho, Washington, and Oregon — through four entities: Montana-Dakota Utilities, Great Plains Natural Gas Co., Cascade Natural Gas Co., and Intermountain Gas Company. The utilities serve more than 950,000 customers. In February 2009, MDU's utility group announced an integration plan that resulted in the consolidation of business activities among the four separate regulated utilities. To that end, the program focused on the streamlining of processes, the elimination of some programs, and, subsequently, a reduction of work force.

Management's strategy is to seek load growth and replace purchase power contracts with its own generation. To achieve this, it has purchased an interest in Wygen III, which began operations in April 2010. Other projects include a waste heat recovery project, which was completed in 2009, and additional development of wind generation. Two new wind generating facilities were commissioned in June 2010.

Natural Gas and Oil Production

Fidelity Exploration & Production Co. (Fidelity), a subsidiary of WBI Holding, Inc., is a producer of natural gas and oil. Principal production regions are in the Rocky Mountain, midcontinent, Texas, and Gulf of Mexico. Reserves at the end of 2009 were 654 bcfe (69% natural gas and 31% oil). Oil production increased 11% in 2009 to 3.1 million barrels reflecting production growth in the Bakken play. Natural gas production fell 14% to 56.6 million cubic feet (mcf). In 2009, MDU curtailed development and exploration in the face of declining and weak energy prices. In 2010, capital-expenditure budgets have increased to $380 million to reflect a more active drilling program, and recent acquisitions should also bolster production.

Pipeline and Energy Services

Midstream businesses include natural gas transportation, gas gathering, and storage services. The principal assets include the Williston Basin Interstate Pipeline (Williston), a 3,700-mile Federal Energy Regulatory Commission (FERC) regulated system; the Grasslands Pipeline, a 253-mile system with a daily capacity of 213,000 thousand cubic feet (mcf);

Balance Sheet Distribution
($ Mil., As of Dec. 31, 2009)

	Assets	Debt/ Equity (%)
Utilities	2,028	47/53
Pipeline and Midstream	507	40/60
Energy Production	1,793	34/66
Aggregates and Related	1,588	30/70
Construction Services	481	34/66

Source: Company filings, Fitch research.

and three underground natural gas storage facilities in North America. Reflecting the vertical integration and synergies in MDU's diverse operations, its legacy utilities are large capacity holders on Williston, and upstream producer Fidelity is a large capacity holder on Grasslands. The company plans to pursue growth opportunities in the Bakken; increase capacity at its Baker storage field; and increase its energy-related services. In May 2010, the company announced plans to expand the Williston pipeline capacity by 33%, which should add another 30,000 mcf per day. Expansion plans at Baker are for another 125,000 mcf per day of capacity.

Aggregates and Construction Materials

Knife River Corp., a subsidiary of Centennial, mines and processes a variety of construction aggregates, such as crushed stone, sand, and gravel. At the end of 2009, it had aggregate reserves of 1.1 billion tons, which makes Knife River one of the top ten largest producers of aggregates in the U.S. Other products such as ready-mix concrete, asphalt, and other finished concrete products and building materials are sold in select markets. Knife River is MDU's largest revenue contributor despite recessionary pressures affecting the construction industry generally and the residential markets in particular. Operations are conducted west of the Mississippi River, and Knife River typically enjoys good market share in its regions. Markets tend to be geographically compact and competitively distinct, reflecting the difficulty and expense in transporting materials over land. This industry remains highly fragmented, and MDU had, in recent years, been an active acquirer of local family-owned quarries. Fitch expects consolidation to continue in this industry. Despite weak activity in residential and commercial construction, federal stimulus programs and existing highway transportation funding provide a stable source of business, at least for the near term. Energy development projects also offer opportunities for growth.

Construction Services

The most economically sensitive of MDU's diversified businesses, this unit provides general contracting services for infrastructure projects and niche interior electrical and systems installation. The largest customers for construction services are utilities and independent contractors. Revenues in this segment mostly come from competitive bids or negotiated contracts which are either cost-plus or fixed price.

Liquidity and Debt Structure

MDU's liquidity is provided primarily by internally generated cash, supplemented by two commercial paper programs that are supported by bank revolvers at MDU and CEH, while several large subsidiaries maintain separate borrowing facilities. MDU has substantial seasonal working-capital needs, reflecting its various regulated natural gas subsidiaries and divisions. Seasonal borrowing needs for the gas utilities generally peak in the December reporting period and are lowest in the March period. A side benefit of

Capitalization Summary

Issuer	Facility	Size ($ Mil.)
MDU	Commercial Paper/Bank Revolver	125
CEH	Commercial Paper/Bank Revolver	400
Nonrated Issuers		
MDU Energy Capital, LLC	Master Shelf	175
Williston Basin Interstate Pipeline Company	Private Shelf	125
Intermountain Gas Company	Bank Revolver	65
Cascade Natural Gas Corp.	Bank Revolver	50

Source: Company filings, Fitch research.

low natural gas prices is the reduced working-capital needs to store natural gas for the winter heating season.

