

MDU RESOURCES GROUP INC  
Form 10-K  
February 21, 2007

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2006

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3480

**MDU Resources Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation  
or organization)

41-0423660  
(I.R.S. Employer Identification No.)

1200 West Century Avenue  
P.O. Box 5650  
Bismarck, North Dakota 58506-5650  
(Address of principal executive offices)  
(Zip Code)

(701) 530-1000  
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 and Preference Share Purchase Rights	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No .

State the aggregate market value of the voting common stock held by nonaffiliates of the registrant as of June 30, 2006: \$4,393,239,107.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of February 12, 2007: 181,147,966 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's 2007 Proxy Statement are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Report.

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**DEFINITIONS**

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

**Abbreviation or Acronym**

2003 Medicare Act	Medicare Prescription Drug, Improvement and Modernization Act of 2003
AFUDC	Allowance for funds used during construction
ALJ	Administrative Law Judge
Alusa	Tecnica de Engenharia Electrica - Alusa
Anadarko	Anadarko Petroleum Corporation
APB	Accounting Principles Board
APB Opinion No. 25	Accounting for Stock-Based Compensation
Arch	Arch Coal Sales Company
Army Corps	U.S. Army Corps of Engineers
Badger Hills Project	Tongue River-Badger Hills Project
Bbl	Barrel
Bcf	Billion cubic feet
BER	Montana Board of Environmental Review
Big Stone Station	450-MW coal-fired electric generating facility located near Big Stone City, South Dakota (22.7 percent ownership)
Bitter Creek	Bitter Creek Pipelines, LLC, an indirect wholly owned subsidiary of WBI Holdings
Black Hills Power	Black Hills Power and Light Company
BLM	Bureau of Land Management
Brascan	Brascan Brasil Ltda.
Brazilian Transmission Lines	Company's equity method investment in companies owning ECTE, ENTE and ERTE
Brush Generating Facility	213 MW of natural gas-fired electric generating facilities near Brush, Colorado
Btu	British thermal units
Carib Power	Carib Power Management LLC

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Cascade	Cascade Natural Gas Corporation
CBNG	Coalbed natural gas
CELESC	Centrais Elétricas de Santa Catarina S.A.
CEM	Colorado Energy Management, LLC, a direct wholly owned subsidiary of Centennial Resources
CEMIG	Companhia Energética de Minas Gerais - CEMIG
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial International	Centennial Energy Resources International, Inc., a direct wholly owned subsidiary of Centennial Resources
Centennial Power	Centennial Power, Inc., a direct wholly owned subsidiary of Centennial Resources
Centennial Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Clean Air Act	Federal Clean Air Act
Clean Water Act	Federal Clean Water Act
Colorado Federal District Court	U.S. District Court for the District of Colorado
Company	MDU Resources Group, Inc.
D.C. Appeals Court	U.S. Court of Appeals for the District of Columbia Circuit
dk	Decatherm
DRC	Dakota Resource Council
EBSR	Elk Basin Storage Reservoir, one of Williston Basin's natural gas storage reservoirs, which is located in Montana and Wyoming
ECTE	Empresa Catarinense de Transmissão de Energia S.A.
EITF	Emerging Issues Task Force
EITF No. 00-21	Revenue Arrangements with Multiple Deliverables
EITF No. 04-6	Accounting for Stripping Costs in the Mining Industry
EITF No. 91-6	Revenue Recognition of Long-Term Power Sales Contracts
EIS	Environmental Impact Statement
ENTE	Empresa Norte de Transmissão de Energia S.A.
EPA	U.S. Environmental Protection Agency
ERTE	Empresa Regional de Transmissão de Energia S.A.
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings
FIN	FASB Interpretation No.
FIN 47	Accounting for Conditional Asset Retirement Obligations - An Interpretation of FASB Statement No. 143
FIN 48	Accounting for Uncertainty in Income Taxes
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Grynberg	Jack J. Grynberg
Hardin Generating Facility	

