MDU RESOURCES GROUP INC
Form 10-K
February 13, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

o 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	41-0423660
(State or other jurisdiction of incorporation or organization)	(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Preferred Stock, par value $100
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x.

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 x No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(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 Act). Yes o No x.

State the aggregate market value of the voting common stock held by nonaffiliates of the registrant as of June 30, 2008: $6,385,212,601.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of February 5, 2009: 183,678,263 shares.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's 2009 Proxy Statement are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Report.

CONTENTS

DEFINITIONS

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

Abbreviation or Acronym	
AFUDC	Allowance for funds used during construction
ALJ	Administrative Law Judge
Alusa	Tecnica de Engenharia Electrica - Alusa
Anadarko	Anadarko Petroleum Corporation
Army Corps	U.S. Army Corps of Engineers
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)
Bitter Creek	Bitter Creek Pipelines, LLC, an indirect wholly owned subsidiary of WBI Holdings
Black Hills Power	Black Hills Power and Light Company
BLM	Bureau of Land Management
Brascan	Brascan Brasil Ltda.
Brazilian Transmission Lines	Company's 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
CELESC	Centrais Elétricas de Santa Catarina S.A.
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
CEMIG	Companhia Energética de Minas Gerais
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
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act

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
EITF	Emerging Issues Task Force
EITF No. 00-21	Revenue Arrangements with Multiple Deliverables
EITF No. 91-6	Revenue Recognition of Long-Term Power Sales Contracts
ENTE	Empresa Norte de Transmissão de Energia S.A.
EPA	U.S. Environmental Protection Agency
ERTE	Empresa Regional de Transmissão de Energia S.A.
ESA	Endangered Species Act
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
FIN	FASB Interpretation No.
FIN 48	Accounting for Uncertainty in Income Taxes
FSP	FASB Staff Position
FSP FAS No. 132(R)-1	Employers' Disclosures about Postretirement Benefit Plan Assets
FSP FAS No. 157-2	Effective Date of FASB Statement No. 157
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
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
IBEW	International Brotherhood of Electrical Workers
ICWU	International Chemical Workers Union
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 (acquired October 1, 2008)
IPUC	Idaho Public Utilities Commission
Item 8	Financial Statements and Supplementary Data
Kennecott	Kennecott Coal Sales Company

Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial

K-Plan	Company's 401(k) Retirement Plan
kW	Kilowatts
kWh	Kilowatt-hour
LWG	Lower Willamette Group
MAPP	Mid-Continent Area Power Pool
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
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Mdk	Thousand decatherms
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
Midwest ISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million Btu
MMcf	Million cubic feet
MMcfe	Million cubic feet equivalent
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 and 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)
MTPSC	Montana Public Service Commission
MW	Megawatt
ND Health Department	North Dakota Department of Health
NDPSC	North Dakota Public Service Commission
NEPA	National Environmental Policy Act
NHPA	National Historic Preservation 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
PCBs	Polychlorinated biphenyls
PPA	Power purchase and sale agreement
PRP	Potentially Responsible Party
Prairielands	Prairielands Energy Marketing, Inc., an indirect wholly owned subsidiary of WBI Holdings
Proxy Statement	Company's 2009 Proxy Statement
PSD	Prevention of Significant Deterioration
RCRA	Resource Conservation and Recovery Act
ROD	Record of Decision
SDPUC	South Dakota Public Utilities Commission
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Securities Act Industry Guide 7	Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations
SEIS	Supplemental Environmental Impact Statement
SFAS	Statement of Financial Accounting Standards
SFAS No. 69	Disclosures about Oil and Gas Producing Activities
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. 123 (revised)	Share-Based Payment (revised 2004)
SFAS No. 141 (revised)	Business Combinations (revised 2007)
SFAS No. 142	Goodwill and Other Intangible Assets
SFAS No. 144	Accounting for the Impairment or Disposal of Long-Lived Assets
SFAS No. 157	Fair Value Measurements
SFAS No. 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans
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
Sheridan System	A separate electric system owned by Montana-Dakota
SMCRA	Surface Mining Control and Reclamation Act
South Dakota Federal District Court	U.S. District Court for the District of South Dakota
South Dakota SIP	South Dakota State Implementation Plan
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan
TRWUA	Tongue River Water Users' Association
UA	United Association of Journeyman and Apprentices of the Plumbing and Pipefitting Industry of the United States and

Canada

WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
Westmoreland	Westmoreland Coal Company
Williston Basin	Williston Basin Interstate Pipeline Company, an indirect wholly owned subsidiary of WBI Holdings
WUTC	Washington Utilities and Transportation Commission
Wyoming DEQ	Wyoming State Department of Environmental Quality
WYPSC	Wyoming Public Service Commission

PART I

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words "anticipates," "estimates," "expects," "intends," "plans," "predicts" and similar expressions, and include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and other statements that are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature, including statements contained within Item 7 – MD&A – Prospective Information.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Nonetheless, the Company's expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements in this Form 10-K, including statements contained within Item 1A – Risk Factors.

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

GENERAL
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).

The Company's equity method investment in the Brazilian Transmission Lines, as discussed in Item 8 – Note ––4, is reflected in the Other category.

As of December 31, 2008, the Company had 10,074 employees with 156 employed at MDU Resources Group, Inc., 896 at Montana-Dakota, 35 at Great Plains, 377 at Cascade, 339 at Intermountain, 609 at WBI Holdings, 3,059 at Knife River, 4,600 at MDU Construction Services and three at Centennial Resources. The number of employees at certain Company operations fluctuates during the year depending upon the number and size of construction projects. The Company considers its relations with employees to be satisfactory.

At Montana-Dakota and Williston Basin, 421 and 80 employees, respectively, are represented by the IBEW. Labor contracts with such employees are in effect through May 30, 2011, and March 31, 2011, for Montana-Dakota and Williston Basin, respectively.

At Cascade, 212 employees are represented by the ICWU. The labor contract with the field operations group, consisting of 177 employees extends to April 1, 2009, and remains in force thereafter from year to year unless terminated by either party. Cascade has received notice from the ICWU of their desire to meet and bargain a new agreement. Cascade is in the process of negotiating an agreement with the bargaining unit consisting of 35 customer service representatives and credit and collections clerks.

At Intermountain, 114 employees are represented by the UA. Labor contracts with such employees are in effect through September 30, 2010.

Knife River has 43 labor contracts that represent approximately 400 of its construction materials employees. Knife River is in negotiations on two of its labor contracts.

MDU Construction Services has 126 labor contracts representing the majority of its employees. The majority of the labor contracts contain provisions that prohibit work stoppages or strikes and provide for binding arbitration dispute resolution in the event of an extended disagreement.

The Company's principal properties, which are of varying ages and are of different construction types, are generally in good condition, are well maintained and are generally suitable and adequate for the purposes for which they are used.

The financial results and data applicable to each of the Company's business segments, as well as their financing requirements, are set forth in Item 7 – MD&A and Item 8 – Note ––16 and Supplementary Financial Information.

The operations of the Company and certain of its subsidiaries are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations and state hazard communication standards. The Company believes that it is in substantial compliance with these regulations, except as to what may be ultimately determined with regard to items discussed in Environmental matters in Item 8 – Note 20. There are no pending CERCLA actions for any of the Company's properties, other than the Portland, Oregon, Harbor Superfund Site.

Governmental regulations establishing environmental protection standards are continuously evolving and, therefore, the character, scope, cost and availability of the measures that will permit compliance with these laws or regulations cannot be accurately predicted. Disclosure regarding specific environmental matters applicable to each of the Company's businesses is set forth under each business description below.

This annual report on Form 10-K, the Company's quarterly reports on Form 10-Q, the Company's current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through the Company's Web site as soon as reasonably practicable after the Company has electronically filed such reports with, or furnished such reports to, the SEC. The Company's Web site address is www.mdu.com. The information available on the Company's Web site is not part of this annual report on Form 10-K.

ELECTRIC

General Montana-Dakota provides electric service at retail, serving over 121,000 residential, commercial, industrial and municipal customers in 178 communities and adjacent rural areas as of December 31, 2008. The principal properties owned by Montana-Dakota for use in its electric operations include interests in eight electric generating facilities, as further described under System Supply, System Demand and Competition, and approximately 3,000 and 4,500 miles of transmission and distribution lines, respectively. Montana-Dakota has obtained and holds, or is in the process of renewing, valid and existing franchises authorizing it to conduct its electric operations in all of the municipalities it serves where such franchises are required. Montana-Dakota intends to protect its service area and seek renewal of all expiring franchises. As of December 31, 2008, Montana-Dakota's net electric plant investment approximated $438.3 million.