Several of MDU's key business units, as well as second- and third-tier holding companies, independently finance their individual names without parent guarantees. Cross-default provisions are typically absent from indentures and bank agreements and may contain only modest covenant restrictions. MDU relies more heavily on bank and private placement financing, as reflected in the absence of first-mortgage bonds and other longer term dated debt typical for utilities; MDU has a higher component of intermediate-term debt in its capital structure.

Financial Summary — MDU Resources Group, Inc.

($ Mil., Fiscal Year-End: Dec. 31)

	LTM 6/30/10	2009	2008	2007	2006	2005
Fundamental Ratios						
FFO/Interest Expense (x)	8.6	8.6	10.9	8.8	9.3	9.2
CFO/Interest Expense (x)	8.8	11.0	10.1	8.1	9.4	8.3
FFO/Debt (%)	40.3	42.9	48.5	46.8	51.6	44.9
Operating EBIT/Interest Expense (x)	5.1	5.1	7.4	7.1	6.8	6.8
Operating EBITDA/Interest Expense (x)	8.6	8.8	11.5	10.9	10.3	10.3
Debt/Operating EBITDA (x)	2.0	1.9	1.7	1.5	1.6	1.8
Common Dividend Payout (%)	45.3	(91.9)	36.9	23.4	29.5	32.1
Internal Cash/Capital Expenditures (%)	129.2	163.0	90.8	82.8	111.2	77.5
Capital Expenditures/Depreciation (%)	129.8	135.6	203.8	184.8	187.1	223.1
Profitability						
Adjusted Revenues	3,867	4,177	5,003	4,247	4,070	3,456
Net Revenues	3,196	3,371	4,162	3,800	3,729	3,063
Operating and Maintenance Expense	2,257	2,406	2,948	2,788	2,794	2,266
Operating EBITDA	778	798	1,014	859	804	677
Operating EBIT	459	467	648	557	532	448
Gross Interest Expense	90	91	88	79	78	66
Net Income for Common	256	(124)	293	431	315	274
Operating and Maintenance Expense % of Net Revenues	70.6	71.4	70.8	73.4	74.9	74.0
Operating EBIT % of Net Revenues	14.4	13.9	15.6	14.7	14.3	14.6
Cash Flow						
Cash Flow from Operations	653	847	786	563	659	484
Change in Working Capital	14	197	(67)	(53)	12	(58)
Funds from Operations	**639**	**650**	**853**	**616**	**647**	**542**
Dividends	(118)	(115)	(109)	(101)	(93)	(88)
Capital Expenditures	(414)	(449)	(746)	(558)	(509)	(511)
Free Cash Flow	121	283	(69)	(96)	57	(115)
Net Other Investment Cash Flow	—	(4)	86	481	(56)	2
Net Change in Debt	(80)	(243)	356	(110)	41	247
Net Equity Proceeds	67	65	15	17	20	9
Capital Structure						
Short-Term Debt	4	10	105	2	—	—
Long-Term Debt	1,584	1,504	1,652	1,313	1,255	1,207
Total Debt	**1,590**	**1,514**	**1,757**	**1,315**	**1,255**	**1,207**
Total Hybrid Equity and Minority Interest	11	11	11	11	15	15
Common Equity	2,613	2,557	2,746	2,516	2,150	1,877
Total Capital	4,214	4,082	4,514	3,842	3,420	3,099
Total Debt/Total Capital (%)	37.7	37.1	38.9	34.2	36.7	38.9
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.3	0.3	0.2	0.3	0.4	0.5
Common Equity/Total Capital (%)	62.0	62.6	60.8	65.5	62.9	60.6

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

FitchRatings

FITCH AFFIRMS MDU RESOURCES, CASCADE & CENTENNIAL ENERGY; STABLE OUTLOOK

Fitch Ratings-New York-29 June 2011: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc. (MDU; Issuer Default Rating [IDR] 'A-'), its regulated gas distribution subsidiary Cascade Natural Gas Company (Cascade; IDR 'A-'), and Centennial Energy Holdings, Inc. (Centennial; IDR 'BBB+'), a holding company for MDU's nonutility operations. The Rating Outlook for all entities is Stable. Approximately $1.4 billion of debt is affected by these actions. For a full list of rating actions, please refer to the end of this release.

