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BIG STONE II PROJECT ENDS

A venture that began in 2004 came to an abrupt end on Nov. 2, 2009, when participating utilities announced that it would not build Big Stone II, a 500-to-600 megawatt coal-fired power plant to be located near Milbank, S.D., and its associated transmission.

The project required additional participants to move forward after Otter Tail Power Company withdrew from the project in September; however, none committed. The remaining Big Stone II Project participants were Montana-Dakota Utilities Co., Central Missouri Municipal Power Agency, Heartland Consumers Power District and Missouri River Energy Services.

Big Stone II was a fully permitted project and had been determined to be the least-cost, environmentally sound baseload power plant for the project

participants. The project’s high-voltage transmission facilities were to be sized to also serve the region’s burgeoning wind energy development.

Montana-Dakota President and Chief Executive Officer Dave Goodin said that, while it’s disappointing that Big Stone II will not be built, the utility has an adequate electric supply for the near-term.

“We have a purchased power agreement through 2015 that was to bridge us to Big Stone II going online; we still have that agreement in place,” Goodin said. “We will now look at other supply options that are reliable and cost-beneficial for our customers. We have plans to expand our wind production by 30 megawatts in 2010 and will review other generation options.”

BIG STONE II FALLOUT

Cancellation of the Big Stone II power plant was extensively covered by regional media outlets. However, Governor Mike Rounds of South Dakota put a new spin on the topic, which was printed in the 11/19/09 *Bismarck Tribune*.

Governor Rounds believes wind energy development in South Dakota may very well be sidetracked by the cancellation of the Big Stone II power plant. In a previous news story, the Governor was quoted that the “state was really counting on that project to get SD wind

to population centers.” The Governor said the transmission lines that were to be built as part of the project would have allowed larger amounts of wind energy to larger markets outside of South Dakota’s borders.

Dusty Johnson, chairman of the South Dakota PUC agreed with the Governor’s statement, according to the *Bismarck Tribune* article. Commissioner Johnson said some projects already in the planning stages could suffer.

“Science is the great antidote to the poison of enthusiasm and superstition.”

– Adam Smith - *The Wealth of Nations* - 1776

GREETINGS FROM BISMARCK...

News out of Washington is changing daily and is very confusing at best. Healthcare, carbon dioxide control under several different names, banking and investment regulation overhaul, military action, overall federal budget, squishy economy, taxes on dividends, stimulus money. One can certainly get the idea with this many huge issues all calling for action, and with 2010 being an election year, there are some things that either are not going to be handled, or are going to be handled poorly.



Bob Graveline
President

Changing daily are the issues that are on the front burner. As this newsletter is going to print, healthcare is number one. Carbon dioxide control ideas are off the agenda for the remainder of this year, and may not even be addressed next year. Banking and investment regulation re-writes seem to be picking up some steam and could jump to the front after healthcare issues are resolved.

And what about dividend taxation? This issue is so very important to owners of utility company shares, and could fade off into the sunset because of the other issues that have developed since Mr. Obama took office. But we do not plan to give up the fight. If the year 2010 comes to an end without addressing the Bush tax cuts, Americans will feel the bite of the largest tax increase ever – and all Congress has to do is sit on the issue and do nothing.

We need to be engaged on this issue when the time is right!

Reports of a massive blackout in Brazil should serve as a wake-up-call to legislators and regulators as well. As you will see on a different page in this issue of *Shareholder News*, the much-needed Big Stone II power plant, that had been championed by Otter Tail Power Company and Montana-Dakota Utility Company along with other partners, has been scrapped.

The Big Stone II project included major transmission system upgrades that will now not be built. Furthermore, just by adding the Big Stone II plant, without making any major changes in North Dakota, our state's ability to export electricity would have been increased by some 400 to 600 megawatts. Many people believe wind energy is a major part of solving American's electricity needs but while that may well

be true, electricity still needs to be moved by wire. You can't have one without the other.