Substantially all of Montana-Dakota's electric properties are subject to the lien of the Mortgage and to the junior lien of the Indenture.

The percentage of Montana-Dakota's 2008 retail electric utility operating revenues by jurisdiction is as follows: North Dakota – 60 percent; Montana – 23 percent; Wyoming – 10 percent; and South Dakota – 7 percent. Retail electric rates, service, accounting and certain security issuances are subject to regulation by the NDPSC, MTPSC, SDPUC and WYPSC. The interstate transmission and wholesale electric power operations of Montana-Dakota also are subject to regulation by the FERC under provisions of the Federal Power Act, as are interconnections with other utilities and power generators, the issuance of securities, accounting and other matters. Montana-Dakota participates in the Midwest ISO wholesale energy and ancillary services market.

The Midwest ISO is a regional transmission organization responsible for operational control of the transmission systems of its members. The Midwest ISO provides security center operations, tariff administration and operates day-ahead and real-time energy markets and an ancillary services market. As a member of Midwest ISO, Montana-Dakota's generation is sold into the Midwest ISO energy market and its energy needs are purchased from that market.

System Supply, System Demand and Competition Through an interconnected electric system, Montana-Dakota serves markets in portions of western North Dakota, including Bismarck, Dickinson and Williston; eastern Montana, including Glendive and Miles City; and northern South Dakota, including Mobridge. The interconnected system consists of eight electric generating facilities, which have an aggregate nameplate rating attributable to Montana-Dakota's interest of 455,555 kW and a total summer net capability of 484,450 kW. Montana-Dakota's four principal generating stations are steam-turbine generating units using coal for fuel. The nameplate rating for Montana-Dakota's ownership interest in these four stations (including interests in the Big Stone

Station and the Coyote Station, aggregating 22.7 percent and 25.0 percent, respectively) is 327,758 kW. Three combustion turbine peaking stations and a wind-powered electric generating facility supply the balance of Montana-Dakota's interconnected system electric generating capability.

In September 2005, Montana-Dakota entered into a contract for seasonal capacity from a neighboring utility, starting at 85 MW in 2007, increasing to 105 MW in 2011, with an option for capacity in 2012. In April 2007, Montana-Dakota entered into a contract for seasonal capacity of 10 MW in May through October of each year continuing through 2010. Energy also will be purchased as needed from the Midwest ISO market. In 2008, Montana-Dakota purchased approximately 10 percent of its net kWh needs for its interconnected system through the Midwest ISO market.

The following table sets forth details applicable to the Company's electric generating stations:

Generating Station	Type	Nameplate Rating (kW)	Summer Capability (kW)	2008 Net Generation (kWh in thousands)
North Dakota:				
Coyote*	Steam	103,647	106,750	744,999
Heskett	Steam	86,000	103,260	566,695
Williston	Combustion Turbine	7,800	9,600	(80)**
South Dakota:				
Big Stone*	Steam	94,111	107,500	826,737
Montana:				
Lewis & Clark	Steam	44,000	52,300	331,504
Glendive	Combustion Turbine	77,347	76,800	3,218
Miles City	Combustion Turbine	23,150	23,400	369
Diamond Willow	Wind	19,500	4,840	64,997
		455,555	484,450	2,538,439

* Reflects Montana-Dakota's ownership interest.

** Station use, to meet MAPP's accreditation requirements, exceeded generation.

Virtually all of the current fuel requirements of the Coyote, Heskett and Lewis & Clark stations are met with coal supplied by subsidiaries of Westmoreland. Contracts with Westmoreland for the Coyote, Heskett and Lewis & Clark stations expire in May 2016, April 2011 and December 2012, respectively. The Coyote coal supply agreement provides for the purchase of coal necessary to supply the coal requirements of the Coyote Station or 30,000 tons per week, whichever may be the greater quantity at contracted pricing. The maximum quantity of coal during the term of the agreement, and any extension, is 75 million tons. The Heskett and Lewis & Clark coal supply agreements provide for the purchase of coal necessary to supply the coal requirements of these stations at contracted pricing. Montana-Dakota estimates the Heskett and Lewis & Clark coal requirement to be in the range of 500,000 to 600,000 tons, and 250,000 to 350,000 tons per contract year, respectively.

A coal supply agreement, entered into in August 2007 with Kennecott, meets the majority of the Big Stone Station’s fuel requirements for the years 2009 and 2010 at contracted pricing. The Kennecott agreement provides for the purchase of 1.8 million and 1.0 million tons of coal in 2009 and 2010, respectively.

The average cost of coal purchased, including freight, at Montana-Dakota's electric generating stations (including the Big Stone and Coyote stations) was as follows:

Years Ended December 31,	2008	2007	2006
Average cost of coal per MMBtu	$ 1.49	$ 1.29	$ 1.26
Average cost of coal per ton	$ 21.45	$ 18.71	$ 18.48

The maximum electric peak demand experienced to date attributable to sales to retail customers on the interconnected system was 525,643 kW in July 2007. Montana-Dakota's latest forecast for its interconnected system indicates that its annual peak will continue to occur during the summer and the peak demand growth rate through 2014 will approximate one percent annually.

Montana-Dakota expects that it has adequate capacity available through existing baseload generating stations, wind-powered generation, turbine peaking stations and firm contracts to meet the peak demand requirements of its customers through 2012. Future capacity that is needed to replace contracts and meet system growth requirements is expected to be met by constructing new generation resources or acquiring additional capacity through power contracts. For additional information regarding potential power generation projects, see Item 7 – MD&A – Prospective Information – Electric.

Montana-Dakota has major interconnections with its neighboring utilities and considers these interconnections adequate for coordinated planning, emergency assistance, exchange of capacity and energy and power supply reliability.

Through the Sheridan System, Montana-Dakota serves Sheridan, Wyoming, and neighboring communities. The maximum peak demand experienced to date attributable to Montana-Dakota sales to retail customers on that system was approximately 60,600 kW in July 2007. In December 2004, Montana-Dakota entered into a power supply contract with Black Hills Power to purchase up to 74,000 kW of capacity annually from January 1, 2007 to December 31, 2016.

Montana-Dakota is subject to competition in varying degrees, in certain areas, from rural electric cooperatives, on-site generators, co-generators and municipally owned systems. In addition, competition in varying degrees exists between electricity and alternative forms of energy such as natural gas.

Regulatory Matters and Revenues Subject to Refund Fuel adjustment clauses contained in North Dakota and South Dakota jurisdictional electric rate schedules allow Montana-Dakota to reflect monthly increases or decreases in fuel and purchased power costs (excluding demand charges). In North Dakota, the Company is deferring electric fuel and purchased power costs (excluding demand charges) that are greater or less than amounts presently being recovered through its existing rate schedules. In Montana, a monthly Fuel and Purchased Power Tracking Adjustment mechanism allows Montana-Dakota to reflect 90 percent of the increases or decreases in fuel and purchased power costs (including demand charges) and Montana-Dakota is deferring 90 percent of costs that are greater or less than amounts presently being recovered through its existing rate schedules. In Wyoming, an annual Electric Power Supply Cost Adjustment mechanism allows Montana-Dakota to reflect increases or decreases in fuel and purchased power costs (including demand charges) related to power supply and Montana-Dakota is deferring costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments within a period ranging from 14 to 25 months from the time such costs are paid. For additional information, see Item 8 – Note 6.

In August 2008, Montana-Dakota received an order from the NDPSC, approving its request for an advance determination of prudence of Montana-Dakota's ownership interest in Big Stone Station II. For additional information, see Item 8 – Note 19.

Environmental Matters Montana-Dakota's electric operations are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations; and state hazard communication standards. Montana-Dakota believes it is in substantial compliance with these regulations.

Montana-Dakota's electric generating facilities have Title V Operating Permits, under the Clean Air Act, issued by the states in which it operates. Each of these permits has a five-year life. Near the expiration of these permits, renewal applications are submitted. Permits continue in force beyond the expiration date, provided the application for renewal is submitted by the required date, usually six months prior to expiration. Renewal is pending for the Big Stone Station Title V Operating Permit. The Coyote Station Title V Operating Permit was renewed in August 2008. An application for renewal was submitted for the Lewis & Clark Station Title V Operating Permit that expires in April 2009. Also, a Montana Air Quality Permit application was submitted as required for the Lewis & Clark Station to obtain a mercury permit emissions limit and approval of its proposed mercury emissions control strategy.