MDU Resources and Cascade:
The affirmation of the ratings of MDU and Cascade reflect the benefit of MDU's diverse business mix and low leverage. It also considers the stable operating performance and low risk business profile of MDU's portfolio of regulated utilities which serve parts of eight contiguous states from Minnesota to Washington. The tariff mechanisms at the utilities generally provide for full recovery of commodity and purchased power costs that minimize cash flow volatility. MDU has historically employed a low degree of financial leverage across its varied business segments.

Rating concerns for MDU include the impact of the lagging recovery that has impacted Centennial's nonutility operations, particularly the construction segments which accounted for 20% of 2010's consolidated earnings. MDU has also targeted its upstream energy operations for growth which could result in increased volatility of earnings and cash flows.

MDU's consolidated leverage defined as debt to EBITDA was 1.9 times (x) for the last 12 months ending with the first quarter of 2011. Historically, MDU's leverage has been low, which is appropriate for its business risk and ratings. Interest coverage defined as EBITDA to gross interest was strong at the end of the recent quarter at 7.3x. Fitch forecasts that leverage will remain around 2.0x and that interest coverage should increase to approximately 8.0x in 2011.

Liquidity for MDU was approximately $787 million at the end of the first quarter 2011. Cash was $136 million and availability on credit facilities was $651 million. Since the end of the quarter, MDU renewed and reduced one of its revolving credit facilities. A $125 million facility for MDU was replaced on May 26, 2011 with a $100 million facility which expires in 2015. Both MDU and Centennial maintain commercial paper programs.

As a result of MDU's divisional structure and implied liquidity support for Cascade, Cascade's ratings are directly correlated to MDU. At the same time, Cascade is sufficiently insulated from MDU's other regulated and nonregulated businesses through ring-fencing. Ring-fencing mechanisms include no Cascade guarantees or cross default provisions within debt agreements at other MDU entities which could impact Cascade, and intercompany loans are prohibited.

Centennial:
Fitch considers the ratings for Centennial apart from those of MDU. The rating for Centennial is supported by its strong financial profile and diverse mix of businesses. Despite the lagging recovery for construction, credit metrics remain healthy. Centennial's financial profile benefits from a modest financial leverage position with debt to total capitalization managed around 30% to 35% and energy hedges are expected to cover approximately 50% of expected production over the forward 12 month period.

Upstream operations will continue to require a significant amount of capital to support the growing drilling program. Over the next five years, the company plans to spend $2.1 billion on exploration and production. At the end of the recent quarter, Centennial had $375 million of availability on its $400 million credit facility which expires in December 2012.

Fitch has affirmed the following ratings:

MDU Resources Group, Inc.
-- Long-term IDR at 'A-';
-- Short-term IDR and commercial paper (CP) at 'F2';
-- Senior unsecured at 'A';
-- Preferred stock at 'BBB+'.

Cascade Natural Gas Co.
-- Long-term IDR at 'A-';
-- Short-term IDR at 'F2';
-- Senior unsecured at 'A'.

Centennial Energy Holdings, Inc.
-- Long-term IDR at 'BBB+';
-- Short-term IDR and CP at 'F2';
-- Senior unsecured at 'BBB+'.

Contact:

Primary Analyst
Kathleen Connelly
Director
+1-212-908-0920
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Glen Grabelsky
Managing Director
+1-212-908-0577

Committee Chairperson
Ralph Pellecchia
Senior Director
+1-212-908-0586

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 16, 2010;
--'Recovery Ratings and Notching Criteria for Utilities' May 12, 2011.

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646
Recovery Ratings and Notching Criteria for Utilities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=628491

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FitchRatings

FITCH REVISES OUTLOOK FOR MDU RESOURCES, CASCADE & CENTENNIAL ENERGY TO NEGATIVE

Fitch Ratings-New York-27 June 2012: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc. (MDU; IDR at 'A-'), its regulated gas distribution subsidiary Cascade Natural Gas Company (Cascade; IDR at 'A-'), and Centennial Energy Holdings, Inc. (Centennial; IDR at 'BBB+'), a holding company for MDU's nonutility operations.

Fitch has also revised the Rating Outlook for all entities to Negative from Stable. Approximately $1.4 billion of debt is affected by these actions. A full list of rating actions follows the end of this release.

The Outlook revision for all three issuers reflects continued weakness in EBITDA, pressure on margins, and higher capital expenditures.

Fitch may take additional negative rating actions if MDU's EBITDA remained weak in 2013, if debt significantly increased to fund spending, or if leverage increased to approximately 2.5x.

Conversely, Fitch may consider positive rating actions if MDU had a recovery in EBITDA which could result from improvements in the construction segments or pipeline and energy services.