What America needs now is leadership in legislative and regulatory arenas. Decisions that may not be politically popular need to be made to assure utility companies will be able to deliver energy where and when it is needed. But despite experiencing blackouts that can serve as proper warnings of other bigger problems, where are the solutions? Nuclear powered plants are out. Coal fired power plants are falling by the wayside. Major opportunities for large hydro facilities have already been built or are permanently sidetracked. Gas fired power plants, while emitting less carbon dioxide than coal plants, place upward pressure on gas prices that impact homeowners who heat their homes with gas. Renewable energy and conservation ideas, while helpful, simply cannot meet the base load needs of a strong national economy.

Let us just hope elected leaders come together to work with utility industry leaders to establish an electricity roadmap for American's future, and do so before the USA suffers another major blackout. Let's hope Brazil's recent blackout experience serves as a warning sign that gets the energy action ball moving again.

Global warming seems to be losing some support among voters according to the London *Times*. Based on a recently conducted study, only 41 percent of Britishers accept as an established scientific fact, that global warming is taking place and is largely man-made. Thirty-two percent believe the link is yet to be proved, 8 percent say it is environmentalist propaganda to blame man, and 15 percent say the world is not warming.

Part and parcel of the carbon dioxide control debate is that the "green economy" will provide all the jobs necessary to keep the economy chugging along. But just what kinds of jobs are expected? For example, presuming that today it takes 1,000 jobs to create one gigawatt of electricity of coal-fired electricity. Presume also for a moment, that 5,000 jobs would be created to produce the same amount of electricity, as the coal plant would do with 1,000 workers.

Sure, it is possible to create as many green jobs as you want, but the comparative productivity of those jobs is what really matters. Where will electricity rates settle under a green energy jobs scenario?

All for now,

A handwritten signature in black ink that reads "Bob".

FERC ACCEPTS MISO COST ALLOCATION FILING

On October 23, 2009, the Federal Energy Regulatory Commission (FERC) announced that Commissioners had unanimously accepted the Midwest Independent Transmission System Operator's (MISO's) filing to temporarily change the cost allocation method associated with generation interconnections, including wind farms.

On July 9 MISO had filed to replace its current cost allocation method after Otter Tail Power Company, Montana-Dakota Utilities Co., and other stakeholders had expressed concern that, under the current rules, their customers pay a disproportionate amount of the cost of transmission upgrades required by generators who want to build in the wind-rich Dakota region and access the MISO market. MISO's filing addressed this unintended consequence by shifting the costs to the generators, who then can pass the costs to the customers who benefit from the projects.

"I believe that FERC made a fair decision," said Otter Tail Power Company President and CEO Chuck MacFarlane. "We extend our thanks to the North Dakota Congressional delegation, North Dakota Public Service Commission, Minnesota Public Utilities Commission, and the South Dakota Public Utilities Commission for their support and MISO's stakeholder process for working through this issue."

According to the original MISO rule, wind power developers who requested to connect new projects to electric service grids needed to pay only half the cost of any transmission upgrades required by the new connection. Should a project have required a new electric substation or power line, for example, the utility and the wind power developer would split

the cost to interconnect power that the local utility's customers never would have used.

"MISO has almost 9,500 MW of pending interconnection requests for Otter Tail Power Company, which is about 11 times more than all of our existing generation – wind, coal, natural gas, and oil," MacFarlane said. "We estimated that could have driven up our customers' monthly bills by 18 percent to 30 percent annually if only about 20 percent of these projects were constructed under the original MISO cost allocation method."

"Because many of the recent wind energy facilities that have been built or will be built in North Dakota are for export to other states, we believe a more equitable way to distribute costs is imperative," he said. "That will be the focus of a longer-term solution to be brought to FERC next July."

