MDU RESOURCES GROUP INC
Form DEF 14A
March 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

MDU Resources Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Your **VOTE** is important

MDU Resources Group, Inc. Proxy Statement

2008 Notice of Annual Meeting
and Proxy Statement

Table of Contents

1200 West Century Avenue

Mailing Address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

Terry D. Hildestad
President and
Chief Executive Officer

March 7, 2008

To Our Stockholders:

Please join us for the 2008 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 22, 2008, at 11:00 a.m., Central Daylight Savings Time, at 909 Airport Road, Bismarck, North Dakota.

The formal matters are described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We also will have a brief report on current matters of interest. Lunch will be served following the meeting.

We were pleased with the stockholder response for the 2007 Annual Meeting at which 90.31 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2008 meeting.

You may vote your shares by telephone, by the Internet or by returning the enclosed letter proxy. Representation of your shares at the meeting is very important. We urge you to submit your proxy promptly.

I hope you will find it possible to attend the meeting.

Sincerely yours,

Terry D. Hildestad

Table of Contents

MDU RESOURCES GROUP, INC.

1200 West Century Avenue
Mailing Address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 22, 2008

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 22, 2008

The 2008 Notice of Annual Meeting and Proxy Statement and 2007 Annual Report to Stockholders are available at www.mdu.com/proxymaterials.

March 7, 2008

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held at 909 Airport Road, Bismarck, North Dakota, on Tuesday, April 22, 2008, at 11:00 a.m., Central Daylight Savings Time, for the following purposes:

(1) To elect three directors to one year terms;

(2) To ratify the appointment of Deloitte & Touche LLP as our independent auditors for 2008; and

(3) To transact any other business that may properly come before the meeting or any adjournment or adjournments thereof.

The board of directors has set the close of business on February 26, 2008 as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their letter proxy that can be completed and returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of February 26, 2008 to the annual meeting and (3) present their admission ticket(s) and photo identification, such as a driver s license. Directions to the meeting will be included with your admission ticket. We look forward to seeing you.

By order of the Board of Directors,

Paul K. Sandness
Secretary

TABLE OF CONTENTS

Table of Contents

PROXY STATEMENT

The board of directors of MDU Resources Group, Inc. is furnishing this proxy statement beginning March 7, 2008 to solicit your proxy for use at our annual meeting of stockholders on April 22, 2008.

We will pay the cost of soliciting your proxy and reimburse brokers and others for forwarding proxy material to you. Georgeson Inc. additionally will solicit proxies for approximately $7,500 plus out-of-pocket expenses.

The Securities and Exchange Commission has adopted new e-proxy rules that allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders. For 2008, we have opted to follow the Securities and Exchange Commission s full set delivery option, which means that while we are posting our proxy materials online, we are also mailing a full set of our proxy materials to our stockholders. We believe that mailing a full set of proxy materials will help ensure that a majority of outstanding shares of our common stock are present in person or represented by proxy at our meeting. We also hope to help maximize stockholder participation. Therefore, even if you previously consented to receiving your proxy materials electronically, you will receive a full set of proxy materials in the mail for this year s annual meeting. However, we will continue to evaluate the option of providing only a Notice of Internet Availability of Proxy Materials to some or all of our stockholders in the future.

VOTING INFORMATION

Who may vote? You may vote if you owned shares of our common stock at the close of business on February 26, 2008. You may vote each share that you owned on that date on each matter presented at the meeting. As of February 26, 2008, we had 182,771,430 shares outstanding entitled to one vote per share.

What am I voting on? You are voting on:

- the election of three directors for one year terms
- the ratification of Deloitte & Touche LLP as our independent auditors for 2008 and
- any other business a stockholder properly brings before the meeting.

What vote is required to pass an item of business? A majority of our outstanding shares of common stock entitled to vote must be present in person or represented by proxy to hold the meeting.

If you hold shares through an account with a bank or broker, the bank or broker may vote your shares on certain matters even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on routine matters for which their customers do not provide voting instructions. The election of directors and the ratification of Deloitte & Touche LLP as our independent auditors for 2008 are considered routine matters. When a proposal is not routine and the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that proposal. Those shares are considered broker non-votes.

Table of Contents

Item 1 Election of Directors

A plurality of votes of the common stock entitled to vote and present in person or represented by proxy is required to elect a director. In the election of directors, you may vote for the director or withhold your vote. Withheld votes will be excluded from the vote and will have no effect on the outcome. If any nominee becomes unavailable for any reason, or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares for another person in their discretion.

In an uncontested election of directors, our corporate governance guidelines require any nominee for director who receives a greater number of votes withheld from his or her election than votes for his or her election to promptly tender his or her resignation to the chairman of the board following certification of the stockholder vote. The nominating and governance committee will then recommend to the board of directors whether to accept or reject the tendered resignation.

Item 2 Ratification of Deloitte & Touche LLP as Independent Auditors for 2008

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2008 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock for proposals 1 and 2.

How do I vote? There are three ways to vote by proxy:

- by calling the toll free telephone number on the proxy
- by using the Internet as described in the proxy or
- by returning the enclosed letter proxy in the envelope provided.

You may be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. Follow their instructions.

Can I revoke my proxy? Yes. You can revoke your proxy by:

- filing written revocation with the corporate secretary before the meeting
- filing a proxy bearing a later date with the corporate secretary before the meeting or
- revoking your proxy at the meeting and voting in person.