State water discharge permits issued under the requirements of the Clean Water Act are maintained for power production facilities on the Yellowstone and Missouri rivers. These permits also have five-year lives. Montana-Dakota renews these permits as necessary prior to expiration. Other permits held by these facilities may include an initial siting permit, which is typically a one-time, preconstruction permit issued by the state; state permits to dispose of combustion by-products; state authorizations to withdraw water for operations; and Army Corps permits to construct water intake structures. Montana-Dakota's Army Corps permits grant one-time permission to construct and do not require renewal. Other permit terms vary and the permits are renewed as necessary.

Montana-Dakota's electric operations are conditionally exempt small-quantity hazardous waste generators and subject only to minimum regulation under the RCRA. Montana-Dakota routinely handles PCBs from its electric operations in accordance with federal requirements. PCB storage areas are registered with the EPA as required.

On June 10, 2008, the Sierra Club filed a complaint in the South Dakota Federal District Court against Montana-Dakota and the two other co-owners of the Big Stone Station. For more information regarding this complaint, see Item 8 – Note 20.

Montana-Dakota incurred $2.5 million of environmental expenditures in 2008. Expenditures are estimated to be $5.8 million, $6.0 million and $14.3 million in 2009, 2010 and 2011, respectively, to maintain environmental compliance as new emission controls are required. These estimates could be affected by potential new GHG emission legislation or regulations. Projects will include sulfur-dioxide and mercury control equipment installation at electric generating facilities. For matters involving Montana-Dakota and the ND Health Department, see Item 8 – Note 20.

NATURAL GAS DISTRIBUTION

General The Company's natural gas distribution operations consist of Montana-Dakota, Great Plains, Cascade and Intermountain which sell natural gas at retail, serving over 822,000 residential, commercial and industrial customers in 333 communities and adjacent rural areas across eight states as of December 31, 2008, and provide natural gas transportation services to certain customers on their systems. These services for the four public utility operations are provided through distribution systems aggregating approximately 17,000 miles. The natural gas distribution operations have obtained and hold, or are in the process of renewing, valid and existing franchises authorizing them to conduct their natural gas operations in all of the municipalities they serve where such franchises are required. These operations intend to protect their service areas and seek renewal of all expiring franchises. As of December 31, 2008, the natural gas distribution operations' net natural gas distribution plant investment approximated $757.7 million.

Substantially all of Montana-Dakota's natural gas distribution properties are subject to the lien of the Mortgage and to the junior lien of the Indenture.

The percentage of the natural gas distribution operations’ 2008 natural gas utility operating sales revenues by jurisdiction is as follows: Washington – 36 percent; North Dakota – 15 percent; Idaho – 13 percent; Oregon – 11 percent; Montana – 10 percent; South Dakota – 8 percent; Minnesota – 5 percent; and Wyoming – 2 percent. The above percentages reflect operating sales revenues of Intermountain since October 1, 2008, the date of acquisition. The natural gas distribution operations are subject to regulation by the IPUC, MNPUC, MTPSC, NDPSC, OPUC, SDPUC, WUTC and WYPSC regarding retail rates, service, accounting and certain security issuances.

System Supply, System Demand and Competition The natural gas distribution operations serve retail natural gas markets, consisting principally of residential and firm commercial space and water heating users, in portions of Idaho, including Boise, Nampa, Twin Falls, Pocatello and Idaho Falls; western Minnesota, including Fergus Falls, Marshall and Crookston; eastern Montana, including Billings, Glendive and Miles City; North Dakota, including Bismarck, Dickinson, Wahpeton, Williston, Minot and Jamestown; central and eastern Oregon, including Bend and Pendleton; western and north-central South Dakota, including Rapid City, Pierre, Spearfish and Mobridge; western, southeastern and south-central Washington, including Bellingham, Bremerton, Longview, Moses Lake, Mount Vernon, Tri-Cities, Walla Walla and Yakima; and northern Wyoming, including Sheridan. These markets are highly seasonal and sales volumes depend largely on the weather, the effects of which are mitigated in certain jurisdictions by a weather normalization mechanism discussed in Regulatory Matters.

Competition in varying degrees exists between natural gas and other fuels and forms of energy. The natural gas distribution operations have established various natural gas transportation service rates for their distribution businesses to retain interruptible commercial and industrial loads. Certain of these services include transportation under flexible rate schedules whereby interruptible customers can avail themselves of the advantages of open access transportation on regional transmission pipelines, including the systems of Williston Basin, Northern Natural Gas Company, Viking Gas Transmission Company, Northwest Pipeline GP and Gas Transmission Northwest Corporation. These services have enhanced the natural gas distribution operations' competitive posture with alternative fuels, although certain customers have bypassed the distribution systems by directly accessing transmission pipelines located within close proximity. These bypasses did not have a material effect on results of operations.

The natural gas distribution operations obtain their system requirements directly from producers, processors and marketers. Such natural gas is supplied by a portfolio of contracts specifying market-based pricing and is transported under transportation agreements by Williston Basin, South Dakota Intrastate Pipeline Company, Northern Border Pipeline Company, Viking Gas Transmission Company, Northern Natural Gas Company, Source Gas, TransCanada Alberta System, TransCanada Foothills System, Northwestern Energy, Northwest Pipeline GP, Gas Transmission Northwest Corporation and Spectra Energy Gas Transmission. Montana-Dakota also has contracted with Williston Basin, Great Plains with Northern Natural Gas Company, and both Cascade and Intermountain with Northwest Pipeline GP, to provide firm storage services that enable all four operations to meet winter peak requirements. Demand for natural gas, which is a widely traded commodity, has historically been sensitive to seasonal heating and industrial load requirements as well as changes in market price. The natural gas distribution operations believe that, based on regional supplies of natural gas and the pipeline transmission network currently available through their suppliers and pipeline service providers, supplies are adequate to meet their system natural gas requirements for the next five years.

Regulatory Matters The natural gas distribution operations' retail natural gas rate schedules contain clauses permitting adjustments in rates based upon changes in natural gas commodity, transportation and storage costs. Current tariffs allow for recovery or refunds of under or over recovered gas costs within a period ranging from 12 to 28 months.

Montana-Dakota's North Dakota and South Dakota natural gas tariffs contain a weather normalization mechanism applicable to firm customers that adjusts the distribution delivery charge revenues to reflect weather fluctuations during the November 1 through May 1 billing periods.

Cascade has received approval for decoupling its margins from weather and conservation in Oregon, and has also received approval of a decoupling mechanism in Washington which allows it to recover margin differences resulting from customer conservation. Cascade also has an earnings sharing mechanism with respect to its Oregon jurisdictional operations as required by the OPUC.

Environmental Matters The natural gas distribution operations are subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. The natural gas distribution operations believe they are in substantial compliance with those regulations.

Natural gas distribution operations are conditionally exempt small-quantity hazardous waste generators and subject only to minimum regulation under the RCRA. The natural gas distribution operations routinely handle PCBs from their natural gas operations in accordance with federal requirements. PCB storage areas are registered with the EPA as required.

The natural gas distribution operations did not incur any material environmental expenditures in 2008 and, except as to what may be ultimately determined with regard to the issues described below, do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations in relation to the natural gas distribution operations through 2011.

Montana-Dakota has had an economic interest in five historic manufactured gas plants within its service territory, none of which are currently being actively investigated, and for which any remediation expenses are not expected to be material. Cascade has had an economic interest in nine former manufactured gas plants within its service territory. Cascade has been involved with other PRPs in the investigation of a manufactured gas plant site in Oregon, with remediation of

this site pending additional investigation. See Item 8 – Note 20 for a further discussion of this site and for two additional sites for which Cascade has received claim notice. To the extent these claims are not covered by insurance, Cascade will seek recovery through the OPUC and WUTC of remediation costs in its natural gas rates charged to customers.

CONSTRUCTION SERVICES

General MDU Construction Services specializes in constructing and maintaining electric and communication lines, gas pipelines, fire protection systems, and external lighting and traffic signalization equipment. This segment also provides utility excavation services and inside electrical wiring, cabling and mechanical services, sells and distributes electrical materials, and manufactures and distributes specialty equipment. These services are provided to utilities and large manufacturing, commercial, industrial, institutional and government customers.

In 2008, the Company acquired a construction service business in Nevada. This acquisition was not material to the Company.

Construction and maintenance crews are active year round. However, activity in certain locations may be seasonal in nature due to the effects of weather.

MDU Construction Services operates a fleet of owned and leased trucks and trailers, support vehicles and specialty construction equipment, such as backhoes, excavators, trenchers, generators, boring machines and cranes. In addition, as of December 31, 2008, MDU Construction Services owned or leased facilities in 16 states. This space is used for offices, equipment yards, warehousing, storage and vehicle shops. At December 31, 2008, MDU Construction Services' net plant investment was approximately $50.3 million.