MacFarlane said that robust development of renewable energy is necessary if the nation is to meet its future energy needs. Otter Tail Power Company supports wind energy, he said, pointing out that the U.S. Department of Energy's 2008 Wind Technologies Market Report ranked Otter Tail Power Company third in the nation in amount of wind energy as a percentage of retail sales. "But we cannot ask our customers to subsidize other companies and their customers," he said. "I believe that support for wind development in North Dakota would disappear if North Dakota electric rates increased significantly for wind farms built to serve customers in cities like Milwaukee and Chicago – rather than to benefit cities like Jamestown, Devils Lake, and Wahpeton."

CONGRATULATIONS!

MDU Resources Group climbed two places to fourteenth on *Public Utilities Fortnightly* list of the 40 Best Energy Companies for 2009. Started five years ago, the *Fortnightly* listing "has provided a snapshot of the industry's financial status and progress – specifically focusing on long-term shareholder value".

Fortnightly researches financial data seeking trends and correlations within the industry. Many factors influence the fortunes of utility companies including business strategy, operational efficiency, and regulatory relationships.

MDU Resources Group was ranked 17th in 2005, and 16th for 2006, 2007, and 2008 before landing at the 14th slot this year.

Congratulations are in order for David L. Goodin, President and CEO of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., and Cascade Natural Gas Corporation. He was awarded the 2009 Leader in Entrepreneurship Award at the Harold Schafer Leadership Center on October 23. Goodin assumed his positions with the companies on June 6, 2008.

NUCLEAR ENERGY

What appears as a positive possible outcome of the global warming/cooling debate is the resurgence of discussions about nuclear generated electricity. Manmade carbon dioxide generally takes the blame for global warming by those who subscribe to the theory, but they also usually understand that low cost, readily available energy is necessary for our nation's economic well-being. Nuclear energy generation does not emit carbon dioxide!

Concerned citizens will also agree it is a good practice to control and limit pollution of our environment from all different sources. With carbon dioxide, that is not a simple task. We exhale carbon dioxide each time we breathe. Trees and plants take in carbon dioxide and create oxygen. Clearly, carbon dioxide is necessary to support life, but carbon dioxide is also emitted from the combustion of hydrocarbon fuels like coal, oil, natural gas and gasoline.

As of this day, there are no commercially operating methods to capture carbon dioxide from a combustion stream. Much research has been completed, and much more will be required to arrive at a commercially viable solution.

Because of the myriad of problems associated with carbon dioxide capture, energy companies are beginning to once again explore the possibility of generating electricity using nuclear reactors. But they are very, very costly. Preliminary estimate to permit and construct a 1,000 megawatt electric generating

station run as high as \$9 billion. To fully grasp the risk of building such a plant, the total cost estimate for one plant would equal roughly 65% of the total capitalized value of the three shareholder owned utility companies operating in North Dakota. A coal-fired plant of similar size could be built for about \$2.25 billion.

Couple the cost for building a nuclear powered generating station with the lack of political will in Washington, D.C. to address the proper reclamation and storage of spent nuclear fuels, and it is easy to see nuclear energy has huge obstacles to overcome before it is the preferred generating choice to meet America's energy needs.

But while the United States is dithering about nuclear plant licensing, spent fuel reprocessing, and permanent waste storage, other nations are making solid strides forward to meet nuclear energy challenges. In Japan, for example, Toshiba Corp., Hitachi, Ltd., and Mitsubishi Heavy Industries, Ltd. are developing small nuclear reactors that range in size from 10,000 kilowatts to 600,000 kilowatts.

Demand for nuclear power stations has been growing around the world, according to several different news sources. A total of 151 were under construction or were slated for construction in 27 countries as of the end of 2008.

How many were under construction in the USA? Zero.

OPERATING WIND ENERGY NOT SIMPLE

It is no big secret that wind velocity varies greatly from day-to-day, and on some days it even varies greatly hour to hour. Recently, in the space of one hour, wind energy in the Pacific Northwest gained 1,000 megawatts, and less than one-hour later that same 1,000 megawatts of wind energy was lost because wind speed dropped.