MDU Resources and Cascade:

The ratings of MDU and Cascade reflect the benefit of MDU's diverse business mix and low leverage. It also considers the stable operating performance and low risk business profile of MDU's portfolio of regulated utilities which serve parts of eight contiguous states from Minnesota to Washington. The tariff mechanisms at the utilities generally provide for full recovery of commodity and purchased power costs that minimize cash flow volatility.

Rating concerns for MDU include the impact of the lagging recovery that has impacted Centennial's nonutility operations. This is particularly true for the construction segments which accounted for 24% of 2011's consolidated earnings. Concerns also focus on the volatility associated with upstream operations, which is set to become an increasing portion of MDU's business mix in future years.

MDU's consolidated leverage defined as debt to EBITDA was 2.0x for the last 12 months, ending with first quarter- 2012 (1Q'12). This was slightly higher than 1.9x at the end of 2011. Fitch is concerned that without a recovery of EBITDA, leverage may increase to over 2.25x by the end of 2012. Historically, MDU's leverage has been low, which is appropriate for its business risk and ratings.

EBITDA has been stagnant largely due to results in the construction materials segment. Additionally, pipeline and energy services results have been weak. For the last twelve months, MDU generated EBITDA of $743 million, below $749 million in 2011 and $740 million in 2010.

For the last twelve months, capital expenditures were $588 million, up from $497 in 2011 and $449 in 2010. Plans for spending in 2012 are approximately $700 million. Over the next five years, MDU forecasts spending $3.7 billion, a 37% increase in spending versus the prior five years.

Liquidity for MDU was approximately $683 million at the end of 1Q'12. Cash was $91 million and availability on credit facilities was $592 million. Both MDU and Centennial maintain commercial paper programs.

Cascade's ratings are directly correlated to MDU as a result of MDU's divisional structure and implied liquidity support for Cascade. At the same time, Cascade is sufficiently insulated from MDU's other regulated and nonregulated businesses through ring-fencing. Ring-fencing mechanisms include no Cascade guarantees or cross default provisions within debt agreements at other MDU entities which could impact Cascade. Intercompany loans are also prohibited.

Centennial:

Fitch considers the ratings for Centennial apart from those of MDU. The rating for Centennial is supported by its strong financial profile and diverse mix of businesses. The businesses include upstream, midstream and the construction operations.

Despite the lagging recovery for construction, credit metrics remain healthy although EBITDA margins have been pressured. Centennial's financial profile benefits from a modest financial leverage position with debt to total capitalization managed around 30% to 35%.

Upstream operations will continue to require a significant amount of capital to support the growing drilling program. In 2012, spending on E&P is expected to be approximately $400 million of the total $700 million budget. Over the next five years, Centennial plans to spend $2.1 billion on exploration and production. At the end of the recent quarter, Centennial had $378 million of availability on its $400 million credit facility which expires in December 2012.

In 2012, approximately 35-40% of natural gas production is hedged and 60-65% of oil production. For 2013, no hedges are in place for gas while 35-40% of oil is hedged.

Fitch has affirmed the following ratings and revised the Rating Outlook to Negative:

MDU Resources Group, Inc.
--Long-term IDR at 'A-';
--Short-term IDR and commercial paper (CP) at 'F2';
--Senior unsecured at 'A';
--Preferred stock at 'BBB+'.

Cascade Natural Gas Co.
--Long-term IDR at 'A-';
--Short-term IDR at 'F2';
--Senior unsecured at 'A'.

Centennial Energy Holdings, Inc.
--Long-term IDR at 'BBB+';
--Short-term IDR and CP at 'F2';
--Senior unsecured at 'BBB+'.

Contact:

Primary Analyst
Kathleen Connelly
Director
+1-212-908-0920
Fitch, Inc., One State Street Plaza, New York, NY 10004

Secondary Analyst
Peter Molica
Director
+1-212-908-0290

Committee Chairperson
Ralph Pellecchia
Senior Director
+1-212-908-0586

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011);
--'Short-Term Ratings Criteria for Non-Financial Corporates' (Aug. 12, 2011);
--'Top Ten Questions Asked by Pipeline, Midstream, and MLP Investors', (May 21, 2012);
--'Pipelines, Midstream, and MLP Stats Quarterly - Year End 2011', (April 18, 2012);
--'Liquidity Review: Pipelines, Midstream, and MLPs', (Dec.28, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647210
Short-Term Rating Criteria for Non-Financial Corporates
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=663651
Top Ten Questions Asked by Pipeline, Midstream and MLP Investors
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679549
Liquidity Review: Pipelines, Midstream, and MLPs
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=662830

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December 1, 2010

Summary:

MDU Resources Group Inc.