ITEM 1. ELECTION OF DIRECTORS

At the 2007 annual meeting of stockholders, a majority of our stockholders voted in favor of declassifying our board of directors. The directors elected at the 2006 and 2007 annual meetings of stockholders will continue to serve their full three-year terms through 2009 and 2010, respectively. However, directors whose terms expire this year are nominated for one-year terms.

You will be voting on three directors to serve for a term of one year each until 2009 or until their respective successors are elected. All nominees are incumbent directors and nominated for reelection. Your proxy holder will vote your shares for the board s nominees unless you instruct otherwise. If a nominee is unable to serve as a director, your proxy holder may vote for any substitute nominee proposed by the board. Unless we specifically note below, no corporation or organization named below is a subsidiary or other affiliate of ours. Information concerning the

Table of Contents

nominees, including their ages, years of service as directors and business experience, which each nominee has furnished to us, is as follows:

DIRECTOR NOMINEES FOR ONE YEAR TERM

Thomas Everist	Director Since 1995
Age 58	Nominated for Term Expiring in 2009

Mr. Everist has served as President and Chairman of The Everist Company, Sioux Falls, South Dakota, an aggregate, concrete and asphalt production company, since April 15, 2002. He previously was President and Chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 15, 2002. He also is Managing Member of South Maryland Creek Ranch, LLC, a land development company, and President of SMCR, Inc., an investment company. He is a Director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, and a Director of Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls and engineered films. He currently serves on the Compensation Committee of MDU Resources Group, Inc.

Karen B. Fagg	Director Since 2005
Age 54	Nominated for Term Expiring in 2009

Ms. Fagg has been President since April 1, 1995 and Chairman and majority owner since June 2000 of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm. She was employed with MSE, Inc., Butte, Montana, an environmental technology research and development company, as Business Development Director and Vice President of Operations from 1976 through 1988. Ms. Fagg also served a four-year term as Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, from 1989 through 1992. From 1993 through 1995, she served as Corporate Development Director for MSE, Inc. Ms. Fagg is a member of the Board of Trustees for Carroll College and for St. Vincent s Healthcare. Ms. Fagg currently serves on the Compensation and Nominating and Governance Committees of MDU Resources Group, Inc.

Patricia L. Moss	Director Since 2003
Age 54	Nominated for Term Expiring in 2009

Ms. Moss has been President, Chief Executive Officer and a Director of Cascade Bancorp, a financial holding company, and Bank of the Cascades, Bend, Oregon, since 1998. She also serves as a Director of the Oregon Business Council, whose mission is to mobilize business leaders to contribute to Oregon s quality of life and economic prosperity, a Director of the Oregon Investment Fund Advisory Council, a state sponsored program to encourage the growth of small businesses within Oregon, and a Director of Clear Choice Health Plans Inc., a multi-state insurance company. She currently serves on the Compensation Committee of MDU Resources Group, Inc.

The board of directors recommends a vote for each nominee.

3

Table of Contents

A plurality of votes of the common stock entitled to vote and present in person or represented by proxy is required to elect a director. Withheld votes do not count in determining whether a director nominee receives a plurality of votes.

In an uncontested election, any nominee for director who receives a greater number of votes withheld from his or her election than votes for his or her election is required to promptly tender his or her resignation to the chairman of the board following certification of the stockholder vote. The nominating and governance committee will then recommend to the board of directors whether to accept or reject the tendered resignation.

CONTINUING INCUMBENT DIRECTORS

Information concerning our continuing incumbent directors, whose terms expire in 2009 or 2010, including their ages, years of service as directors and business experience which each director has furnished to us, is as follows:

DIRECTOR TERMS EXPIRING IN 2009

Richard H. Lewis	Director Since 2005
Age 58	Term Expires in 2009

Mr. Lewis has been the Managing General Partner of Brakemaka LLLP, a private investment partnership for managing family investments, and President of the Lewis Family Foundation since August 2004. He founded Prima Energy Corporation, a natural gas and oil exploration and production company, in 1980 and served as Chairman, President and Chief Executive Officer of the company until its sale in July 2004. Mr. Lewis serves as Chairman of the Board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He is past President and a current Board member of the Colorado Oil and Gas Association and serves as a Director of Colorado State Bank and Trust. He is a Director of Colorado UpLift, a non-profit organization, whose mission is to build long-term, life-changing relationships with urban youth. Mr. Lewis also serves on the Board of Trustees of the Metro Denver YMCA, which strives to build strong kids, strong families and strong communities, and the Alliance for Choice in Education, which provides scholarships to inner city youth. He currently serves on the Audit and Nominating and Governance Committees for MDU Resources Group, Inc.

4

Table of Contents

Harry J. Pearce Director Since 1997
Age 65 Term Expires in 2009

Mr. Pearce was elected Chairman of the Board of the Company on August 17, 2006. Prior to that, he served as Lead Director effective February 15, 2001 and was Vice Chairman of the Board from November 16, 2000 until February 15, 2001. Mr. Pearce was named Chairman of the Board of Nortel Networks Corporation, a global telecommunications company, on June 29, 2005. He retired on December 19, 2003, as Chairman of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting. He had served as Chairman since June 1, 2001. Mr. Pearce formerly was Vice Chairman and a Director of General Motors Corporation, the world s largest vehicle manufacturer, from January 1, 1996 to May 31, 2001. He is a Director of Marriott International, Inc., a major hotel chain, and is Chairman of The Marrow Foundation. He is a Director of the Leukemia & Lymphoma Society Research Foundation, a Fellow of the American College of Trial Lawyers, and a member of the International Society of Barristers. He also serves on the Board of Trustees of Northwestern University.

