
A Report on MDU Resources Group, Inc.'s Goals for Greenhouse Gas Emissions Reductions

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ABOUT THIS REPORT

MDU Resources Group, Inc. operates a diverse platform of natural resource-based businesses in 44 states. We have more than 8,000 employees producing products and services that are essential to America. Our businesses include regulated natural gas and electric utilities, regulated natural gas pipelines and energy services, natural gas and oil production, construction materials and contracting, and construction services. We recognize that the size and type of our operations can have an impact on our environment, including through emissions of what have been identified by the government as greenhouse gases (GHG).

The largest greenhouse gas emitter among our businesses is our electric utility, with its associated electricity production. Montana-Dakota Utilities Co. (Montana-Dakota) provides electric service to more than 122,000 customers; the total capacity of the electric generating facilities that it owns and operates, or co-owns, is 564 megawatts (MW). To demonstrate MDU Resources' ongoing efforts to minimize our environmental impact the corporation, through its electric utility, has committed to a 10 percent reduction in GHG emissions intensity by 2012 compared to 2003 levels from these generating facilities.

Our electric utility will achieve this goal through a number of projects:

- In 2005 and 2006, turbine efficiency improvement projects were completed at the Big Stone Plant and R.M. Heskett Station Unit 2.
- In 2008, Montana-Dakota built the 19.5-MW Diamond Willow wind project in Montana.
- In 2009, Montana-Dakota completed a 5.7-MW waste heat recovery electric generating project near Glen Ullin, N.D.
- In 2010, Coyote Station underwent a turbine efficiency improvement project; the Diamond Willow wind project was expanded by 10.5 MW, bringing total capacity to 30 MW; the 19.5-MW Cedar Hills Wind Farm was constructed in North Dakota; and Montana-Dakota became co-owner of Wygen III, a new, more efficient coal-fired electric generating facility in Wyoming.

In addition to our goal to reduce the greenhouse gas emissions intensity from our electric generating facilities, MDU Resources' operating companies have a number of initiatives completed, under way or forthcoming that will further reduce our GHG impact.

LEED CERTIFICATIONS

Leadership in Energy and Environmental Design (LEED) is an internationally recognized green building certification system, providing third-party verification that a building was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, carbon dioxide (CO₂) emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

Our utility division's new customer service center, completed in 2010 in Meridian, Idaho, is LEED-certified. Cascade Natural Gas Corporation's corporate office, completed in 2010, also is LEED-certified.

Our construction services businesses under MDU Construction Services Group provide design-assist and construction expertise to help customers achieve LEED certification of their facilities.

Knife River Corporation supports the efforts of employees seeking LEED certification and currently employs one LEED-certified engineer in its Western Oregon Division; a second employee in Alaska awaits final certification testing in December 2010. Further, the company manufactures select products that qualify as LEED-certified construction materials.

FLEET IMPROVEMENTS

Our construction materials and construction services divisions have committed to reducing emissions through scheduled vehicle replacement. Newer fleet vehicles with updated engine technology can achieve increased fuel efficiency, improved safety performance and reduced tailpipe emissions (including GHG emissions). Since 2005, MDU Construction Services Group has reduced by 50 percent the number of diesel engines in the Tier 1 and Tier 2 emission categories in our long-term leased off-road construction equipment. MDU Construction Services Group is committed to reducing those numbers by an additional 15 percent by 2015.

To date, Knife River Corporation has similarly reduced the number of Tier 1 and Tier 2 diesel engines the company operates by 60 percent and intends to continue these categorical reductions by 15 percent each year through 2013.

In 2010 Knife River had 555 leased vehicles in its fleet. Knife River is committed to updating 30 percent of these vehicles in 2011, an additional 10 percent in 2012 and an additional 10 percent in 2013.

Our utility division has begun introducing hybrid vehicles in its fleet, replacing some traditional gasoline-fueled engines.

MDU Resources' business units have fuel efficiency and engine idling programs that encourage employees to turn off vehicles when not in use, thereby reducing idling time and related emissions, and that teach employees how to improve fuel efficiency when driving.

FOCUSED INITIATIVES

In 2008, Montana-Dakota entered into an agreement with the city of Billings, Mont., to extract natural gas from the Billings Regional Landfill. The agreement is for 40 years. Operational in December 2010, Montana-Dakota has drilled 62 wells and installed gathering pipeline that will collect the gas. A processing facility makes the gas ready for customers.

The landfill wells are expected to produce about 2.4 million cubic feet of gas a day, with about 1.2 million cubic feet per day distributed to customers. That's expected to be enough gas to serve about 5,000 homes per year.

The agreement between the city and the utility helps Billings reduce fugitive methane emissions. Since Billings is not currently required to capture methane emissions, this voluntary project allows for carbon offsets or credits to be generated. Montana-Dakota and the city of Billings will share the receipt of any carbon credits generated as a result of the project.