Primary Credit Analyst:
Aniki Saha-Yannopoulos, CFA, Toronto (1) 416-507-2579; aniki_saha-yannopoulos@standardandpoors.com

Secondary Contact:
Patrick Jeffrey, CFA, New York (1) 212-438-7840; pat_jeffrey@standardandpoors.com

Table Of Contents

Summary:

MDU Resources Group Inc.

Credit Rating: BBB+/Stable/A-2

Rationale

The ratings on MDU Resources Group Inc. incorporate its mix of unregulated and regulated businesses, dominated by the mostly unregulated Centennial Energy Holdings Inc. (BBB+/Stable/A-2) subsidiary. The ratings benefit from solid financial measures, the relative stability of the utility and pipeline businesses, and the meaningful business and geographic diversity of the company. MDU Resources' businesses include utilities, pipeline, construction materials, and exploration and production (E&P). Nevertheless, in Standard & Poor's Ratings Services' view, the weakness in the construction business and uncertain near-term outlook for natural gas prices will continue to weigh on MDU's earnings and cash flows through 2011.

The business risk profile benefits from the stability of MDU Resources' regulated utilities. Montana-Dakota Utilities Co. (BBB+/Stable/--), Cascade Natural Gas Corp. (unrated), and Intermountain Gas Co. currently contribute around 25% of EBITDA for the last 12 months ended Sept. 30, 2010, up from less than 10% in 2007. The company's cash flow also benefits from the stability of its pipeline business, which consists of both regulated (Williston Basin) and unregulated businesses (Bitter Creek). The pipeline segment has a larger exposure to the regulated part of the business. Together the pipeline and utilities generate just under 40% of the company's EBITDA.

We consider MDU Resources' business risk profile as satisfactory, reflecting the traditionally significant earnings and cash flow contribution from its largely unregulated Centennial businesses, particularly the Fidelity Exploration & Production Co. and Knife River Corp. units. In 2010, the oil and gas production segment has contributed around 38% of EBITDA (segment operating income and depreciation and amortization) compared to its average of 42% from 2007 through 2009. Other businesses within Centennial include pipeline and energy services and construction services.

Fidelity's oil and natural gas operations are relatively modest, with year-end 2009 reserves of 654 billion cubic feet equivalent, roughly 69% natural gas, 74% proved developed and a proved developed reserve life of about 6.4 years. Lease operating costs have remained stable, with costs for the nine months of 2010 at $0.98 per thousands of cubic feet equivalent (mcfe) compared to $0.95 per mcfe for the 2009. Negative price revisions affected the company's three-year average finding and development cost (all-in), which increased to 6.18 per mcfe at year-end 2009 from $3.06 per mcfe at year-end 2008. The company is currently focusing on its Bakken assets; the company sold a 25% working interest in its Niobara assets to manage capital requirements. MDU expects to exit 2010 with production just 6% lower than that of 2009, as it increases capital expenditure in its E&P segment.

Although the housing downturn has hurt Knife River, a midsize construction materials company, the benefits of federal stimulus funds and cost cutting measures have helped the segment to maintain margins. The company's greater focus on public work should help in the near term. Current backlog is $464 million compared with $494 million one year ago. The unit had grown through the consolidation of smaller markets, where Knife River has the ability to become a dominant player. The company still aims to capture market share and expand into new markets. The company is using its construction service segment to enter into the turarounds business in the refinery industry.

We expect MDU Resources' consolidated financial results to remain in line with our ratings, somewhat offsetting the business risks associated with its unregulated businesses. For the last 12 months ended Sept. 30, 2010, adjusted debt to EBITDA was approximately 2.2x and EBITDA interest coverage was 7.7x. However, if natural gas prices fail to materially improve from current levels and construction materials do not benefit from the stimulus plan, credit measures may weaken. Given its commitment to maintaining a solid balance sheet, we expect MDU Resources to manage capital spending and acquisitions so that debt to EBITDA averages around 2x.

Liquidity

The short-term rating on MDU Resources is 'A-2'. In our view, the company's liquidity is adequate. The company continues to maintain liquidity through access to commercial paper markets and revolving credit facilities. In the near term, cash flows should fund the majority of capital expenditures, excluding acquisitions. The rating reflects our expectation that cash flows will remain relatively stable, and that MDU Resources will finance acquisitions in a manner that maintains its moderate debt leverage and does not hinder its liquidity. If the company fails to maintain its debt leverage goal or aggressively pursues debt-financed acquisitions, the short-term ratings could come under pressure.