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	116-MW coal-fired electric generating facility near Hardin, Montana
Hart-Scott-Rodino Act	Hart-Scott-Rodino Antitrust Improvements Act, as amended
Hartwell	Hartwell Energy Limited Partnership
Hartwell Generating Facility	310-MW natural gas-fired electric generating facility near Hartwell, Georgia (50 percent ownership)
Hobbs Power	Hobbs Power Funding, LLC, an indirect subsidiary of ArcLight Energy Partners Fund III, L.P.
Howell	Howell Petroleum Corporation, a wholly owned subsidiary of Anadarko
IBEW	International Brotherhood of Electrical Workers
Indenture	Indenture dated as of December 15, 2003, as supplemented, from the Company to The Bank of New York as Trustee
Innovatum	Innovatum, Inc., a former indirect wholly owned subsidiary of WBI Holdings (the stock and a portion of Innovatum's assets were sold during the fourth quarter of 2006)
Item 8	Financial Statements and Supplementary Data
K-Plan	Company's 401(k) Retirement Plan
Kennecott	Kennecott Coal Sales Company
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
kW	Kilowatts
kWh	Kilowatt-hour
LPP	Lea Power Partners, LLC, a former direct wholly owned subsidiary of Centennial Power (member interests were sold in October 2006)
LWG	Lower Willamette Group
MAPP	Mid-Continent Area Power Pool
MBbls	Thousands of barrels of oil or other liquid hydrocarbons
MBI	Morse Bros., Inc., an indirect wholly owned subsidiary of Knife River
Mcf	Thousand cubic feet
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Mdk	Thousand decatherms
MDU Brasil	MDU Brasil Ltda., an indirect wholly owned subsidiary of Centennial International
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
Midwest ISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million Btu
MMcf	Million cubic feet
MMcfe	Million cubic feet equivalent
MMdk	Million decatherms
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana DEQ	Montana State Department of Environmental Quality
Montana Federal District Court	U.S. District Court for the District of Montana
Mortgage	Indenture of Mortgage dated May 1, 1939, as supplemented, amended and restated, from the Company to The Bank of New

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MPX	York and Douglas J. MacInnes, successor trustees MPX Termoceara Ltda. (49 percent ownership, sold in June 2005)
MTPSC	Montana Public Service Commission
MW	Megawatt
Nance Petroleum	Nance Petroleum Corporation, a wholly owned subsidiary of St. Mary
ND Health Department	North Dakota Department of Health
NDPSC	North Dakota Public Service Commission
NEPA	National Environmental Policy Act
NHPA	National Historic Preservation Act
Ninth Circuit	U.S. Ninth Circuit Court of Appeals
NPRC	Northern Plains Resource Council
Oglethorpe	Oglethorpe Power Corporation
Order on Rehearing	Order on Rehearing and Compliance and Remanding Certain Issues for Hearing
Oregon DEQ	Oregon State Department of Environmental Quality
PCBs	Polychlorinated biphenyls
PPA	Power purchase and sale agreement
Prairielands	Prairielands Energy Marketing, Inc., an indirect wholly owned subsidiary of WBI Holdings
Proxy Statement	Company's 2007 Proxy Statement
PSCo	Public Service Company of Colorado, a wholly owned subsidiary of Xcel Energy
RCRA	Resource Conservation and Recovery Act
SAFETEA-LU	Safe, Accountable, Flexible and Efficient Transportation Equity Act - A Legacy for Users
San Joaquin	San Joaquin Cogen, LLC, a direct wholly owned subsidiary of Centennial Power
San Joaquin Generating Facility	48-MW natural gas-fired electric generating facility near Lathrop, California
SDPUC	South Dakota Public Utilities Commission
SEC	U.S. Securities and Exchange Commission
SEIS	Supplemental Environmental Impact Statement
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Employers' Accounting for Pensions
SFAS No. 109	Accounting for Income Taxes
SFAS No. 123	Accounting for Stock-Based Compensation
SFAS No. 123 (revised)	Share-Based Payment (revised 2004)
SFAS No. 142	Goodwill and Other Intangible Assets
SFAS No. 143	Accounting for Asset Retirement Obligations
SFAS No. 144	Accounting for the Impairment or Disposal of Long-Lived Assets
SFAS No. 148	Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123
SFAS No. 157	Fair Value Measurements
SFAS No. 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans
Sheridan System	A separate electric system owned by Montana-Dakota
SIP	State Implementation Act

SMCRA	Surface Mining Control and Reclamation Act
St. Mary	St. Mary Land & Exploration Company
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan
Termoceara Generating Facility	220-MW natural gas-fired electric generating facility in the Brazilian state of Ceara, owned and operated by MPX
Trinity Generating Facility	225-MW natural gas-fired electric generating facility in Trinidad and Tobago (49.99 percent ownership)
T&TEC	Trinidad and Tobago Electric Commission
TRWUA	Tongue River Water Users' Association
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
Westmoreland	Westmoreland Coal Company
Williston Basin	Williston Basin Interstate Pipeline Company, an indirect wholly owned subsidiary of WBI Holdings
Wyoming Federal District Court	U.S. District Court for the District of Wyoming
WYPSC	Wyoming Public Service Commission

## **PART I**

### **FORWARD-LOOKING STATEMENTS**

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

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

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

### **ITEMS 1 AND 2. BUSINESS AND PROPERTIES**

#### **GENERAL**



The Company is a diversified natural resource company, which was incorporated under the laws of the state of Delaware in 1924. Its principal executive offices are at 1200 West Century Avenue, P.O. Box 5650, Bismarck, North Dakota 58506-5650, telephone (701) 530-1000.