Keeping the grid mostly equal between energy demand and energy supply, in these circumstances, is no mean feat! According to a recent edition of the *Seattle Post-Intelligencer*, controllers of the grid in that part of the world quickly reduced the flow of water through the turbines on the Columbia River to pull generation off-line to make room for the wind.

And then, a short time later, they had to increase flows to generate more electricity when the wind subsided.

Similar challenges to those experienced in the Northwest happen in this part of the world also, but while the challenges in the Northwest are centered on reducing impacts on fish, the challenges here are centered on cutting back and ramping up base load power plants that are designed to operate at full capacity. It is suspected that North Dakota coal fired base load power plants are going to experience additional repair and maintenance expenses because of frequent adjustments of plant output to allow for wind energy to be placed on the system.

THIRD QUARTER RESULTS

MDU Resources Group, Inc. (NYSE:MDU) recently reported third quarter consolidated earnings of \$92.4 million, or 50 cents per common share. During 2008 earnings were \$118.2 million, or 64 cents per share during the same period.

“We had a very good third quarter, particularly when you consider the fact that natural gas and oil prices were substantially lower than a year ago,” said Terry D. Hildestad, president and CEO of the company.

Consolidated earnings for the nine months ended September 30, excluding a first quarter noncash charge related to low natural gas and oil prices, were \$188 million or \$1.02 per share, compared to \$304.4 million or \$1.66 per share for the first nine months of 2008. Results for the nine months ended September 30, 2009 including the noncash charge were a loss of \$196.4 million or \$1.07 per share.

“Based on our first three quarters, we are increasing our 2009 earnings guidance,” Hildestad said. “Our businesses are providing us with record levels of operating cash flow and a healthy balance sheet. Like most businesses, we see the effects of a weak economy. However, with our diversified business strategy and aggressive cost management, we are well positioned for growth as the economy recovers.”

(For more information, please contact shareholder services or go to www.mdu.com.)

Xcel Energy Inc. (NYSE:XEL) recently reported third quarter 2009 earnings of \$221 million, or \$0.48 per diluted share, compared with \$223 million, or \$0.51 per diluted share for the same period last year.

The decrease in third quarter 2009 earnings was primarily due to lower sales resulting from cooler temperatures in the third quarter of 2009, higher operating and maintenance expense and an increase in the effective tax rate. Partially offsetting these factors was an increase in electric margins as a result of several constructive rate case outcomes including those in Minnesota, Colorado, Texas, New Mexico and Wisconsin.

Acknowledging these factors, Richard C. Kelly, chairman and CEO responded, “Throughout the year, we have acted to offset the impact of lower sales, due to both unfavorable temperatures and economic conditions, through various cost management

initiatives. Based on current projections, we expect 2009 earnings to be near the mid-point of our guidance range of \$1.45 to \$1.55 per share,” he concluded.

(For more information, please contact shareholder services or go to www.xcelenergy.com.)

Otter Tail Corporation (Nasdaq:OTTR) recently announced consolidated net income improved 10% as net income in their electric and food ingredient processing segments increased \$3 million and \$2.8 million, respectively compared with the third quarter of last year. Consolidated revenues decreased 27.1 % compared with the third quarter of 2008, and diluted earnings per share totaled \$0.29 compared with \$0.31 during the third quarter last year. Operating cash flow increased by \$100.3 million for the nine months ended September 30, this year when compared to the same time period last year.

“Our results for the third quarter of 2009 reflect both the continuing challenges of a weak economy as well as the positive impact of initiatives in place across our entire organization, specifically, reducing expenses, improving efficiencies and maximizing cash flow,” said John Erickson, president and CEO of Otter Tail Corporation. “As a result of these initiatives, we realized meaningful improvements in both net income and operating cash flow during the quarter,” he concluded.

(For more information please contact shareholder services or go to www.ottertail.com.)

CHANGES AT XCEL ENERGY

Benjamin G.S. Fowke III was recently named president and COO of Xcel Energy. Richard C. Kelly, who previously held the title of president, remains the company chairman and CEO.