As of Sept. 30, 2010, the company had $36.3 million of cash on hand and $627 million in various facilities. About $216 million was available under the different facilities at the following segments--$120 million at MDU Resources, $48.1 million at Cascade, and $47.2 million at Intermountain Gas Co. Additional facilities include one at Centennial totaling $400 million that remains substantially undrawn and backs up a $400 million commercial paper program with $374.2 million in current availability. Also, Williston Basin Interstate Pipeline has a $125 million term facility due December 2010, with $37.5 million available. The company's capital expenditure for 2010 is $555 million, up from $460 million last year, and it expects to finance this through operating cash flow. We expect the company to finance its 2011 capital expenditure using cash flow from operations.

Outlook

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

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December 20, 2011

MDU Resources Group Inc.

Primary Credit Analyst:
Susan H Ding, New York (1) 212-438-1332; susanh_ding@standardandpoors.com

Secondary Contact:
Paul B Harvey, New York (1) 212-438-7696; paul_harvey@standardandpoors.com

Table Of Contents

MDU Resources Group Inc.

Major Rating Factors

Corporate Credit Rating
BBB+/Stable/A-2

Strengths:
- The comparatively stable pipeline and utility segments that generate about one-third of MDU Resources' consolidated revenues and EBITDA;
- Relatively conservative financial leverage measures and management's commitment to keep capital expenditures in line with internally generated cash flows;
- A competitive cost structure within the company's oil and gas exploration and production (E&P) segment; and
- Geographic and business diversity.

Weaknesses:
- The volatile and capital-intensive nature of the exploration and production (E&P) operations;
- Pricing for natural gas, which accounts for about 70% of MDU Resources' production, remains weak; and
- Weakness in the construction materials and contracting sector and construction service sector.

Rationale

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

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

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

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

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

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

Liquidity

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

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

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

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

Outlook

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

Table 1

MDU Resources Group Inc. -- Peer Comparison

Industry Sector: Oil

	MDU Resources Group Inc.	EQT Corp.	Energen Corp.	National Fuel Gas Co.
Rating as of Dec. 2, 2011	BBB+/Stable/A-2	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2
	--Fiscal year ended Dec. 31, 2010--			
(Mil. $)				
Revenues	3,909.7	1,322.7	1,578.5	1,778.8
EBITDA	752.1	771.0	848.5	724.2
Net income from cont. oper.	244.0	227.7	290.8	258.4
Funds from operations (FFO)	596.3	678.8	715.5	687.3
Capital expenditures	445.6	1,266.0	433.7	844.6
Free operating cash flow	109.6	(459.7)	255.0	(95.2)
Discretionary cash flow	(9.5)	(587.0)	217.6	(209.8)
Cash and short-term investments	222.1	0.0	22.7	80.4
Debt	1,766.3	2,197.6	822.8	1,503.6
Equity	2,692.8	3,078.7	2,154.0	1,944.2
Adjusted ratios				
EBITDA margin (%)	19.2	58.3	53.8	40.7
EBITDA interest coverage (x)	6.8	5.1	17.7	8.2
EBIT interest coverage (x)	3.9	3.3	11.8	5.7
Return on capital (%)	8.7	8.4	16.8	11.4
FFO/debt (%)	33.8	30.9	87.0	45.7
Free operating cash flow/debt (%)	6.2	(20.9)	31.0	(6.3)
Debt/EBITDA (x)	2.3	2.9	1.0	2.1
Total debt/debt plus equity (%)	39.6	41.7	27.6	43.6

N.M.--Not meaningful.

Table 2

MDU Resources Group Inc. -- Financial Summary

Industry Sector: Oil

	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2

Table 2

MDU Resources Group Inc. -- Financial Summary (cont.)

(Mil. $)					
Revenues	3,909.7	4,176.5	5,003.3	4,247.9	4,070.7
EBITDA	752.1	812.4	1,023.3	872.4	816.8
Net income from continuing operations	244.0	(123.3)	293.7	322.8	317.9
Funds from operations (FFO)	596.3	657.2	856.2	694.3	624.5
Capital expenditures	445.6	454.4	754.8	579.2	542.3
Free operating cash flow	109.6	399.6	34.7	62.1	117.4
Discretionary cash flow	(9.5)	284.6	(73.9)	(38.5)	23.9
Cash and short-term investments	222.1	175.1	54.2	197.4	74.9
Debt	1,766.3	1,733.2	1,997.7	1,465.5	1,397.9
Equity	2,692.8	2,571.6	2,761.1	2,531.3	2,164.9
Adjusted ratios					
EBITDA margin (%)	19.2	19.5	20.5	20.5	20.1
EBITDA interest coverage (x)	6.8	7.3	10.3	10.0	9.3
EBIT interest coverage (x)	3.9	4.5	6.6	6.7	6.4
Return on capital (%)	8.7	9.5	13.0	13.5	14.4
FFO/debt (%)	33.8	37.9	42.9	47.4	44.7
Free operating cash flow/debt (%)	6.2	23.1	1.7	4.2	8.4
Debt/EBITDA (x)	2.3	2.1	2.0	1.7	1.7
Debt/debt and equity (%)	39.6	40.3	42.0	36.7	39.2

N.M.--Not meaningful.