MDU Construction Services' backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts. The backlog at December 31, 2008, was approximately $604 million compared to $827 million at December 31, 2007. MDU Construction Services expects to complete a significant amount of this backlog during the year ending December 31, 2009. Due to the nature of its contractual arrangements, in many instances MDU Construction Services' customers are not committed to the specific volumes of services to be purchased under a contract, but rather MDU Construction Services is committed to perform these services if and to the extent requested by the customer. Therefore, there can be no assurance as to the customer's requirements during a particular period or that such estimates at any point in time are predictive of future revenues.

This industry is experiencing a shortage of skilled laborers in certain areas. MDU Construction Services works with the National Electrical Contractors Association, the IBEW and other trade associations on hiring and recruiting a qualified workforce.

Competition MDU Construction Services operates in a highly competitive business environment. Most of MDU Construction Services' work is obtained on the basis of competitive bids or by negotiation of either cost-plus or fixed-price contracts. The workforce and equipment are highly mobile, providing greater flexibility in the size and location of MDU Construction Services' market area. Competition is based primarily on price and reputation for quality, safety and reliability. The size and location of the services provided, as well as the state of the economy, will be factors in the number of competitors that MDU Construction Services will encounter on any particular project. MDU Construction Services believes that the diversification of the services it provides, the markets it serves throughout the United States and the management of its workforce will enable it to effectively operate in this competitive environment.

Utilities and independent contractors represent the largest customer base for this segment. Accordingly, utility and subcontract work accounts for a significant portion of the work performed by MDU Construction Services and the amount of construction contracts is dependent to a certain extent on the level and timing of maintenance and construction programs undertaken by customers. MDU Construction Services relies on repeat customers and strives to maintain successful long-term relationships with these customers.

Environmental Matters MDU Construction Services' operations are subject to regulation customary for the industry, including federal, state and local environmental compliance. MDU Construction Services believes it is in substantial compliance with these regulations.

The nature of MDU Construction Services' operations is such that few, if any, environmental permits are required. Operational convenience supports the use of petroleum storage tanks in several locations, which are permitted under state programs authorized by the EPA. MDU Construction Services has no ongoing remediation related to releases from petroleum storage tanks. MDU Construction Services' operations are conditionally exempt small-quantity waste generators, subject to minimal regulation under the RCRA. Federal permits for specific construction and maintenance jobs that may require these permits are typically obtained by the hiring entity, and not by MDU Construction Services.

MDU Construction Services did not incur any material environmental expenditures in 2008 and does not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2011.

PIPELINE AND ENERGY SERVICES

General Williston Basin, the regulated business of WBI Holdings, owns and operates over 3,700 miles of transmission, gathering and storage lines and owns or leases and operates 32 compressor stations in the states of Montana, North Dakota, South Dakota and Wyoming. Three underground storage fields in Montana and Wyoming provide storage services to local distribution companies, producers, natural gas marketers and others, and serve to enhance system deliverability. Williston Basin's system is strategically located near five natural gas producing basins, making natural gas supplies available to Williston Basin's transportation and storage customers. The system has 11 interconnecting points with other pipeline facilities allowing for the receipt and/or delivery of natural gas to and from other regions of the country and from Canada. At December 31, 2008, Williston Basin's net plant investment was approximately $263.5 million. Under the Natural Gas Act, as amended, Williston Basin is subject to the jurisdiction of the FERC regarding certificate, rate, service and accounting matters.

Bitter Creek, the nonregulated pipeline business, owns and operates gathering facilities in Colorado, Kansas, Montana and Wyoming. Bitter Creek also owns a one-sixth interest in the assets of various offshore gathering pipelines, an associated onshore pipeline and related processing facilities in Texas. In total, these facilities include over 1,900 miles of field gathering lines and 90 owned or leased compression stations, some of which interconnect with Williston Basin's system. In addition, Bitter Creek provides a variety of energy-related services such as water hauling, contract compression operations, measurement services and energy efficiency product sales and installation services to large end-users.

WBI Holdings, through its energy services business, provides natural gas purchase and sales services to local distribution companies, producers, other marketers and a limited number of large end-users, primarily using natural gas produced by the Company's natural gas and oil production segment. Certain of the services are provided based on contracts that call for a determinable quantity of natural gas. WBI Holdings currently estimates that it can adequately meet the requirements of these contracts. WBI Holdings transacts a substantial majority of its pipeline and energy services business in the northern Great Plains and Rocky Mountain regions of the United States.

System Demand and Competition Williston Basin competes with several pipelines for its customers' transportation, storage and gathering business and at times may discount rates in an effort to retain market share. However, the strategic location of Williston Basin's system near five natural gas producing basins and the availability of underground storage and gathering services provided by Williston Basin and affiliates along with interconnections with other pipelines serve to enhance Williston Basin's competitive position.

Although certain of Williston Basin's firm customers, including its largest firm customer Montana-Dakota, serve relatively secure residential and commercial end-users, they generally all have some price-sensitive end-users that could switch to alternate fuels.

Williston Basin transports substantially all of Montana-Dakota's natural gas, primarily utilizing firm transportation agreements, which for the year ended December 31, 2008, represented 54 percent of Williston Basin's subscribed firm transportation contract demand. Montana-Dakota has a firm transportation agreement with Williston Basin for a term of five years expiring in June 2012. In addition, Montana-Dakota has a contract with Williston Basin to provide firm storage services to facilitate meeting Montana-Dakota's winter peak requirements for a term of 20 years expiring in July 2015.

Bitter Creek competes with several pipelines for existing customers and the expansion of its systems to gather natural gas in new areas. Bitter Creek's strong position in the fields in which it operates, its focus on customer service and the variety of services it offers, along with its interconnection with various other pipelines, serve to enhance its competitive position.

System Supply Williston Basin's underground natural gas storage facilities have a certificated storage capacity of approximately 353 Bcf, including 193 Bcf of working gas capacity, 85 Bcf of cushion gas and 75 Bcf of native gas. The native gas includes an estimated 29 Bcf of recoverable gas. Williston Basin's storage facilities enable its customers to purchase natural gas at more uniform daily volumes throughout the year, which facilitates meeting winter peak requirements. For information regarding natural gas storage legal proceedings, see Item 1A – Risk Factors – Other Risks and Item 8 – Note 20.

Natural gas supplies emanate from traditional and nontraditional natural gas production activities in the region and from off-system supply sources. While certain traditional regional supply sources are in various stages of decline, incremental supply from nontraditional sources have been developed which have helped support Williston Basin's supply needs. This includes new natural gas supply associated with the continued development of the Bakken area in Montana and North Dakota. The Powder River Basin, including the Company's CBNG assets, also provides a nontraditional natural gas supply to the Williston Basin system. For additional information regarding CBNG legal proceedings, see Item 1A – Risk Factors – Environmental and Regulatory Risks and Item 8 – Note 20. In addition, off-system supply sources are available through the

Company's interconnections with other pipeline systems. Williston Basin expects to facilitate the movement of these supplies by making available its transportation and storage services. Williston Basin will continue to look for opportunities to increase transportation, gathering and storage services through system expansion and/or other pipeline interconnections or enhancements that could provide substantial future benefits.

Regulatory Matters and Revenues Subject to Refund In December 1999, Williston Basin filed a general natural gas rate change application with the FERC. For additional information, see Item 8 – Note 19.

Environmental Matters WBI Holdings' pipeline and energy services operations are generally subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. WBI Holdings believes it is in substantial compliance with those regulations.

Ongoing operations are subject to the Clean Air Act and the Clean Water Act. Administration of many provisions of these laws has been delegated to the states where Williston Basin and Bitter Creek operate, and permit terms vary. Some permits require annual renewal, some have terms ranging from one to five years and others have no expiration date. Permits are renewed as necessary.

Detailed environmental assessments are included in the FERC's permitting processes for both the construction and abandonment of Williston Basin's natural gas transmission pipelines, compressor stations and storage facilities.

WBI Holdings' pipeline and energy services operations did not incur any material environmental expenditures in 2008 and do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2011.

NATURAL GAS AND OIL PRODUCTION

General Fidelity is involved in the acquisition, exploration, development and production of natural gas and oil resources. Fidelity's activities include the acquisition of producing properties and leaseholds with potential development opportunities, exploratory drilling and the operation and development of natural gas and oil production properties. Fidelity continues to seek additional reserve and production growth opportunities through these activities. Future growth is dependent upon its success in these endeavors. Fidelity shares revenues and expenses from the development of specified properties in proportion to its ownership interests.

Fidelity's business is focused primarily in three core regions: Rocky Mountain, Mid-Continent/Gulf States and Offshore Gulf of Mexico.