David M. Sparby, president and CEO for NSP Company, Minnesota will replace Fowke as Chief Financial Officer. Judy M. Proferl, formerly regional VP of NSP-Minnesota replaced Sparby and Laura McCarten replaced Proferl as Regional VP NSP-Minnesota with jurisdiction over North Dakota.

WINTER GAS SUPPLY

Gas availability for the winter months is solid, and prices appear to be lower than during the last several years signaling good news for homeowners and not so good news for gas suppliers. As of November 12, spot prices at Henry Hub, one of the nation's premier price gauges, had fallen below \$3.75 per million Btu (deckatherm). Additional price reporting seems to bear out predictions of lower prices for the upcoming winter.

During early November, both spot and futures prices were well below \$5.00 per dekatherm, for the entire winter heating season. Warmer late season temperatures coupled with new gas deliveries have pushed pre-winter gas storage levels to 3.8 trillion cubic feet, well in excess of the rolling five year average for this time of year.

In addition to lower demand for heating fuels, the sluggish economy has reduced the need for manufacturing fuels in heavily industrialized parts of the nation allowing more gas to move into storage than in past years. With more gas being discovered and demand for gas lower, imports of gas from Canada have fallen from the range of 7 – 8 Billion cubic feet per day to 5 – 7 Bcf per day.

However, the big contributor to the increase in storage as well as in gas reserves is the very active pace of horizontal drilling in non-traditional shale reservoirs across the country. Horizontal drilling for gas now employs 63 percent of all drilling rigs exploring for gas today. During the decade of the 1990's, gas wells drilled and completed averaged about 10,000 per year, however since 2000, some 23,000 gas wells have been drilled and completed each year.

All this activity has caused the Energy Information Agency of the U.S. Department of Energy to increase their estimate of the nation's proved gas reserves to 244.7 Trillion cubic feet, the largest ever reported since the EIA became the official keepers of reserve statistics in 1977.

According to information presented to the ND Public Service Commission by Xcel Energy representatives during a November 12 meeting, Xcel's North Dakota gas consumers could expect their gas bills to be some 27 % lower this year than last on a weather normalized basis. Anytime gas is discussed, it is important to remember that gas utility companies do not make a profit on the actual gas delivered, as gas prices are a direct pass-through from supplier to consumers.

Rather, gas utility companies earn their profits based on their ability to deliver gas from suppliers to ultimate consumers, such as home and business owners.

Global warming, or global cooling – no matter! North Dakotans should be snug as a bug in a rug this winter based on these estimates of gas availability.

FALL MEMBER MEETINGS

Utility Shareholders of North Dakota members gathered around the state between October 26 and November 5 for semi-annual membership meetings. More than 567 members signed up to attend one of the eight meetings.

Jack Nielsen, Director of Investor Relations for Xcel Energy was the featured speaker in Fargo and Grand Forks. Rod Scheel, VP Asset Management for Otter Tail Power Co. delivered the featured message in both Wahpeton and Jamestown.

Moving to the western part of the state, Rick Matteson, Director of Communications and Public Relations for MDU Resources Group, Inc., was the featured speaker in Bismarck, Dickinson, and Williston. Cindy Hoffman, Senior Investor Relations Analyst for Xcel Energy was the final featured speaker at the Minot meeting.

As in the past, investment information was presented by the final speaker of the evening. Brian Krank, CFP, VP Wealth Management, Morgan Stanley Smith Barney, in the Fargo office, was the speaker in Fargo, Wahpeton, and Grand Forks. Wayne Papke, Financial Advisor in the Bismarck office of Morgan Stanley Smith Barney led the financial discussions in Jamestown, Bismarck, Dickinson, Williston, and Minot.

Meetings for all USND members will again be scheduled for the spring of 2010.