Table 3

Reconciliation Of MDU Resources Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2010--							
MDU Resources Group Inc. reported amounts								
	Debt	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,526.8	3,909.7	739.6	410.7	83.0	552.0	552.0	449.3
Standard & Poor's adjustments								
Operating leases	91.6	--	6.2	6.2	6.2	19.1	19.1	13.9
Postretirement benefit obligations	85.6	--	(2.8)	(2.8)	--	6.2	6.2	--
Capitalized interest	--	--	--	--	17.6	(17.6)	(17.6)	(17.6)
Share-based compensation expense	--	--	5.5	--	--	--	--	--
Asset retirement obligations	62.4	--	3.6	3.6	3.6	(4.4)	(4.4)	--
Reclassification of nonoperating income (expenses)	--	--	--	16.1	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	41.1	--
Total adjustments	239.6	0.0	12.5	23.1	27.4	3.3	44.3	(3.7)

Table 3

Reconciliation Of MDU Resources Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)

Standard & Poor's adjusted amounts

	Debt	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	1,766.3	3,909.7	752.1	433.9	110.4	555.2	596.3	445.6

Table 4

MDU Resources Group Inc.--Quarterly Data

Industry Sector: Oil

	September 2011	June 2011	March 2011	December 2010	September 2010
(Mil. $)					
Revenues	1,152.2	930.8	901.8	1,042.6	1,125.9
EBITDA	212.2	170.6	167.4	190.4	223.8
Net income from continuing operations	64.1	45.2	42.5	92.3	61.0
Funds from operations (FFO)	166.5	159.1	141.2	135.6	178.1
Capital expenditures	113.3	141.0	81.4	103.2	105.6
Free operating cash flow	45.3	(6.5)	39.9	73.5	67.0
Discretionary cash flow	14.5	(37.3)	9.2	43.6	37.2
Cash and short-term investments	118.7	107.8	136.0	222.1	36.3
Debt	1,663.2	1,671.7	1,666.4	1,766.3	1,740.3
Equity	2,791.1	2,725.4	2,689.1	2,692.8	2,662.1
Adjusted ratios					
EBITDA margin (%)	18.4	18.8	19.0	19.2	19.8
EBITDA interest coverage (x)	6.5	6.6	6.7	6.7	6.8
EBIT interest coverage (x)	3.5	3.7	3.8	3.9	4.1
Return on capital (%)	7.9	8.3	8.6	8.7	9.3
FFO/debt (%)	36.1	36.6	36.9	33.7	36.8
Free operating cash flow/debt (%)	9.1	10.4	11.3	6.3	8.6
Debt/EBITDA (x)	2.2	2.2	2.2	2.3	2.3
Debt/debt and equity (%)	37.3	38.0	38.3	39.6	39.5

N.M.--Not meaningful.

Ratings Detail (As Of December 20, 2011)

MDU Resources Group Inc.	
Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured (1 Issue)	BBB+
Senior Unsecured (1 Issue)	BBB+
Corporate Credit Ratings History	
28-Feb-2006	BBB+/Stable/A-2
08-Jan-2003	A-/Negative/A-2
20-May-2002	A/Negative/A-1

Ratings Detail (As Of December 20, 2011) (cont.)	
Business Risk Profile	Satisfactory
Financial Risk Profile	Intermediate
Related Entities	
Centennial Energy Holdings Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Montana-Dakota Utilities Co.	
Issuer Credit Rating	BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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Summary:
MDU Resources Group Inc.

Primary Credit Analyst:
Susan H Ding, New York (1) 212-438-1000; susanh_ding@standardandpoors.com

Secondary Contact:
Paul B Harvey, New York (1) 212-438-1000; paul_harvey@standardandpoors.com

Table Of Contents

Summary:

MDU Resources Group Inc.

Credit Rating: BBB+/Stable/A-2

Rationale

The ratings on MDU Resources Group Inc. (MDU Resources) reflect its mix of unregulated and regulated businesses, dominated by the mostly unregulated Centennial Energy Holdings Inc. (Centennial) subsidiary. The ratings incorporate solid financial measures, the relative stability of the utility business, and the meaningful business and geographic diversity of the company. MDU Resources' business segments include utilities, pipeline, construction materials, and exploration and production (E&P). In Standard & Poor's Ratings Services' view, the current weakness and the uncertain near-term outlook for natural gas prices will continue to weigh on MDU Resources' earnings and cash flows through the first half of 2013.