Rocky Mountain

Fidelity's properties in this region are primarily located in the states of Colorado, Montana, North Dakota, Utah and Wyoming. Fidelity owns in fee or holds natural gas and oil leases for the properties it operates that are in the Bonny Field located in eastern Colorado, the Baker Field in southeastern Montana and southwestern North Dakota, the Bowdoin area located in north-central Montana, the Powder River Basin of Montana and Wyoming, the Bakken area in North Dakota, the Paradox Basin of Utah, and the Big Horn Basin of Wyoming. Fidelity also owns nonoperated natural gas and oil interests and undeveloped acreage positions in this region.

Mid-Continent/Gulf States
This region includes properties in Alabama, Louisiana, New Mexico, Oklahoma and Texas. Fidelity owns in fee or holds natural gas and oil leases for the properties it operates that are in the Tabasco and Texan Gardens fields of Texas. In 2008, Fidelity acquired and became the operator of natural gas properties in Rusk County in eastern Texas. In addition, Fidelity owns several nonoperated interests and undeveloped acreage positions in this region.

Offshore Gulf of Mexico
Fidelity has nonoperated interests throughout the Offshore Gulf of Mexico. These interests are primarily located in the shallow waters off the coasts of Texas and Louisiana.

Operating Information Annual net production by region for 2008 was as follows:

Region	Natural Gas (MMcf)	Oil (MBbls)	Total (MMcfe)	Percent of Total
Rocky Mountain	47,504	1,698	57,691	70%
Mid-Continent/Gulf States	14,666	890	20,006	24
Offshore Gulf of Mexico	3,287	220	4,606	6
Total	65,457	2,808	82,303	100%

Well and Acreage Information Gross and net productive well counts and gross and net developed and undeveloped acreage related to Fidelity's interests at December 31, 2008, were as follows:

	Gross*	Net**
Productive wells:		
Natural gas	4,263	3,361
Oil	3,867	260
Total	8,130	3,621
Developed acreage (000's)	757	400
Undeveloped acreage (000's)	1,218	603

* Reflects well or acreage in which an interest is owned.
** Reflects Fidelity's percentage of ownership.

Exploratory and Development Wells The following table reflects activities relating to Fidelity's natural gas and oil wells drilled and/or tested during 2008, 2007 and 2006:

	Net Exploratory			Net Development			
	Productive	Dry Holes	Total	Productive	Dry Holes	Total	Total
2008	11	4	15	251	9	260	275
2007	4	5	9	317	16	333	342
2006	4	1	5	331	1	332	337

At December 31, 2008, there were 117 gross (85 net) wells in the process of drilling or under evaluation, 105 of which were development wells and 12 of which were exploratory wells. These wells are not included in the previous table. Fidelity expects to complete the drilling and testing of the majority of these wells within the next 12 months.

The information in the table above should not be considered indicative of future performance nor should it be assumed that there is necessarily any correlation between the number of productive

wells drilled and quantities of reserves found or economic value. Productive wells are those that produce commercial quantities of hydrocarbons whether or not they produce a reasonable rate of return.

Competition The natural gas and oil industry is highly competitive. Fidelity competes with a substantial number of major and independent natural gas and oil companies in acquiring producing properties and new leases for future exploration and development, and in securing the equipment, services and expertise necessary to explore, develop and operate its properties.

Environmental Matters Fidelity's natural gas and oil production operations are generally subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. Fidelity believes it is in substantial compliance with these regulations.

The ongoing operations of Fidelity are subject to the Clean Water Act, the Clean Air Act, and other federal and state environmental regulations. Administration of many provisions of the federal laws has been delegated to the states where Fidelity operates, and permit terms vary. Some permits have terms ranging from one to five years and others have no expiration date.

Detailed environmental assessments and/or environmental impact statements under federal and state laws are required as part of the permitting process incidental to the commencement of drilling and production operations as well as in the closure, abandonment and reclamation of facilities.

In connection with production operations, Fidelity has incurred certain capital expenditures related to water handling. For 2008, capital expenditures for water handling in compliance with current laws and regulations were approximately $2.8 million and are estimated to be approximately $3.3 million, $12.8 million and $7.3 million in 2009, 2010 and 2011, respectively. These water handling costs are primarily related to the CBNG properties. For more information regarding CBNG legal proceedings, see Item 1A – Risk Factors and Item 8 – Note 20.

Reserve Information Estimates of reserves are arrived at using actual historical wellhead production trends and/or standard reservoir engineering methods utilizing available geological, geophysical, engineering and economic data. Other factors used in the reserve estimates are current natural gas and oil prices, current estimates of well operating and future development costs, taxes, timing of operations, and the interest owned by the Company in the well. The reserve estimates are prepared by internal engineers and are reviewed by management. These estimates are refined as new information becomes available.

Fidelity's recoverable proved reserves by region at December 31, 2008, are as follows:

Region	Natural Gas (MMcf)	Oil (MBbls)	Total (MMcfe)	Percent of Total	PV-10 Value* (in millions)
Rocky Mountain	388,931	23,140	527,775	65%	$ 814.5
Mid-Continent/Gulf States	204,075	10,485	266,983	33	388.4
Offshore Gulf of Mexico	11,276	723	15,613	2	40.2
Total reserves	604,282	34,348	810,371	100%	1,243.1
Discounted future income taxes					273.3
Standardized measure of discounted future net cash flows relating to proved reserves					$ 969.8

* Pre-tax PV-10 value is a non-GAAP financial measure that is derived from the most directly comparable GAAP financial measure which is the standardized measure of discounted future net cash flows. The standardized measure of discounted future net cash flows disclosed in Item 8 – Supplementary Financial Information, is presented after deducting discounted future income taxes in accordance with SFAS No. 69, whereas the PV-10 value is presented before income taxes. Pre-tax PV-10 value is commonly used by the Company to evaluate properties that are acquired and sold and to assess the potential return on investment in the Company's natural gas and oil properties. The Company believes pre-tax PV-10 value is a useful supplemental disclosure to the standardized measure as the Company believes readers may utilize this value as a basis for comparison of the relative size and value of the Company’s reserves to other companies because many factors that are unique to each individual company impact the amount of future income taxes to be paid. However, pre-tax PV-10 value is not a substitute for the standardized measure of discounted future net cash flows. Neither the Company's pre-tax PV-10 value nor the standardized measure of discounted future net cash flows purports to represent the fair value of the Company's natural gas and oil properties.

For additional information related to natural gas and oil interests, see Item 8 – Note 1 and Supplementary Financial Information.

CONSTRUCTION MATERIALS AND CONTRACTING
General Knife River operates construction materials and contracting businesses headquartered in Alaska, California, Hawaii, Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, Texas, Washington and Wyoming. These operations mine, process and sell construction aggregates (crushed stone, sand and gravel); produce and sell asphalt mix and supply liquid asphalt for various commercial and roadway applications; and supply ready-mixed concrete for use in most types of construction, including roads, freeways and bridges, as well as homes, schools, shopping centers, office buildings and industrial parks. Although not common to all locations, other products include the sale of cement, various finished concrete products and other building materials and related contracting services.

During 2008, the Company acquired construction materials and contracting businesses with operations in Alaska, California, Idaho and Texas. None of these acquisitions was material to the Company.

Knife River continues to investigate the acquisition of other construction materials properties, particularly those relating to construction aggregates and related products such as ready-mixed concrete, asphalt and related construction services.

The construction materials business had approximately $453 million in backlog at December 31, 2008, compared to $462 million at December 31, 2007. The Company anticipates that a significant amount of the current backlog will be completed during the year ending December 31, 2009.

Competition Knife River's construction materials products are marketed under highly competitive conditions. Price is the principal competitive force to which these products are subject, with service, quality, delivery time and proximity to the customer also being significant factors. The number and size of competitors varies in each of Knife River's principal market areas and product lines.

The demand for construction materials products is significantly influenced by the cyclical nature of the construction industry in general. In addition, construction materials activity in certain locations may be seasonal in nature due to the effects of weather. The key economic factors affecting product demand are changes in the level of local, state and federal governmental spending, general economic conditions within the market area that influence both the commercial and private sectors, and prevailing interest rates.

Knife River is not dependent on any single customer or group of customers for sales of its products and services, the loss of which would have a material adverse effect on its construction materials businesses.

Reserve Information Reserve estimates are calculated based on the best available data. These data are collected from drill holes and other subsurface investigations, as well as investigations of surface features such as mine highwalls and other exposures of the aggregate reserves. Mine plans, production history and geologic data also are utilized to estimate reserve quantities. Most acquisitions are made of mature businesses with established reserves, as distinguished from exploratory-type properties.