Sister Thomas Welder, O.S.B. Director Since 1988
Age 67 Term Expires in 2009

Sister Welder has been the President of the University of Mary, Bismarck, North Dakota since 1978. She is a Director of St. Alexius Medical Center of Bismarck, the Bismarck-Mandan Development Association and the Missouri Slope Areawide United Way. She also is a member of the North Dakota Higher Education Roundtable and the Theodore Roosevelt Medora Founder s Society and is a past member of the Bismarck-Mandan Area Chamber of Commerce Board and the Consultant-Evaluator Corps for the North Central Association of Colleges and Schools. She currently serves on the Nominating and Governance Committee for MDU Resources Group, Inc.

DIRECTOR TERMS EXPIRING IN 2010

Terry D. Hildestad Director Since 2006
Age 58 Term Expires in 2010

Mr. Hildestad was elected President and Chief Executive Officer and a Director of the Company effective August 17, 2006. He had served as President and Chief Operating Officer from May 1, 2005 until August 17, 2006. Prior to that, he served as President and Chief Executive Officer of our subsidiary, Knife River Corporation, from 1993 until May 1, 2005. He additionally serves as an executive officer and as chairman of the Company s principal subsidiaries and of the Managing Committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. Mr. Hildestad serves on the Foundation Board at Dickinson State University in Dickinson, North Dakota.

Table of Contents

Dennis W. Johnson	Director Since 2001
Age 58	Term Expires in 2010

Mr. Johnson is Chairman, Chief Executive Officer and President of TMI Corporation, and Chairman and Chief Executive Officer of TMI Systems Design Corporation, TMI Transport Corporation and TMI Storage Systems Corporation, all of Dickinson, North Dakota, manufacturers of casework and architectural woodwork. He has been employed at TMI since 1974 serving as President or Chief Executive Officer since 1982 and has been the majority stockholder since 1985. Mr. Johnson serves as President of the Dickinson City Commission. He previously was a Director of the Federal Reserve Bank of Minneapolis. He currently serves on the Audit Committee for MDU Resources Group, Inc.

John L. Olson	Director Since 1985
Age 68	Term Expires in 2010

Mr. Olson has been President and Chief Executive Officer of Blue Rock Products Company and of Blue Rock Distributing Company, a beverage bottling company and a distributing company, respectively, in Sidney, Montana since 1965. He also is Chairman of Admiral Beverage Corporation, Worland, Wyoming, and Ogden, Utah, former Chairman and Director of the Foundation for Community Care, Sidney, Montana, past Chairman and a member of the Executive Committee of the University of Montana Foundation, a Director of BlueCross BlueShield of Montana, and President of Liquid Assets of Montana, Inc. He currently serves on the Audit and Nominating and Governance Committees for MDU Resources Group, Inc.

John K. Wilson	Director Since 2003
Age 53	Term Expires in 2010

Mr. Wilson has been President of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska since 1994. He also serves as President of the Durham Foundation and is a Director of Bridges Investment Fund, a mutual fund, the Greater Omaha Chamber of Commerce and the Durham Western Heritage Museum, all in Omaha. He additionally serves on the community relations board of US Bank NA Omaha and is a governor of the Joslyn Art Museum in Omaha. He previously was President of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000. He also was Vice President of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000. The Company bought Great Plains Energy Corp. and Great Plains Natural Gas Co. on July 1, 2000. He currently serves on the Audit Committee for MDU Resources Group, Inc.

Table of Contents

ITEM 2. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2008 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2008. The board of directors concurred with the audit committee s decision. Deloitte & Touche LLP has served as our independent auditors since fiscal year 2002.

Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2008, the audit committee will consider your vote in determining its appointment of our independent auditors for the next fiscal year. The audit committee, in appointing our independent auditors, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in our best interests.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will be available to respond to appropriate questions. We do not anticipate that the representative will make a prepared statement at the meeting; however, he or she will be free to do so if he or she chooses.

The board of directors recommends a vote for the ratification of Deloitte & Touche LLP as our independent auditors for 2008.

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2008 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

In connection with the audit of our financial statements for 2008, the parties have drafted an agreement for Audit Committee approval that contains provisions for alternative dispute resolution and for the exclusion of punitive damages. The agreement provides that disputes arising out of our engagement of Deloitte & Touche LLP are resolved through mediation or arbitration, commonly referred to as alternative dispute resolution procedures, and that the company and Deloitte & Touche LLP s rights to pursue punitive damages or other forms of relief not based upon actual damages are waived. The alternative dispute resolution provisions do not apply to claims by third parties, such as our stockholders or creditors.

Table of Contents

ACCOUNTING AND AUDITING MATTERS

Fees

The following table summarizes the aggregate fees that our independent auditors, Deloitte & Touche LLP, billed or are expected to bill us for professional services rendered for 2007 and 2006:

	2007	**2006***
Audit Fees(a)	$ 2,409,261	$ 2,216,604
Audit-Related Fees(b)	121,720	164,346
Tax Fees(c)	46,740	6,380
All Other Fees(d)	0	0
Total Fees(e)	$ 2,577,721	$ 2,387,330

	2007	2006*
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	1.8%	0.3%

* The 2006 amounts were adjusted from amounts shown in the 2007 proxy statement to reflect actual amounts.

(a) Audit fees for both 2007 and 2006 consisted of services rendered for the audit of our annual financial statements; reviews of our quarterly financial statements; comfort letters; statutory and regulatory audits and consents and other services related to Securities and Exchange Commission matters.

