

MDU RESOURCES GROUP INC  
Form 10-Q  
May 06, 2009

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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 March 31, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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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

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 April 29, 2009:  
183,960,963 shares.

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## DEFINITIONS

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

|                                 |   |
|---------------------------------|---|
| Abbreviation or Acronym         |   |
| 2008 Annual Report              | Company's Annual Report on Form 10-K for the year ended December 31, 2008   |
| ALJ                             | Administrative Law Judge  |
| Anadarko                        | Anadarko Petroleum Corporation  |
| APB                             | Accounting Principles Board   |
| APB Opinion No. 28              | Interim Financial Reporting   |
| 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) |
| 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 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   |
| 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 No. 107-1         | Interim Disclosures about Fair Value of Financial Instruments  |
| FSP FAS No. 115-2         | Recognition and Presentation of Other-Than-Temporary Impairments   |
| FSP FAS No. 132(R)-1      | Employers' Disclosures about Postretirement Benefit Plan Assets  |
| FSP FAS No. 141(R)-1      | Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies   |
| FSP FAS No. 157-2         | Effective Date of FASB Statement No. 157   |
| FSP FAS No. 157-4         | Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly |
| GAAP                      | Accounting principles generally accepted in the United States of America   |
| GHG                       | Greenhouse gas   |
| Great Plains              | Great Plains Natural Gas Co., a public utility division of the Company   |
| 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  |
| Intermountain             | Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital (effective October 1, 2008)   |
| IPUC                      | Idaho Public Utilities Commission  |
| 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   |
| 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 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   |
| NDPSC                               | North Dakota Public Service Commission   |
| 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   |
| PRP                                 | Potentially Responsible Party  |
| PSD                                 | Prevention of Significant Deterioration  |
| ROD                                 | Record of Decision   |
| SEC                                 | U.S. Securities and Exchange Commission  |
| Securities Act                      | Securities Act of 1933, as amended   |
| SFAS                                | Statement of Financial Accounting Standards  |
| SFAS No. 71                         | Accounting for the Effects of Certain Types of Regulation  |
| 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. Cascade distributes natural gas in Washington and Oregon. Intermountain distributes natural gas in Idaho. Great Plains distributes natural gas in western Minnesota and southeastern North Dakota. These operations also supply related value-added products and services.

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 15.

INDEX

| Part I -- Financial Information  | Page |
|--|------|
| Consolidated Statements of Income --<br>Three Months Ended March 31, 2009 and 2008       | 8    |
| Consolidated Balance Sheets --<br>March 31, 2009 and 2008, and December 31, 2008         | 9    |
| Consolidated Statements of Cash Flows --<br>Three Months Ended March 31, 2009 and 2008   | 10   |
| Notes to Consolidated Financial Statements   | 11   |
| Management's Discussion and Analysis of Financial Condition and<br>Results of Operations | 34   |
| Quantitative and Qualitative Disclosures About Market Risk                               | 50   |
| Controls and Procedures  | 52   |
| Part II -- Other Information   |      |
| Legal Proceedings  | 52   |
| Risk Factors   | 52   |
| Unregistered Sales of Equity Securities and Use of Proceeds                              | 55   |
| Submission of Matters to a Vote of Security Holders                                      | 56   |
| Exhibits   | 57   |
| Signatures   | 58   |
| Exhibit Index  | 59   |
| Exhibits   |      |



## PART I -- FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|  | Three Months Ended<br>March 31,             |            |
|--|---|------------|
|  | 2009  | 2008       |
|  | (In thousands, except per<br>share amounts) |            |
| Operating revenues:  |   |            |
| Electric, natural gas distribution and pipeline and energy services                                      | \$ 594,576                                  | \$ 517,263 |
| Construction services, natural gas and oil production, construction materials and contracting, and other | 499,429                                     | 604,644    |
|  | 1,094,005                                   | 1,121,907  |
| Operating expenses:  |   |            |
| Fuel and purchased power   | 18,731                                      | 18,778     |
| Purchased natural gas sold   | 356,496                                     | 276,624    |
| Operation and maintenance:   |   |            |
| Electric, natural gas distribution and pipeline and energy services                                      | 71,351                                      | 59,563     |
| Construction services, natural gas and oil production, construction materials and contracting, and other | 422,149                                     | 497,617    |
| Depreciation, depletion and amortization   | 93,245                                      | 87,231     |
| Taxes, other than income   | 52,952                                      | 54,522     |
| Write-down of natural gas and oil properties   | 620,000                                     | ---        |
|  | 1,634,924                                   | 994,335    |
| Operating income (loss)  | (540,919)                                   | 127,572    |
| Earnings from equity method investments  | 1,787                                       | 1,825      |
| Other income   | 1,719                                       | 1,565      |
| Interest expense   | 20,997                                      | 18,656     |
| Income (loss) before income taxes  | (558,410)                                   | 112,306    |
| Income taxes   | (214,607)                                   | 41,255     |
| Net income (loss)  | (343,803)                                   | 71,051     |
| Dividends on preferred stocks  | 171   | 171        |
| Earnings (loss) on common stock  | \$ (343,974)                                | \$ 70,880  |
| Earnings (loss) per common share -- basic  | \$ (1.87)                                   | \$ .39     |
| Earnings (loss) per common share -- diluted  | \$ (1.87)                                   | \$ .39     |

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Dividends per common share                            | \$ | .1550   | \$ | .1450   |
| Weighted average common shares outstanding -- basic   |    | 183,787 |    | 182,599 |
| Weighted average common shares outstanding -- diluted |    | 183,787 |    | 183,130 |

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

8

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## MDU RESOURCES GROUP, INC.

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

December  
31,  
2008

March 31,  
2009      March 31,  
2008

(In thousands, except shares and per share amounts)

## ASSETS

## Current assets:

|   |              |              |              |
|---|--------------|--------------|--------------|
| Cash and cash equivalents                                 | \$ 44,689    | \$ 71,504    | \$ 51,714    |
| Receivables, net  | 580,700      | 697,079      | 707,109      |
| Inventories   | 276,268      | 227,017      | 261,524      |
| Deferred income taxes                                     | ---          | 27,897       | ---          |
| Short-term investments                                    | 2,329        | 13,491       | 2,467        |
| Commodity derivative instruments                          | 92,577       | 31,604       | 78,164       |
| Prepayments and other current assets                      | 135,734      | 83,331       | 171,314      |
|   | 1,132,297    | 1,151,923    | 1,272,292    |
| Investments   | 114,058      | 113,286      | 114,290      |
| Property, plant and equipment                             | 6,550,825    | 6,303,570    | 7,062,237    |
| Less accumulated depreciation, depletion and amortization | 2,839,020    | 2,343,585    | 2,761,319    |
|   | 3,711,805    | 3,959,985    | 4,300,918    |
| Deferred charges and other assets:                        |              |              |              |
| Goodwill  | 621,566      | 430,309      | 615,735      |
| Other intangible assets, net                              | 26,573       | 25,562       | 28,392       |
| Other   | 254,240      | 149,752      | 256,218      |
|   | 902,379      | 605,623      | 900,345      |
|   | \$ 5,860,539 | \$ 5,830,817 | \$ 6,587,845 |

## LIABILITIES AND STOCKHOLDERS' EQUITY

## Current liabilities:

|                       |           |
|-----------------------|-----------|
| Short-term borrowings | \$ 25,500 |
|-----------------------|-----------|