Estimates are based on analyses of the data described above by experienced internal mining engineers, operating personnel and geologists. Property setbacks and other regulatory restrictions and limitations are identified to determine the total area available for mining. Data described above are used to calculate the thickness of aggregate materials to be recovered. Topography associated with alluvial sand and gravel deposits is typically flat and volumes of these materials are calculated by applying the thickness of the resource over the areas available for mining. Volumes are then converted to tons by using an appropriate conversion factor. Typically, 1.5 tons per cubic yard in the ground is used for sand and gravel deposits.

Topography associated with the hard rock reserves is typically much more diverse. Therefore, using available data, a final topography map is created and computer software is utilized to compute the volumes between the existing and final topographies. Volumes are then converted to tons by using an appropriate conversion factor. Typically, 2 tons per cubic yard in the ground is used for hard rock quarries.

Estimated reserves are probable reserves as defined in Securities Act Industry Guide 7. Remaining reserves are based on estimates of volumes that can be economically extracted and sold to meet current market and product applications. The reserve estimates include only salable tonnage and thus exclude waste materials that are generated in the crushing and processing phases of the operation. Approximately 1.0 billion tons of the 1.1 billion tons of aggregate reserves are permitted reserves. The remaining reserves are on properties that are expected to be permitted for mining under current regulatory requirements. The data used to calculate the remaining reserves may require revisions in the future to account for changes in customer requirements and unknown geological occurrences. The years remaining were calculated by dividing remaining reserves by the three-year average sales from 2006 through 2008. Actual useful lives of these reserves will be subject to, among other things, fluctuations in customer demand, customer specifications, geological conditions and changes in mining plans.

The following table sets forth details applicable to the Company's aggregate reserves under ownership or lease as of December 31, 2008, and sales for the years ended December 31, 2008, 2007 and 2006:

Production Area	Number of Sites (Crushed Stone) owned	leased	Number of Sites (Sand & Gravel) owned	leased	Tons Sold (000's) 2008	2007	2006	Estimated Reserves (000's tons)	Lease Expiration	Reserve Life (years)
Anchorage, AK	---	---	1	---	1,267	1,118	1,142	18,445	N/A	16
Hawaii	---	6	---	---	2,467	3,081	3,167	65,564	2011-2064	23
Northern CA	---	---	7	1	2,054	2,534	3,031	40,609	2014	16
Southern CA	---	2	---	---	106	69	244	95,224	2035	Over 100
Portland, OR	1	4	5	3	4,074	5,372	5,862	250,959	2009-2055	49
Eugene, OR	3	3	4	2	1,633	2,007	3,026	173,356	2009-2046	78
Central OR/WA/ Idaho	2	2	5	3	1,686	2,652	1,788	109,069	2010-2021	53
Southwest OR	4	7	12	5	2,248	3,686	4,425	111,932	2009-2048	32
Central MT	---	---	4	2	2,086	2,424	2,619	50,048	2011-2027	21
Northwest MT	---	---	8	2	1,198	1,318	1,434	27,563	2009-2020	21
Wyoming	---	---	---	2	720	116	5	13,518	2009-2019	48
Central MN	---	1	39	34	1,367	2,639	4,834	85,657	2009-2028	29
Northern MN	2	---	19	9	333	753	520	29,676	2009-2016	55
ND/SD	---	---	2	31	876	943	1,157	41,795	2009-2031	42
Iowa	---	2	1	18	1,405	1,592	2,024	12,320	2009-2017	7
Texas	1	2	1	2	1,619	1,290	917	19,426	2010-2025	15
Sales from other sources					5,968	5,318	9,405			
					31,107	36,912	45,600	1,145,161		

The 1.1 billion tons of estimated aggregate reserves at December 31, 2008, is comprised of 470 million tons that are owned and 675 million tons that are leased. Approximately 51 percent of the tons under lease have lease expiration dates of 20 years or more. The weighted average years remaining on all leases containing estimated probable aggregate reserves is approximately 21 years, including options for renewal that are at Knife River's discretion. Based on a three-year average of sales from 2006 through 2008 of leased reserves, the average time necessary to produce remaining aggregate reserves from such leases is approximately 46 years. Some sites have leases that expire prior to the exhaustion of the estimated reserves. The estimated reserve life assumes, based on Knife River's experience, that leases will be renewed to allow sufficient time to fully recover these reserves.

The following table summarizes Knife River's aggregate reserves at December 31, 2008, 2007 and 2006, and reconciles the changes between these dates:

	2008	2007	2006
		(000's of tons)	
Aggregate reserves:			
Beginning of year	1,215,253	1,248,099	1,273,696
Acquisitions	27,650	29,740	7,300
Sales volumes*	(25,139)	(31,594)	(36,195)
Other**	(72,603)	(30,992)	3,298
End of year	1,145,161	1,215,253	1,248,099

* Excludes sales from other sources.

** Includes property sales and revisions of previous estimates.

Environmental Matters Knife River's construction materials and contracting operations are subject to regulation customary for such operations, including federal, state and local environmental compliance and reclamation regulations. Except as to what may be ultimately determined with regard to the Portland, Oregon, Harbor Superfund Site issue described later, Knife River believes it is in substantial compliance with these regulations.

Knife River's asphalt and ready-mixed concrete manufacturing plants and aggregate processing plants are subject to Clean Air Act and Clean Water Act requirements for controlling air emissions and water discharges. Some mining and construction activities also are subject to these laws. In most of the states where Knife River operates, these regulatory programs have been delegated to state and local regulatory authorities. Knife River's facilities also are subject to RCRA as it applies to the management of hazardous wastes and underground storage tank systems. These programs also have generally been delegated to the state and local authorities in the states where Knife River operates. Knife River's facilities must comply with requirements for managing wastes and underground storage tank systems.

Some Knife River activities are directly regulated by federal agencies. For example, gravel bar skimming and deep water dredging operations are subject to provisions of the Clean Water Act that are administered by the Army Corps. Knife River operates gravel bar skimming operations and deep water dredging operations in Oregon, all of which are subject to joint permits with the Army Corps and Oregon Department of State Lands. The expiration dates of these permits vary, with five years generally being the longest term. None of these in-water mining operations are included in Knife River's aggregate reserve numbers.

Knife River's operations also are occasionally subject to the ESA. For example, land use regulations often require environmental studies, including wildlife studies, before a permit may be granted for a new or expanded mining facility or an asphalt or concrete plant. If endangered species or their habitats are identified, ESA requirements for protection, mitigation or avoidance apply. Endangered species protection requirements are usually included as part of land use permit conditions. Typical conditions include avoidance, setbacks, restrictions on operations during certain times of the breeding or rearing season, and construction or purchase of mitigation habitat. Knife River's operations also are subject to state and federal cultural resources protection laws when new areas are disturbed for mining operations or processing plants. Land use permit applications generally require that areas proposed for mining or other surface disturbances be surveyed for cultural resources. If any are identified, they must be protected or managed in accordance with regulatory agency requirements.

The most comprehensive environmental permit requirements are usually associated with new mining operations, although requirements vary widely from state to state and even within states. In some areas, land use regulations and associated permitting requirements are minimal. However, some states and local jurisdictions have very demanding requirements for permitting new mines. Environmental impact reports are sometimes required before a mining permit application can even be considered for approval. These reports can take up to several years to complete. The report can include projected impacts of the proposed project on air and water quality, wildlife, noise levels, traffic, scenic vistas and other environmental factors. The reports generally include suggested actions to mitigate the projected adverse impacts.

Provisions for public hearings and public comments are usually included in land use permit application review procedures in the counties where Knife River operates. After taking into account environmental, mine plan and reclamation information provided by the permittee as well as comments from the public and other regulatory agencies, the local authority approves or denies the permit application. Denial is rare but land use permits often include conditions that must be addressed by the permittee. Conditions may include property line setbacks, reclamation requirements, environmental monitoring and reporting, operating hour restrictions, financial guarantees for reclamation, and other requirements intended to protect the environment or address concerns submitted by the public or other regulatory agencies.

Knife River has been successful in obtaining mining and other land use permit approvals so that sufficient permitted reserves are available to support its operations. For mining operations, this often requires considerable advanced planning to ensure sufficient time is available to complete the permitting process before the newly permitted aggregate reserve is needed to support Knife River's operations.

Knife River's Gascoyne surface coal mine last produced coal in 1995 but continues to be subject to reclamation requirements of the SMCRA, as well as the North Dakota Surface Mining Act. Portions of the Gascoyne Mine remain under reclamation bond until the 10-year revegetation liability period has expired. A portion of the original permit has been released from bond and additional areas are currently in the process of having the bond released. Knife River's intention is to request bond release as soon as it is deemed possible with all final bond release applications being filed by 2013.