Montana-Dakota, through the electric and natural gas distribution segments, generates, transmits and distributes electricity and distributes natural gas in Montana, North Dakota, South Dakota and Wyoming. Great Plains distributes natural gas in western Minnesota and southeastern North Dakota. These operations also supply related value-added products and services.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings (comprised of the pipeline and energy services and the natural gas and oil production segments), Knife River (construction materials and mining segment), MDU Construction Services (construction services segment), Centennial Resources (independent power production segment) and Centennial Capital (reflected in the Other category).

As of December 31, 2006, the Company had 11,526 employees with 161 employed at MDU Resources Group, Inc., 885 at Montana-Dakota, 35 at Great Plains, 539 at WBI Holdings, 5,032 at Knife River, 4,715 at MDU Construction Services and 159 at Centennial Resources. The number of employees at certain Company operations fluctuates during the year depending upon the number and size of construction projects. The Company considers its relations with employees to be satisfactory.

At Montana-Dakota and Williston Basin, 426 and 73 employees, respectively, are represented by the IBEW. Labor contracts with such employees are in effect through April 30, 2007, and March 31, 2008, for Montana-Dakota and Williston Basin, respectively.

Knife River has 43 labor contracts that represent approximately 1,000 of its construction materials employees. Knife River is in negotiations on nine of its labor contracts.

MDU Construction Services has 82 labor contracts representing the majority of its employees. The majority of the labor contracts contain provisions that prohibit work stoppages or strikes and provide for binding arbitration dispute resolution in the event of an extended disagreement.

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

The financial results and data applicable to each of the Company's business segments as well as their financing requirements are set forth in Item 7 - MD&A and Item 8 - Note 15 and Supplementary Financial Information.

The operations of the Company and certain of its subsidiaries are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations and state hazard communication standards. The Company believes that it is in substantial compliance with these regulations, except as to what may be ultimately determined with regard to the Portland, Oregon, Harbor Superfund Site, which is discussed under Items 1 and 2 - Business and Properties - Construction Materials and Mining - Environmental Matters and in Item 8 - Note 20. There are no pending CERCLA actions for any of the Company's properties, other than the Portland, Oregon, Harbor Superfund Site.

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

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

## ELECTRIC

**General** Montana-Dakota provides electric service at retail, serving over 119,000 residential, commercial, industrial and municipal customers located in 177 communities and adjacent rural areas as of December 31, 2006. The principal properties owned by Montana-Dakota for use in its electric operations include interests in seven electric generating stations, as further described under System Supply and System Demand, and approximately 3,100 and 4,400 miles of transmission and distribution lines, respectively. Montana-Dakota has obtained and holds, or is in the process of renewing, valid and existing franchises authorizing it to conduct its electric operations in all of the municipalities it serves where such franchises are required. For additional information regarding Montana-Dakota's franchises, see Item 7 - MD&A - Prospective Information - Electric. As of December 31, 2006, Montana-Dakota's net electric plant investment approximated \$319.8 million.

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

The percentage of Montana-Dakota's 2006 retail electric utility operating revenues by jurisdiction is as follows: North Dakota - 60 percent; Montana - 22 percent; South Dakota - 7 percent; and Wyoming - 11 percent. Retail electric rates, service, accounting and certain security issuances are subject to regulation by the NDPSC, MTPSC, SDPUC and WYPSC. The interstate transmission and wholesale electric power operations of Montana-Dakota also are subject to regulation by the FERC under provisions of the Federal Power Act, as are interconnections with other utilities and power generators, the issuance of securities, accounting and other matters. Montana-Dakota participates in the Midwest ISO wholesale energy market.

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

**System Supply and System Demand** Through an interconnected electric system, Montana-Dakota serves markets in portions of western North Dakota, including Bismarck, Dickinson and Williston; eastern Montana, including Glendive and Miles City; and northern South Dakota, including Mobridge. The interconnected system consists of seven electric generating stations, which have an aggregate turbine nameplate rating attributable to Montana-Dakota's interest of 436,055 kW and a total summer net capability of 478,270 kW. Montana-Dakota's four principal generating stations are steam-turbine generating units using coal for fuel. The nameplate rating for Montana-Dakota's ownership interest in these four stations (including interests in the Big Stone Station and the Coyote Station, aggregating 22.7 percent and 25.0 percent, respectively) is 327,758 kW. Three combustion turbine peaking stations supply the balance of Montana-Dakota's interconnected system electric generating capability. In September 2005, Montana-Dakota entered into a contract for seasonal capacity from a neighboring utility, starting at 85 MW in 2007, increasing to 105 MW in 2011, with an option for capacity in 2012. Energy also will be purchased as needed from the Midwest ISO market.