(b) Audit-related fees for 2007 consisted of consultation on the implementation of new accounting standards, accounting research assistance and audit of the Cascade Natural Gas Corporation Employee Benefit Plan, as part of the Cascade acquisition. Audit-related fees for 2006 consisted of services rendered for the audit of our employee benefit plans; accounting consultations and audits in connection with acquisitions; and accounting research assistance.

(c) Tax fees for 2007 are associated with international and domestic tax matters and property tax consulting services. Tax fees for 2006 are associated with property tax consulting services.

(d) No fees under the category of all other fees were incurred during 2007 or 2006.

(e) Total fees reported above include out of pocket expenses related to the services provided of $264,880 and $239,537 for 2007 and 2006, respectively.

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2007 in accordance with the pre-approval policy and procedures the audit committee adopted at its August 12, 2003 meeting. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist in our compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

The policy defines the permitted services in each of the audit, audit-related, tax and all other services categories as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the audit committee a service plan describing the scope of work and anticipated cost associated with each category of service. At each regular audit committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the quarter preceding the meeting. Management may submit requests for

additional permitted services before the next scheduled audit committee meeting to the designated member of the audit committee, Dennis W. Johnson, for approval. The designated member updates the audit committee at the next regularly scheduled meeting regarding any services that he approved during the interim period. At each regular audit committee meeting, management may submit to the audit committee for approval a supplement to the service plan containing any request for additional permitted services.

In addition, prior to approving any request for audit-related, tax or all other services of more than $50,000, Deloitte & Touche LLP will provide a statement setting forth the reasons why the rendering of the proposed services does not compromise Deloitte & Touche LLP s independence. This description and statement by Deloitte & Touche LLP may be incorporated into the service plan or as an exhibit thereto or may be delivered in a separate written statement.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis may contain statements regarding corporate performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management s expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Introduction

In this compensation discussion and analysis, we discuss our compensation objectives, our decisions and the reasons for our decisions relating to 2007 compensation for our named executive officers.

There have been a few changes in our named executive officers from 2006 to 2007. Terry D. Hildestad, Vernon A. Raile, William E. Schneider and John G. Harp were named executive officers in 2006 and continue to be named executive officers for 2007. Bruce T. Imsdahl, the president and chief executive officer of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co., joins our named executive officer group for 2007. Martin A. White, our former chief executive officer, and Warren L. Robinson, our former executive vice president and chief financial officer, retired in 2006, and John K. Castleberry, our former executive vice president administration, retired in 2007.

Each year we conduct a strategic analysis to identify opportunities and challenges associated with the operating environments in which we do business. Some of our ongoing strategic goals include:

- pursuing higher-growth opportunities in our non-regulated businesses through the support provided by the stability and predictability of our regulated businesses
- 7.0% - 10.0% earnings per share growth
- total stockholder return at or above the median of our performance graph peer group
- maintaining a conservative capital structure while growing our businesses and
- achieving or exceeding our weighted average cost of capital at the consolidated level and business unit levels

9

Table of Contents

Throughout our compensation discussion and analysis we discuss specific pay decisions for each named executive officer and why we made those decisions. One basic tenet underlying some of our pay decisions is our overall performance. Our company s performance, in turn, is significantly impacted by the performance of our named executive officers. When the compensation committee met in November 2006 to establish 2007 base salaries, we were in the final weeks of a year which yielded the following financial results:

- record earnings of $315 million, representing a 14.8% increase over 2005

- a total stockholder return of 20%
- a return on invested capital of 10.6%, which was higher than our weighted average cost of capital

Objectives of our Compensation Program

We structure our compensation program to help retain and reward the executive officers who we believe are critical to our long-term success. We have a written executive compensation policy for our Section 16 officers, including all our named executive officers. Our policy has the following stated objectives:

- recruit, motivate, reward and retain the high performing executive talent required to create superior long-term total stockholder return in comparison to our peer group
- reward executives for short-term performance as well as the growth in enterprise value over the long-term
- provide a competitive package relative to industry-specific and general industry comparisons and internal pay equity, as appropriate, and
- ensure effective utilization and development of talent by working in concert with other management processes for example, performance appraisal, succession planning and management development.

We pay/grant

- base salaries in order to
  - provide executive officers with sufficient, regularly-paid income and
  - attract, recruit and retain executives with the knowledge, skills and abilities necessary to successfully execute their job duties and responsibilities
- annual incentives in order to
  - be competitive from a total remuneration standpoint
  - ensure focus on annual financial and operating results and
  - make a significant portion of our named executive officers compensation at risk and dependent upon achievement of performance goals relating to business unit or other operational goals
- long-term incentives in order to
  - be competitive from a total remuneration standpoint and
  - ensure focus on stockholder return.

If earned, incentive compensation, which consists of annual cash incentive awards and three-year performance share awards under our Long-Term Performance-Based Incentive Plan, makes up the greatest portion of our named executive officers total compensation. The compensation committee

Table of Contents

believes incentive compensation comprising 55% to 70% of total target compensation for the named executive officers is appropriate because:

our named executive officers are in positions to drive, and therefore bear high levels of responsibility for, our corporate performance

incentive compensation is at risk and dependent upon our performance

at risk compensation helps ensure focus on the goals that are aligned with our overall strategy and

the interests of our named executive officers will be aligned with those of our stockholders by making a majority of the named executive officers target compensation contingent upon results that are beneficial to stockholders.