Knife River Corporation continues to establish itself as an industry leader in producing and placing warm-mix asphalt. Warm-mix technology reduces emissions from asphalt production because the asphalt is produced at cooler temperatures than traditional hot-mix asphalt. Reducing the amount of fuel that is burned in the production process also reduces emissions. During 2009, Knife River produced approximately 24,000 tons of warm-mix asphalt.

MDU Resources' utility companies offer their customers energy efficiency incentive programs that reduce GHG emissions. Various energy conservation incentive programs are in place across many states and include energy-efficient lighting, motors, variable-speed drives, air conditioners, refrigerators, freezers, natural gas furnaces, boilers, water heaters, and programmable thermostats.

Montana-Dakota provides conservation programs to its North Dakota customers through an American Recovery and Reinvestment Act grant. Cascade Natural Gas Corporation is a partner of the Low Income Weatherization Assistance Program, the Energy Trust of Oregon, Sustainable Connections, and other critical energy efficiency initiatives. Intermountain Gas Company has been an Energy Star Utility Partner since 2007, promoting energy efficiency in new and existing residential markets through the use of high-efficiency appliances and energy-efficient building practices and standards.

PROGRAM PARTNERSHIPS

Montana-Dakota is a participant in the Environmental Protection Agency's Sulfur Hexafluoride Emission Reduction Partnership for Electric Power Systems. Montana-Dakota has demonstrated an annual reduction in sulfur hexafluoride emissions since establishing a baseline in 2004.

Montana-Dakota also has been a member of the Plains CO₂ Reduction Partnership since its inception in 2003. The partnership pools resources to examine potential uses of carbon dioxide within the company's service territory, such as in enhanced oil recovery efforts in depleted oil fields and in enhanced coalbed natural gas recovery. The partnership also is researching the viability of sequestering carbon dioxide in deep, depleted oil fields and saline formations, and terrestrially in grasslands. Find out more about the partnership and its achievements at www.undeerc.org/pcor.

Williston Basin Interstate Pipeline Company, an MDU Resources subsidiary, joined the U.S. Environmental Protection Agency's Natural Gas STAR Program in 2000. Through the Natural Gas STAR Program, Williston Basin began to quantify its emission reduction efforts. Six transmission compressor stations were included in the program, from which carbon dioxide emissions were reduced by 163,166 tons through 2007.

In addition to using natural gas-powered compressor engines and natural gas turbines, WBI Holdings companies are continually evaluating operational practices and procedures and implementing best management practices to reduce natural gas losses, which reduces emissions. These best management practices include directed inspection and maintenance at compressor stations, pipeline leak surveys and prompt leak repair, and specific operational approaches such as testing compressor station emergency shutdown systems in "no-blow" mode.

WBI Holdings companies' efforts to manage operating fuel consumption are showing results. The companies' natural gas fuel usage remains proportionally consistent with changes in natural gas throughput on the companies' facility and pipeline systems.

For 2009, WBI Holdings quantified carbon dioxide emissions for stationary fuel combustion sources at all owned and operated facilities. Collectively, these facilities emitted approximately 300,000 metric tons of carbon dioxide equivalent in 2009. The emissions intensity from these sources was approximately 0.0014 metric tons of carbon dioxide equivalent per 1,000 cubic feet of natural gas throughput.

During the first quarter of 2011, the 2010 emissions intensity will be calculated for WBI Holdings companies' stationary fuel combustion sources. These continuing efforts to focus on developing GHG emission inventories and resulting GHG intensity numbers will help identify additional opportunities for emission reductions, assist in developing a GHG emission reduction goal for WBI Holdings, and contribute to the corporation's goal to reduce its GHG emissions intensity.

In July 2009, Knife River Corporation partnered with the EPA Energy Star program. Energy Star participants voluntarily work with the EPA to improve their commitment to protecting the environment. Participants also benchmark their energy and emissions performance with industry peers, while comparing and sharing improvement strategies and best-management practices.

Knife River's Energy Star efforts have involved measuring and tracking baseline energy use and emission levels, evaluating alternatives for improving energy efficiency and reducing GHG emissions, and implementing and working to achieve identified program goals.

Knife River also recently developed a Cost Accountability Program (CAP) to further its business and environmental goals. CAP is a long-term approach to cost savings and reducing Knife River's carbon footprint. The program aims to help Knife River stay focused on improving business processes, containing costs and reducing energy consumption and carbon-based emissions.

CONCLUSION

MDU Resources and its businesses have a responsibility to use natural resources efficiently and minimize the environmental impacts of our activities. We recognize that the size and type of our operations can have an impact on our environment, including through GHG emissions. We are voluntarily exploring practical solutions for reducing GHG emissions, and we will continue to report on our progress, including confirmation of achieving our reduction goals, in our corporation's annual sustainability reports.