We view MDU Resources' business risk as "satisfactory", based on the diversity of its business operations. We consider the company's individual segments weaker because of their limited scope of operations. The business risk profile benefits from the stability of MDU Resources' regulated utilities. Montana-Dakota Utilities Co. (BBB+/Stable/--), Cascade Natural Gas Corp. (BBB+/Stable/--), and Intermountain Gas Co. contributed about 36% of earnings for the nine months period ended Sept. 30, 2012. We believe MDU Resources' cash flow also benefit from the stability of its pipeline operations, which includes both regulated (Williston Basin) and unregulated businesses (Bitter Creek). We estimate the pipeline and utilities together to generate about one-third of the company's EBITDA for calendar-year 2012.

The business risk profile also incorporates the historically significant earnings and cash flow contribution from its largely unregulated Centennial businesses, particularly the Fidelity Exploration & Production Co. and Knife River Corp. units. For the nine months period ended Sept. 30, 2012, the construction business contribution was about 33% of earnings, and the oil and gas production segment's contributed 31%.

An improving housing market and favorable outlook in federal transportation funding have aided Knife River, a midsize construction materials company. This business realized 6% revenue growth resulting from higher construction workloads as well as improved margins in its asphalt, oil and ready-mix concrete product lines due to a lower cost structure. Construction spending has also risen in 2012, with a year to date growth of 9% over the prior year period. The company's backlog in its construction materials and contracting business as of Sept. 30, 2012, was $834 million, compared with $779 million a year ago, and consists primarily of public works. The unit has grown through the consolidation of smaller markets, where Knife River has the ability to become a dominant player.

The company's oil and natural gas operations (E&P business) are fairly modest, with year-end 2011 reserves of 586 billion cubic feet equivalent (roughly 65% natural gas, 81% proved developed, and a proved developed reserve life of about 8.5 years). Cash operating costs for the third quarter of 2012--lease operating, production tax, and general and administrative (G&A)--are competitive at $3.06 per thousand cubic feet equivalent (mcfe). Because of the company's negative reserve revisions in 2011, its finding and development (F&D) costs were high at $7.25 per mcfe. The company's 2012 E&P capital spending budget is about $525 million, with its main focus on liquids-rich Bakken assets. MDU recently acquired leasehold in the Bakken area, increasing its total holdings to approximately 127,000 net acres. The company indicated that it will spend about $2.1 billion in the next five years in this business segment to support growth.

We consider MDU Resources' financial risk profile as "intermediate" due to the relatively steady cash flows from the company's utilities business and its largely stable credit measures. MDU Resources' consolidated credit metrics are currently in line with our expectations and the rating medians. For the last 12 months ended Sept. 30, 2012, adjusted debt to EBITDA was 2.6x, funds from operations (FFO) to total debt was 36%, and EBITDA interest coverage was 7.7x. These metrics are relatively stable and remain largely unchanged from prior periods. We expect MDU Resources to generate EBITDA of about $800 million in 2012 and $865 million in 2013 respectively. We also expect the company to maintain adequate cash flow protection metrics in 2013 with EBITDA interest coverage 7.7x and FFO to debt of about 35%. However, if natural gas prices fail to materially improve from current levels and the construction materials segment operating results turn soft, credit measures may weaken. Given its commitment to maintaining a solid balance sheet, we expect MDU Resources to manage capital spending and acquisitions to maintain leverage (debt to EBITDA) in the 2.5x area.

Liquidity

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

Our assessment of MDU Resources' liquidity profile incorporates the following expectations and assumptions:

- As of Sept. 30, 2012, the company had about $74 million of cash on hand and $281.4 million in availability under various credit facilities. Credit facilities include $125 million at MDU Resources, $50 million at Cascade, and $65 million at Intermountain Gas Co. Additional facilities include one at Centennial totaling $500 million that provides back-up for a $500 million commercial paper program.
- We expect the company's capital spending of $935 million to exceed its internally generated funds by $300 million in 2012 and $183 million in 2013 based on our estimate of capital spending of $815 million. We expect MDU Resources to fund the deficit through its credit facilities, and through the issuance of long-term debt.
- Cash sources exceed uses by over 1.2x, including capital expenditures and estimated cash dividends of about $125 million for 2012.
- The company has manageable debt maturities (about $280 million) over the next two year, which it expects to refinance.

Outlook

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

Related Research And Criteria

- Key Credit Factors: Global Criteria For Rating The Oil And Gas Exploration And Production Industry, Jan. 20, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Temporary contact number: Susan Ding (516-680-8119); Paul Harvey (914-539-1288)