The following table shows the allocation of total target compensation for 2007 among the individual components of base salary, annual incentive and long-term incentive:

Name	% of Total Target Compensation Allocated to Base Salary (%)	% of Total Target Compensation Allocated to Incentives		
		Annual (%)	Long-Term (%)	Annual + Long-Term (%)
Terry D. Hildestad	30.0	30.0	40.0	70.0
Vernon A. Raile	41.7	20.8	37.5	58.3
William E. Schneider	41.7	20.8	37.5	58.3
John G. Harp	44.4	22.2	33.4	55.6
Bruce T. Imsdahl	44.4	22.2	33.4	55.6

In order to reward long-term growth as well as short-term results, the compensation committee establishes incentive targets that emphasize long-term compensation as much as or more than short-term compensation for all Section 16 officers. The annual incentive targets for 2007 range from 10% to 100% of base salary and the long-term incentive targets range from 15% to 133% of base salary, depending on the executive s salary grade. Generally, our approach is to allocate a higher percentage of total target compensation to the long-term incentive than to the short-term incentive for our higher level executives, since they are in a better position to influence our long-term performance.

Additionally, the long-term incentive, if earned, is paid in company common stock. These awards, combined with our stock ownership guidelines, promote ownership of our stock by the named executive officers. The compensation committee believes that, as stockholders, the named executive officers will be motivated to consistently deliver financial results that build wealth for all stockholders over the long-term.

We also offer our Section 16 officers, including all of our named executive officers, benefits under our pension plans and our non-qualified defined benefit retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. The SISP was adopted in 1982 to provide participants with additional retirement income and death benefits. We provide these benefits because of their importance to our success in recruiting and retaining executive talent.

All of our named executive officers have change of control employment agreements. The change of control employment agreements define change of control to include consummation of a merger or similar transaction rather than merely stockholder approval. This prevents severance and other benefits from being provided if the transaction is not consummated.

Table of Contents

Following a change of control transaction, the change of control agreements provide job and financial security to our named and executive officers by providing for a three-year employment period from the date of the change of control. During the employment period, the executive officer receives guaranteed minimum levels of compensation and benefits. The executive officer will also receive severance payments and benefits if his employment is terminated without cause, or if he resigns for good reason.

The agreements contain what are commonly referred to as 13th month triggers, which provide that a resignation for good reason includes resignation for any reason during the 30 day period beginning on the first anniversary of the change of control. The compensation committee believes the 13th month trigger encourages executive officers to remain with the company or a successor during the critical year-long transition period following a transaction. This is beneficial to the company and its stockholders and, when combined with the other severance, protects executive officers who choose to continue employment.

The agreements also provide what is commonly referred to as a modified tax gross-up. This provides for an additional payment to make an officer whole for federal excise taxes that could be imposed on payments and benefits deemed to be related to the change of control. The gross-up payment is considered modified since it provides for gross-up payments only if the total payments deemed to relate to the change of control would have to be reduced by more than 10% to avoid the excise tax. If this threshold amount is not exceeded, payments and benefits to the executive are reduced to avoid the excise tax. The compensation committee believes a modified gross-up using a 110% threshold strikes an appropriate balance between the potential detriment to the officer of having to forfeit some payments and the potential benefit to the company of avoiding the excise tax and related gross-up obligation.

The board of directors and the compensation committee reviewed the change of control agreements in 2006. We compared the terms of our change of control agreements to the terms of agreements for certain companies in our performance graph peer group and to the Frederic W. Cook & Co., Inc., 2005 Change-in-Control Report, Prevalence and Design of Executive Change-in-Control Arrangements at Each of the Top 50 NYSE and NASDAQ Companies. The compensation committee determined that the terms of our agreements were consistent with current practice and, accordingly, that maintaining these agreements is essential to competing with peer companies for top officers. We also believe it is important to encourage our named executive officers to continue working for us during any change of control transaction periods and to provide severance payments and benefits if employment is terminated in connection with a change of control or for no fault of the officer. These agreements provide a measure of job and financial security so that potentially disruptive transactions do not affect the officers judgment when working on behalf of the company and its stockholders prior to and after a change of control. We do not view the change of control agreements as additional compensation and do not take them into account when determining the amount of compensation provided because the events required to trigger these payments and benefits may never occur.

In addition to these agreements, the Long-Term Performance-Based Incentive Plan provides for accelerated vesting of awards previously granted but not yet vested at the time of a change of control and payment of performance awards. The compensation committee believes that these protections are necessary to reassure the officers that they will not lose prior incentive awards or otherwise be adversely affected by a change of control.

Role of Compensation Consultants and Management

Role of Compensation Consultants

The compensation committee uses an outside consulting firm to assess the competitive pay levels for base salary and incentive compensation for each Section 16 officer position. The assessment

Table of Contents

includes identifying material changes to the positions analyzed, updating competitive compensation information, gathering and analyzing relevant general and industry-specific survey data and updating the base salary structure. In August 2006, the committee retained Towers Perrin, a nationally recognized consulting firm, to assist it in establishing competitive 2007 compensation targets for our Section 16 officers. Towers Perrin assessed competitive pay levels for base salary, total annual cash, which is base salary plus annual incentives, and total direct compensation, which is the sum of total annual cash and the expected value of long-term incentives. Towers Perrin also prepared an updated salary grade structure based on the above competitive analyses and identified overall competitive compensation targets. They compared our positions to like positions contained in general industry salary surveys, industry-specific salary surveys and, for our chief executive officer, the chief executive officers in our performance graph peer group. The salary surveys used by Towers Perrin were:

Survey*	**Number of Companies Participating (#)**	**Median Number of Employees (#)**	**Number of Publicly-Traded Companies (#)(1)**	**Median Revenue (000s) ($)**
Towers Perrin s Executive Compensation Database	363	20,500	273	6,114,000
Towers Perrin s Energy Services Industry Executive Compensation Database	93	3,064	67	2,696,400
Effective Compensation, Inc. s Oil & Gas Exploration and Production Survey	87	151	54	258,000
Mercer s Energy Compensation Survey	156	359	114	379,467
Watson Wyatt s Report on Top Management Compensation	2,567	(2)	(2)	(2)

(1) For the Towers Perrin Executive Compensation Database, the number listed in the table is the number of companies reporting market capitalization. For the Towers Perrin Energy Services Industry Executive Compensation Database, the number listed in the table is the number of companies reporting three-year stockholder return.