Knife River did not incur any material environmental expenditures in 2008 and, except as to what may be ultimately determined with regard to the issue described below, Knife River does not expect to incur any material expenditures related to environmental compliance with current laws and regulations through 2011.

In December 2000, MBI was named by the EPA as a PRP in connection with the cleanup of a commercial property site, acquired by MBI in 1999, and part of the Portland, Oregon, Harbor Superfund Site. For additional information, see Item 8 – Note 20.

ITEM 1A. RISK FACTORS

The Company's business and financial results are subject to a number of risks and uncertainties, including those set forth below and in other documents that it files with the SEC. The factors and the other matters discussed herein are important factors that could cause actual results or outcomes for the Company to differ materially from those discussed in the forward-looking statements included elsewhere in this document.

Economic Risks

The Company's natural gas and oil production and pipeline and energy services businesses are dependent on factors, including commodity prices and commodity price basis differentials, which are subject to various external influences that cannot be controlled.

These factors include: fluctuations in natural gas and oil prices; fluctuations in commodity price basis differentials; availability of economic supplies of natural gas; drilling successes in natural gas and oil operations; the timely receipt of necessary permits and approvals; the ability to contract for or to secure necessary drilling rig and service contracts and to retain employees to drill for and develop reserves; the ability to acquire natural gas and oil properties; and other risks incidental to the operations of natural gas and oil wells. Recent volatility in natural gas and oil prices has negatively affected the results of operations and cash flows of the Company's natural gas and oil production and pipeline and energy services businesses.

The regulatory approval, permitting, construction, startup and operation of power generation facilities may involve unanticipated changes or delays that could negatively impact the Company's business and its results of operations and cash flows.

The construction, startup and operation of power generation facilities involve many risks, including: delays; breakdown or failure of equipment; competition; inability to obtain required governmental permits and approvals; inability to negotiate acceptable acquisition, construction, fuel supply, off-take, transmission or other material agreements; changes in market price for power; cost increases; as well as the risk of performance below expected levels of output or efficiency. Such unanticipated events could negatively impact the Company's business, its results of operations and cash flows.

The Company is analyzing potential projects for accommodating load growth and replacing purchased power and capacity with company-owned generation which would add capacity and rate base. A potential project is the planned participation in Big Stone Station II. Should regulatory approvals and permits not be received on a timely basis, or adverse permit conditions be attached, the project could be at risk and the Company would need to pursue other generation sources.

Economic volatility affects the Company's operations, as well as the demand for its products and services and the value of its investments and investment returns and, as a result, may have a negative impact on the Company's future revenues and cash flows.

The global demand for natural resources, interest rates, governmental budget constraints and the ongoing threat of terrorism can create volatility in the financial markets. The current economic slowdown has negatively affected the level of public and private expenditures on projects and the timing of these projects which, in turn, has negatively affected the demand for certain of the Company's products and services. Continued economic volatility could adversely impact the Company's results of operations and cash flows. Changing market conditions could negatively affect the market value of assets held in the Company’s pension and other postretirement benefit plans and may increase the amount and accelerate the timing of required funding contributions.

The Company relies on financing sources and capital markets. Access to these markets may be adversely affected by factors beyond the Company's control. If the Company is unable to obtain economic financing in the future, the Company's ability to execute its business plans, make capital expenditures or pursue acquisitions that the Company may otherwise rely on for future

growth could be impaired. As a result, the market value of the Company's common stock may be adversely affected.

The Company relies on access to both short-term borrowings, including the issuance of commercial paper, and long-term capital markets as sources of liquidity for capital requirements not satisfied by its cash flow from operations. If the Company is not able to access capital at competitive rates, the ability to implement its business plans may be adversely affected. Market disruptions, such as those currently being experienced in the United States and abroad, or a downgrade of the Company's credit ratings may increase the cost of borrowing or adversely affect its ability to access one or more financial markets. Such disruptions could include:

- A severe prolonged economic downturn
- The bankruptcy of unrelated industry leaders in the same line of business
- Further deterioration in capital market conditions
- Turmoil in the financial services industry
- Volatility in commodity prices
- Terrorist attacks

Economic turmoil, market disruptions and volatility in the securities trading markets, as well as other factors including changes in the Company's financial condition, results of operations and prospects, and sales of substantial amounts of the Company's common stock, or the perception that such sales could occur, may adversely affect the market price of the Company's common stock.

Actual quantities of recoverable natural gas and oil reserves and discounted future net cash flows from those reserves may vary significantly from estimated amounts.

The process of estimating natural gas and oil reserves is complex. Reserve estimates are based on assumptions relating to natural gas and oil pricing, drilling and operating expenses, capital expenditures, taxes, timing of operations, and the percentage of interest owned by the Company in the well. The reserve estimates are prepared for each of our properties by internal engineers assigned to an asset team by geographic area. The internal engineers analyze available geological, geophysical, engineering and economic data for each geographic area. The internal engineers make various assumptions regarding this data. The extent, quality and reliability of this data can vary. Although we have prepared our reserve estimates in accordance with guidelines established by the industry and the SEC, significant changes to the reserve estimates may occur based on actual results of production, drilling, costs and pricing.

In accordance with SEC requirements, we base the estimated discounted future net cash flows from proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may be significantly different. Sustained downward movements in natural gas and oil prices could result in additional future write-downs of the Company's natural gas and oil properties.

Environmental and Regulatory Risks
Some of the Company's operations are subject to extensive environmental laws and regulations that may increase costs of operations, impact or limit business plans, or expose the Company to environmental liabilities.

The Company is subject to extensive environmental laws and regulations affecting many aspects of its present and future operations including air quality, water quality, waste management and other environmental considerations. These laws and regulations can result in increased capital, operating and other costs, and delays as a result of ongoing litigation and administrative proceedings and compliance, remediation, containment and monitoring obligations, particularly with regard to laws relating to power plant emissions and CBNG development. These laws and regulations generally require the Company to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Public officials and entities, as well as private individuals and organizations, may seek injunctive relief or other remedies to enforce applicable environmental laws and regulations. The Company cannot predict the outcome (financial or operational) of any related litigation or administrative proceedings that may arise.

Existing environmental regulations may be revised and new regulations seeking to protect the environment may be adopted or become applicable to the Company. Revised or additional regulations, which result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have a material adverse effect on the Company's results of operations and cash flows.

The Company's electric generation operations could be adversely impacted by global climate change initiatives to reduce GHG emissions.

Concern that GHG emissions are contributing to global climate change has led to federal and state legislative and regulatory proposals to reduce or mitigate the effects of GHG emissions. The primary GHG emitted from the Company's operations is carbon dioxide from combustion of fossil fuels at Montana-Dakota's electric generating facilities, particularly its coal-fired electric generating facilities. More than 70 percent of the electricity generated by Montana-Dakota is from coal-fired plants and Montana-Dakota plans to participate in the construction and operation of two new coal-fired plants. Montana-Dakota also owns approximately 100 MW of natural gas- and oil-fired peaking plants. Implementation of legislation or regulations to reduce GHG emissions could affect Montana-Dakota's electric utility operations by requiring the expansion of energy conservation efforts and/or the increased development of renewable energy sources, as well as instituting other mandates that could significantly increase the capital expenditures and operating costs at its fossil fuel-fired generating facilities. Due to the uncertainty of technologies available to control GHG emissions and the unknown nature of compliance obligations with potential GHG emission legislation or regulations, the Company cannot determine the financial impact on its operations. If Montana-Dakota does not receive timely and full recovery of the costs of complying with GHG emission legislation and regulations from its customers, then such requirements could have an adverse impact on the results of its operations.

One of the Company's subsidiaries is subject to ongoing litigation and administrative proceedings in connection with its CBNG development activities. These proceedings have caused delays in CBNG drilling activity, and the ultimate outcome of the actions could have a material negative effect on existing CBNG operations and/or the future development of its CBNG properties.

Fidelity has been named as a defendant in, and/or certain of its operations are or have been the subject of, more than a dozen lawsuits filed in connection with its CBNG development in the Powder River Basin in Montana and Wyoming. If the plaintiffs are successful in these lawsuits, the ultimate outcome of the actions could have a material negative effect on Fidelity's existing CBNG operations and/or the future development of its CBNG properties.