THOUGHTS FOR THE DAY

- It really doesn't matter who pays your salary, you're working for yourself.
- There's one good thing about a dentist's appointment – you don't have to get weighed before he starts.
- Judges are certainly getting tougher on criminals – they are handing out much stiffer suspended sentences.

YUCCA MOUNTAIN

According to recent national news reports, the Obama administration intends to stop the pursuit of a license for the long-planned Yucca Mountain nuclear waste repository near Las Vegas. Apparently, money for licensing activities has been eliminated from the proposed budget, so all “license defense activities” will be terminated in December 2009.

It appears Senator Harry Reid’s (D-Nevada) efforts have paid off, as he has been the most vocal and persistent opponent to the Yucca Mountain facility in recent years.

Several decades ago, when the federal government was encouraging utility companies to move toward nuclear power plants, the government promised to have a permanent spent fuel processing plant/waste storage facility in place by 1998. Each and every person who receives electricity from a nuclear power plant has been paying for this facility ever since the plants first went on line each and every time they pay their electricity bill – and yes, that includes North Dakota consumers served by Xcel Energy.

During 2007, Xcel Energy won a \$116 million lawsuit against the government for failure of the government to live up to its promises. Essentially, the award was made to Xcel Energy to help cover additional costs for on-site storage of spent fuel at their nuclear powered generating stations because the federal site is not available as promised.

Now at the end of 2009 the government plans to stop funding efforts to gain a license to open

Yucca Mountain. Most interesting in the national news stories is the explanation that the Obama administration is not going to “withdraw its Yucca Mountain license application” because to do so would put the government in violation of the Nuclear Waste Policy Act and its amendments.

Despite not withdrawing the license application it looks like the project is dead. According to the news stories, both President Obama and Secretary of Energy Chu have “made it clear that nuclear waste storage at Yucca Mountain is not an option, period.”

GRASSLAND EXPANSION

Williston Basin Interstate Pipeline, a wholly owned subsidiary of MDU Resources Group, recently completed the expansion of its Grasslands Pipeline. By adding additional compressor capacity the pipeline is now capable of delivering gas at its full capacity of 213,000 dekatherm equivalent per day.

The Grasslands Pipeline originates in Wyoming and delivers gas into the Northern Border Pipeline near Manning, ND. Serving primarily as an export pipeline from the Rocky Mountain region to the upper Midwest and Eastern markets, full operation of the pipeline helps provide both price and supply support for regional natural gas consumers.

WASTE HEAT TO ELECTRICITY

Montana-Dakota Utilities Co. recently completed a heat recovery to electricity project near Glen Ullin, ND in conjunction with Ormat Technologies and Northern Border Pipeline. The project was synchronized to the grid and began producing electricity on July 7.

By capturing waste heat produced by the gas compressors necessary for the normal operation of the pipeline, and diverting that waste heat to a turbine attached to a generator electricity is generated and placed on the grid. Operating with a designed capacity of 7.5 megawatts, Ormat Technologies and Montana-

Dakota have executed a five-year operating and maintenance contract.

The beauty of this project is that 7.5 megawatts of electricity will be added into Montana-Dakota’s electricity delivery system without any additional fuel being consumed. This facility will produce enough renewable energy to supply about 5,000 residential customers.

WIND POWER SOMETIMES GIVEN AWAY

According to an article in the September 7, 2009 *Forbes* magazine, certain conditions have resulted in wind operators paying grid operators to put wind energy on the grid. Wind often blows during late night hours when there is no demand for electricity, but the wind producers still want to collect the \$0.021 per kWh federal tax credit for their power even if they received negative revenue for the power.

Wind developers in the Texas grid put 8 gigawatts (GW) of wind power on that system even though it could accommodate no more than 4.5 GW, and that overcapacity is expected to last until 2013. Developers plan to add 35 GW of wind power in the upper Midwest by 2015 that could also harm regional utilities operating nuclear and coal based power plants.

“There is no regard for the physical requirements of the system,” according to Michael Freeman, a grid manager with Exelon Corporation.

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