(2) The 2,567 organizations participating in the Watson Wyatt Report included: 370 organizations with 2,000 to 4,999 employees; 301 organizations with 5,000 to 9,999 employees; 292 organizations with 10,000 to 19,999 employees and 362 organizations with 20,000 or more employees. Watson Wyatt did not provide a revenue breakdown or the number of publicly-traded companies participating in its survey.

Our revenues for 2005 were approximately $3.5 billion. For 2006, our revenues were approximately $4.0 billion and for 2007, our revenues were $4.2 billion.

*The information in the table is based solely upon information provided by the publishers of the surveys and is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

Table of Contents

In addition to the above salary surveys, for the chief executive officer comparison, Towers Perrin used salary information for the chief executive officers at the following companies, which comprised 24 of the 26 companies in our performance graph peer group in July 2006:

Allegheny Energy, Inc.	ONEOK, Inc.
Allete Inc.	Peoples Energy Corp.
Alliant Energy Corp.	Pogo Producing Co.
Black Hills Corp.	Quanta Services, Inc.
Comstock Resources, Inc.	Questar Corp.
Equitable Resources, Inc.	SCANA Corp.
Florida Rock Industries, Inc.	Stone Energy Corp.
KeySpan Corp.	TECO Energy, Inc.
Martin Marietta Materials, Inc.	UGI Corp.
Newfield Exploration Co.	Vectren Corp.
NICOR, Inc.	Vulcan Materials Co.
OGE Energy Corp.	XTO Energy Inc.

Role of Management

The chief executive officer played an important role in recommending 2007 compensation to the committee for the other named executive officers. The chief executive officer attended compensation committee meetings; however, he was not present during discussions regarding his compensation. In addition, he assessed the performance of the named executive officers and worked with the human resources department and compensation consultants to recommend:

- base salary grades and individual salaries
- annual and long-term incentive targets and
- inclusion in our SISP or increases in the level of the SISP benefits to current participants.

Our human resources personnel also supported the chief executive officer and the compensation committee by:

- working with the outside compensation consultants and the chief executive officer on the determination of recommended salary grades, which have associated annual base salaries and incentive targets
- reviewing recommended salary increases and incentive targets submitted by executive officers for officers reporting to them for reasonableness and alignment with company or business unit objectives and to help ensure internal equity and
- designing annual and long-term incentive programs.

Once performance goals are approved by the compensation committee, the committee generally does not modify the goals. However, if major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management substantially affected their ability to achieve the specified performance goals, the compensation committee, in consultation with the chief executive officer, may modify the performance goals. Such goal modifications will only be considered in years of unusually adverse or favorable external conditions.

Decisions for 2007

The compensation committee, in conjunction with the board of directors, determined all compensation for each named executive officer for 2007 and set overall and individual compensation targets for the three components of compensation base salary, annual incentive and long-term incentive. The compensation committee made recommendations to the board of directors regarding

Table of Contents

compensation of all Section 16 officers, and the board of directors then approved the recommendations.

The compensation committee began its review of executive compensation data at its August 2006 meeting. At the November 2006 meeting, it established salary grades and individual base salaries. At the February meetings of the compensation committee and the board of directors, we determine annual and long-term incentive awards, along with the payouts based on performance from the recently completed performance period for prior annual and long-term awards. The February meetings occur after the release of earnings for the prior year.

Salary Grades for 2007

The compensation committee determines our named executive officers base salaries and annual and long-term incentive targets by reference to salary grades. Each salary grade has a minimum, midpoint and maximum annual salary level with the midpoint targeted at approximately the 50th percentile of data provided by Towers Perrin for positions in the salary grade. The compensation committee may adjust the salary grades away from the 50th percentile in order to balance the external market data with the internal equity and relative value of the positions. The salary grades also have annual and long-term incentive target levels, which are expressed as a percentage of the individual s actual annual salary. Named executive officers generally are placed into a salary grade based on historical classification of their positions; however, the compensation committee, at its August meeting, reviews each classification and may place a position into a different salary grade if it determines that the targeted competitive compensation for the position changes significantly or the executive s responsibilities and/or performance warrants the change. The committee also considers, upon recommendation from the chief executive officer, a position s relative value. A position s relative value is determined by considering

- participation on our management policy committee, which is the body responsible for setting enterprise-wide operating and management policies and procedures as well as our strategic direction
- the position s responsibilities relative to our total earnings, use of invested capital and the stable generation of earnings and cash flows and
- the position s impact on key strategic initiatives.