The BER in March 2006 issued a decision in a rulemaking proceeding, initiated by the NPRC, that amends the non-degradation policy applicable to water discharged in connection with CBNG operations. The amended policy includes additional limitations on factors deemed harmful, thereby restricting water discharges even further than under previous standards. Due in part to this amended policy, in May 2006, the Northern Cheyenne Tribe commenced litigation in Montana state court challenging two five-year water discharge permits that the Montana DEQ granted to Fidelity in February 2006 and which are critical to Fidelity's ability to manage water produced under present and future CBNG operations. Although the Montana state court decided the case in favor of Fidelity and the Montana DEQ in December 2008, the case is not final and may be appealed until March 23, 2009. If these permits are set aside, Fidelity's CBNG operations in Montana could be significantly and adversely affected.

The Company is subject to extensive government regulations that may delay and/or have a negative impact on its business and its results of operations and cash flows. Statutory and regulatory requirements also may limit another party’s ability to acquire the Company.

The Company is subject to regulation by federal, state and local regulatory agencies with respect to, among other things, allowed rates of return, financing, industry rate structures, and recovery of purchased power and purchased gas costs. These governmental regulations significantly influence the Company’s operating environment and may affect its ability to recover costs from its customers. The Company is unable to predict the impact on operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on the Company’s results of operations and cash flows. Approval from a number of federal and state regulatory agencies would need to be obtained by any potential acquirer of the Company. The approval process could be lengthy and the outcome uncertain.

Risks Relating to Foreign Operations
The value of the Company's investments in foreign operations may diminish due to political, regulatory and economic conditions and changes in currency exchange rates in countries where the Company does business.

The Company is subject to political, regulatory and economic conditions and changes in currency exchange rates in foreign countries where the Company does business. Significant changes in the political, regulatory or economic environment in these countries could negatively affect the value of the Company's investments located in these countries. Also, since the Company is unable to predict the fluctuations in the foreign currency exchange rates, these fluctuations may have an adverse impact on the Company's results of operations and cash flows.

Other Risks
One of the Company's subsidiaries is engaged in litigation with a nonaffiliated natural gas producer that has been conducting drilling and production operations that the subsidiary believes is causing diversion and loss of quantities of storage gas from one of its storage

reservoirs. If the subsidiary is not able to obtain relief through the courts or the regulatory process, its storage operations could be materially and adversely affected.

Based on relevant information, including reservoir and well pressure data, Williston Basin believes that EBSR pressures have decreased and that the storage reservoir has lost gas and continues to lose gas as a result of the drilling and production activities of Anadarko and its wholly owned subsidiary, Howell. Williston Basin filed suit in Montana Federal District Court seeking to recover unspecified damages from Anadarko and Howell, and to enjoin Anadarko and Howell's present and future production operations in and near the EBSR. This suit was dismissed by the Montana Federal District Court. The dismissal was affirmed by the Ninth Circuit. In related litigation, Howell filed suit in Wyoming State District Court against Williston Basin asserting that it is entitled to produce any gas that might escape from Williston Basin's storage reservoir. Williston Basin has answered Howell's complaint and has asserted counterclaims. If Williston Basin is unable to obtain timely relief through the courts or regulatory process, its present and future gas storage operations, including its ability to meet its contractual storage and transportation obligations to customers, could be materially and adversely affected.

Weather conditions can adversely affect the Company's operations and revenues and cash flows.

The Company's results of operations can be affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas, affect the price of energy commodities, affect the ability to perform services at the construction services and construction materials and contracting businesses and affect ongoing operation and maintenance and construction and drilling activities for the pipeline and energy services and natural gas and oil production businesses. In addition, severe weather can be destructive, causing outages, reduced natural gas and oil production, and/or property damage, which could require additional costs to be incurred. As a result, adverse weather conditions could negatively affect the Company's results of operations, financial condition and cash flows.

Competition is increasing in all of the Company's businesses.

All of the Company's businesses are subject to increased competition. Construction services' competition is based primarily on price and reputation for quality, safety and reliability. The construction materials products are marketed under highly competitive conditions and are subject to such competitive forces as price, service, delivery time and proximity to the customer. The electric utility and natural gas industries also are experiencing increased competitive pressures as a result of consumer demands, technological advances, volatility in natural gas prices and other factors. Pipeline and energy services competes with several pipelines for access to natural gas supplies and gathering, transportation and storage business. The natural gas and oil production business is subject to competition in the acquisition and development of natural gas and oil properties. The increase in competition could negatively affect the Company's results of operations, financial condition and cash flows.

Other factors that could impact the Company's businesses.

The following are other factors that should be considered for a better understanding of the financial condition of the Company. These other factors may impact the Company's financial results in future periods.

- Acquisition, disposal and impairments of assets or facilities
- Changes in operation, performance and construction of plant facilities or other assets
- Changes in present or prospective generation
- The availability of economic expansion or development opportunities
- Population growth rates and demographic patterns
- Market demand for, and/or available supplies of, energy- and construction-related products and services
- The cyclical nature of large construction projects at certain operations
- Changes in tax rates or policies
- Unanticipated project delays or changes in project costs, including related energy costs
- Unanticipated changes in operating expenses or capital expenditures
- Labor negotiations or disputes
- Inability of the various contract counterparties to meet their contractual obligations
- Changes in accounting principles and/or the application of such principles to the Company
- Changes in technology
- Changes in legal or regulatory proceedings
- The ability to effectively integrate the operations and the internal controls of acquired companies
- The ability to attract and retain skilled labor and key personnel
- Increases in employee and retiree benefit costs and funding requirements

ITEM 1B. UNRESOLVED COMMENTS

The Company has no unresolved comments with the SEC.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings of the Company, see Item 8 – Note 20.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the New York Stock Exchange under the symbol "MDU." The price range of the Company's common stock as reported by The Wall Street Journal composite tape during 2008 and 2007 and dividends declared thereon were as follows:

	Common Stock Price (High)	Common Stock Price (Low)	Common Stock Dividends Per Share
2008			
First quarter	$ 27.83	$ 23.08	$ .1450
Second quarter	35.25	24.70	.1450
Third quarter	35.34	26.03	.1550
Fourth quarter	29.50	15.50	.1550
			$ .6000
2007			
First quarter	$ 29.00	$ 24.39	$ .1350
Second quarter	31.79	27.40	.1350
Third quarter	30.40	24.64	.1450
Fourth quarter	28.69	25.89	.1450
			$ .5600

As of December 31, 2008, the Company's common stock was held by approximately 15,600 stockholders of record.

ITEM 6. SELECTED FINANCIAL DATA

	2008*	2007	2006	2005	2004	2003
Selected Financial Data						
Operating revenues (000's):						
Electric	$ 208,326	$ 193,367	$ 187,301	$ 181,238	$ 178,803	$ 178,562
Natural gas distribution	1,036,109	532,997	351,988	384,199	316,120	274,608
Construction services	1,257,319	1,103,215	987,582	687,125	426,821	434,177
Pipeline and energy services	532,153	447,063	443,720	477,311	354,164	250,897
Natural gas and oil production	712,279	514,854	483,952	439,367	342,840	264,358
Construction materials and contracting	1,640,683	1,761,473	1,877,021	1,604,610	1,322,161	1,104,408
Other	10,501	10,061	8,117	6,038	4,423	2,728
Intersegment eliminations	(394,092)	(315,134)	(335,142)	(375,965)	(272,199)	(191,105)
	$ 5,003,278	$ 4,247,896	$ 4,004,539	$ 3,403,923	$ 2,673,133	$ 2,318,633
Operating income (000's):						
Electric	$ 35,415	$ 31,652	$ 27,716	$ 29,038	$ 26,776	$ 35,761
Natural gas distribution	76,887	32,903	8,744	7,404	1,820	6,502
Construction services	81,485	75,511	50,651	28,171	(5,757)	12,885
Pipeline and energy services	49,560	58,026	57,133	43,507	29,570	37,064
Natural gas and oil production	202,954	227,728	231,802	230,383	178,897	118,347
Construction materials and contracting	62,849	138,635	156,104	105,318	86,030	91,579
Other	2,887	(7,335)	(9,075)	(5,298)	(3,954)	(1,228)
	$ 512,037	$ 557,120	$ 523,075	$ 438,523	$ 313,382	$ 300,910
Earnings on common stock (000's):						
Electric	$ 18,755	$ 17,700	$ 14,401	$ 13,940	$ 12,790	$ 16,950
Natural gas distribution	34,774	14,044	5,680	3,515	2,182	3,869
Construction services	49,782	43,843	27,851	14,558	(5,650)	6,170
Pipeline and energy services	26,367	31,408	32,126	22,867	13,806	19,852
Natural gas and oil production	122,326	142,485	145,657	141,625	110,779	70,767
Construction materials and contracting	30,172	77,001	85,702	55,040	50,707	54,261
Other	10,812	(4,380)	(4,324)	13,061	15,967	597
Earnings on common stock before						