15

Table of Contents

Our named executive officers salary grade classifications are listed below along with the 2007 base salary ranges associated with each classification:

Position	Grade	Name	2007 Base Salary (000s) Minimum ($)	Midpoint ($)	Maximum ($)
President and CEO	K	Terry D. Hildestad	620	775	930
Executive Vice President, Treasurer and CFO	J	Vernon A. Raile	312	390	468
President and CEO, Knife River Corporation	J	William E. Schneider	312	390	468
President and CEO, MDU Construction Services Group, Inc.	I	John G. Harp	252	315	378
President and CEO, Montana-Dakota Utilities Co. and Great Plains Natural Gas Co.	I	Bruce T. Imsdahl	252	315	378

The executive vice president, treasurer and chief financial officer and the president and chief executive officer of Knife River Corporation are assigned to salary grade J. The committee believes that from an internal equity standpoint, these two positions should carry the same salary grade based on the above factors. The positions of president and chief executive officer of MDU Construction Services Group, Inc. and Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. have historically been assigned to salary grade I. The committee believes that from an internal equity standpoint, these two positions should carry the same salary grade based on the above factors. For all of our named executive officers, the salary grades remained unchanged for 2007.

The compensation committee determines where, within each salary grade, an individual s base salary should be. The compensation committee believes that having a range of possible salaries within each salary grade gives the committee the flexibility to assign different salaries to individual executives within a salary grade to reflect one or more of the following:

- our performance on financial measurements as compared to our performance graph peer group
- the executive s performance on financial goals
- the executive s performance on non-financial goals, including the results of the performance assessment program
- the executive s experience, tenure and future potential

the position s relative value compared to other positions within the company

the relationship of the salary to the competitive salary market value

internal pay equity with other executives and

the economic environment of the corporation or executive s business unit.

Table of Contents

Our performance assessment program rates performance in the following areas, which help determine actual salaries within the range of salaries associated with the executive s salary grade:

visionary leadership	leadership
strategic thinking	mentoring
leading with integrity	relationship building
managing customer focus	conflict resolution
financial responsibility	organizational savvy
achievement focus	safety
judgment	Great Place to Work®
planning and organization	

The chief executive officer assessed each named executive officer s performance under the performance assessment program, and the compensation committee, as well as the full board of directors, assessed the chief executive officer s performance.

Base Salaries of the Named Executive Officers for 2007

Terry D. Hildestad

Mr. Hildestad was promoted to chief executive officer in August 2006. At that time the compensation committee assigned Mr. Hildestad to salary grade K, our highest salary grade, and increased Mr. Hildestad s base salary from $525,000 to $625,000. While the K salary grade midpoint was $750,000 in 2006, the compensation committee believed that setting Mr. Hildestad s salary at the midpoint would have been premature given his new promotion to the position. In addition, the committee also decided that it would not give Mr. Hildestad a salary increase in January 2007 and took this into consideration when increasing his salary to $625,000.

Vernon A. Raile

Mr. Raile has served as executive vice president, treasurer and chief financial officer since January 2006. Mr. Raile s 2007 base salary was $350,700, representing an increase of 10.0% over his 2006 base salary of $318,750. The committee set his 2007 base salary at $350,700 due to his commendable performance assessment rating and to continue to move his base salary closer to the $390,000 midpoint of his salary grade. In addition, the committee increased Mr. Raile s base salary due to results associated with these key achievements:

leading an internal team on the successful re-negotiation of our revolving credit agreement for our non-regulated businesses, as well as the financing of the Cascade Natural Gas Corporation acquisition; both achievements occurred during a period of challenging credit markets assisting in the sale of our domestic independent power production assets and

continuing to strengthen our relationship with the investment community and rating agencies.

Table of Contents

William E. Schneider

Mr. Schneider has served as president and chief executive officer of our subsidiary, Knife River Corporation, since May 2005. Mr. Schneider s 2007 base salary was $422,000, which was above the 2007 salary grade midpoint of $390,000, and 7.7% higher than his 2006 base salary of $392,000. The committee set his 2007 base salary at $422,000 because of Knife River Corporation s record 2006 financial results and Mr. Schneider s commendable performance assessment rating. In addition, the committee maintained Mr. Schneider s salary above the salary grade midpoint based on results associated with these key achievements:

continued penetration of, and profitable growth in, the asphalt materials market, which represented a significant opportunity for Knife River to leverage existing expertise in an area providing a new revenue stream to the company

an improvement of over 20% in the reduction of lost time incidents compared to 2005 and

continued progress relating to our shared services initiative, which is designed to generate efficiencies in the financial transactions area through standardizing systems and processes.

John G. Harp

Mr. Harp was appointed president and chief executive officer of MDU Construction Services Group, Inc. in September 2004. Mr. Harp s 2007 base salary was set at $341,000, which was above the salary grade midpoint of $315,000 and 10% higher than his 2006 base salary of $310,000. This increase was primarily attributable to Mr. Harp s leadership of the financial turn-around of MDU Construction Services Group, Inc. from a loss in 2004 to record 2006 financial results, as well as Mr. Harp s commendable performance assessment rating. The committee also considered these additional accomplishments in determining his 2007 base salary:

leading the acquisition of Desert Fire Holdings, Inc., which represented a different line of business than our traditional construction services but provided our Las Vegas operations with expanded service offerings, allowing them to further differentiate their operations from competitors in that area

a 33% improvement over the three-year average of the MDU Construction Services Group, Inc. s lost time accident rate and

expanding into the industrial construction services market, which leveraged our existing expertise in an area that provides a new revenue stream.

Bruce T. Imsdahl

Mr. Imsdahl was appointed president and chief executive officer of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. in November 2004 and was appointed chief executive officer of Cascade Natural Gas Corporation upon the closing of that acquisition in July 2007. Mr. Imsdahl s 2007 base salary was set at $322,400, which was above the salary grade midpoint of $315,000 and 4% higher than his 2006 base salary of $310,000. The decision to maintain his salary above the salary grade midpoint was driven by Montana-Dakota s 2006 earnings results finishing above plan, Mr. Imsdahl s commendable performance assessment rating and Mr. Imsdahl s performance on these key initiatives:

- leading the acquisition of Cascade Natural Gas Corporation
- delivering zero lost time accidents compared to an industry average of 2.5 and
- increasing Montana-Dakota s 2006 Great Place to Work® scores when compared to the prior two surveys.

Table of Contents

The following table shows each named executive officer s base salary for 2006 and 2007 and the percentage change.

Name	Base Salary for 2006 (000s) ($)	Base Salary for 2007 (000s) ($)	% Change (%)
Terry D. Hildestad	625	625	0.0
Vernon A. Raile	319	351	10.0
William E. Schneider	392	422	7.7
John G. Harp	310	341	10.0
Bruce T. Imsdahl	310	322	4.0

2007 Annual Incentives

What the Performance Measures Are and Why We Chose Them

The compensation committee develops and reviews financial and other corporate performance measures to help ensure that compensation to the executives reflects the success of their respective business unit and/or the corporation, as well as the value provided to our stockholders. For Messrs. Hildestad and Raile, the performance measures for annual incentive awards are our annual return on invested capital results compared to target and our annual earnings per share results compared to target. For Messrs. Schneider, Harp and Imsdahl, the performance measures for annual incentive awards are their respective business units annual return on invested capital results compared to target and their respective business units allocated earnings per share results compared to target.

The compensation committee believes earnings per share and return on invested capital are very good measurements in assessing company performance from a financial standpoint. Earnings per share is a generally accepted accounting principle measurement and is a key driver of stockholder return over the long-term. Return on invested capital measures how efficiently and effectively management deploys its capital. Sustained returns on invested capital in excess of our cost of capital create wealth for our stockholders.

Allocated earnings per share for a business unit is calculated by dividing that business unit s earnings by the business unit s proportion of the total company weighted average shares outstanding. Return on invested capital for the company is calculated by dividing our earnings before after tax interest expense and preferred stock dividends, by our average capitalization for the calendar year. Return on invested capital for a business unit is calculated by dividing the business unit s earnings before after tax interest expense and preferred stock dividends, by the business unit s average capitalization for the calendar year.

The compensation committee determines the weighting of the goals each year based upon recommendations from the chief executive officer. The compensation committee weighted the 2007 goals for return on invested capital compared to planned results and allocated earnings per share compared to planned results each at 50%. The compensation committee believes both measures are equally important in driving shareholder value in the short term and over time.

In 2006 we began limiting the incentive compensation we will pay above the target amount. The after-tax incentives paid above target will be limited to 20% of earnings in excess of planned earnings. The earnings in excess of planned earnings are calculated without regard to the after-tax incentive amounts above target. The 20% limitation is measured at the major business unit level for business unit and operating company executives, which include Messrs. Schneider, Harp and Imsdahl, and at the corporate level for corporate executives, which include Messrs. Hildestad and Raile. The committee also considers annual improvement in the return on invested capital measure for incentive

Table of Contents

purposes to help ensure that return on invested capital equals or exceeds the weighted average cost of capital.

Targets are established in connection with our annual financial planning process, where we assess the future operating environment and set projections of results. Beginning in 2006, the committee implemented a change in how the return on investment capital targets are established for use in our annual incentive plans. The change was implemented to emphasize the need for each business unit and the company to generate, within a reasonable period of time, a return on invested capital that is at least equal to the business unit s or company s weighted average cost of capital. If a business unit s or the company s return on invested capital, as established in the annual financial planning process, was below its weighted average cost of capital, the return on invested capital target used for incentive plan purposes would be increased. In February 2008, the compensation committee determined the amount of incremental increase, if any, would be based on a consideration of factors including the economic environment, industry trends and company specific conditions when establishing the return on invested capital targets.

What the Targets Are and Why We Chose Them

Annual incentive targets were established by the compensation committee as a percentage of the individual s actual base salary.

The chief executive officer s target annual incentive was 100% of his base salary, and the other named executive officers target annual incentives were 50% of their base salaries. These incentive targets were derived in part from competitive data provided by Towers Perrin and in part by the compensation committee s judgment on internal equity of the positions, their relative value to the company and the desire to maintain a consistent annual incentive target for presidents and chief executive officers of the business units and the executive vice president, treasurer and chief financial officer positions.

The named executive officers were eligible to earn from 0% to 200% of their targeted annual incentive. The award opportunities available to each named executive officer ranged from no payment if the goals were met below the 85% level to a 200% payout if the goals were met at or above the 115% level.

The table below lists each named executive officer s 2007 base salary, which was used to calculate the annual incentive, the officer s 2007 annual incentive plan performance targets, the 2007 incentive plan results and the annual incentive earned for 2007.

Name	2007 Base Salary (000s) ($)	2007 Annual Incentive Target (%)	2007 Incentive Plan Performance Targets EPS ($)	2007 Incentive Plan Performance Targets ROIC (%)	2007 Incentive Plan Results EPS ($)	2007 Incentive Plan Results ROIC (%)	2007 Annual Incentive Earned (000s) ($)
Terry D. Hildestad[1]	625	100	1.57	9.4	2.36	13.1	1,250
Vernon A. Raile[1]	351	50	1.57	9.4	2.36	13.1	351
William E. Schneider[2]	422	50	1.13	8.0	1.08	7.6	207
John G. Harp[3]	341	50	2.53	10.8	4.00	16.7	341
Bruce T. Imsd							