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

Generating Station	Type	Nameplate Rating (kW)	Summer Capability (kW)	2006 Net Generation (kWh in thousands)

North Dakota:				
Coyote*	Steam	103,647	106,750	701,413
Heskett	Steam	86,000	102,870	444,266
Williston	Combustion Turbine	7,800	9,600	(66)**
South Dakota:				
Big Stone*	Steam	94,111	104,550	727,347
Montana:				
Lewis & Clark	Steam	44,000	52,300	336,936
Glendive	Combustion Turbine	77,347	79,400	6,514
Miles City	Combustion Turbine	23,150	22,800	1,649
		436,055	478,270	2,218,059

\* Reflects Montana-Dakota's ownership interest.

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

Virtually all of the current fuel requirements of the Coyote, Heskett and Lewis & Clark stations are met with coal supplied by subsidiaries of Westmoreland. Contracts with Westmoreland for the Coyote, Heskett and Lewis & Clark stations expire in May 2016, April 2011 and December 2007, respectively. In July 2004, Montana-Dakota entered into separate three-year coal supply agreements with each of Kennecott and Arch to meet the majority of the Big Stone Station's fuel requirements for the years 2005 to 2007 at contracted pricing. The Kennecott agreement provides for the purchase of 1.3 million tons of coal in 2007. The Arch agreement provides for the purchase of 500,000 tons of coal in 2007.

The Coyote coal supply agreement provides for the purchase of coal necessary to supply the coal requirements of the Coyote Station or 30,000 tons per week, whichever may be the greater quantity at contracted pricing. The maximum quantity of coal during the term of the agreement, and any extension, is 75 million tons. The Heskett coal supply agreement provides for the purchase of coal necessary to supply the coal requirements of Heskett Station at contracted pricing. Montana-Dakota estimates the coal requirement to be in the range of 500,000 to 600,000 tons per contract year. The Lewis & Clark coal supply agreement provides for the purchase of coal necessary to supply the coal requirements of the Lewis & Clark Station at contracted pricing. Montana-Dakota estimates the coal requirement to be in the range of 250,000 to 325,000 tons per contract year.

During the years ended December 31, 2004, through December 31, 2006, the average cost of coal purchased, including freight at Montana-Dakota's electric generating stations (including the Big Stone and Coyote stations) was as follows:

Years Ended December 31,		<b>2006</b>		2005		2004
Average cost of coal per million Btu	\$	<b>1.26</b>	\$	1.14	\$	1.08
Average cost of coal per ton	\$	<b>18.48</b>	\$	17.01	\$	15.96

The maximum electric peak demand experienced to date attributable to sales to retail customers on the interconnected system was 485,456 kW in July 2006. Montana-Dakota's latest forecast for its interconnected system indicates that its annual peak will continue to occur during the summer and the peak demand growth rate through 2012 will approximate 1.2 percent annually.

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

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

Through the Sheridan System, Montana-Dakota serves Sheridan, Wyoming, and neighboring communities. The maximum peak demand experienced to date and attributable to Montana-Dakota sales to retail consumers on that system was approximately 56,400 kW and occurred in July 2006.

In December 2004, Montana-Dakota entered into a power supply contract with Black Hills Power to purchase up to 74,000 kW of capacity annually during the period from January 1, 2007, to December 31, 2016. This contract also provides an option for Montana-Dakota to purchase 25 MW of an existing or future baseload coal-fired electric generating facility from Black Hills Power to serve the Sheridan load.

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

Fuel adjustment clauses contained in North Dakota and South Dakota jurisdictional electric rate schedules allow Montana-Dakota to reflect increases or decreases in fuel and purchased power costs (excluding demand charges) on a timely basis. An Electric Power Supply Cost Adjustment mechanism approved by the WYPSC in December 2006 will allow Montana-Dakota to timely reflect increases or decreases in fuel and purchased power costs related to the power supply contract with Black Hills Power mentioned above. In Montana, which in 2006 accounted for 22 percent of retail electric revenues, such cost changes are includable in general rate filings.

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

Montana-Dakota's electric generating facilities have Title V Operating Permits, under the Clean Air Act, issued by the states in which it operates. Each of these permits has a five-year life. Near the expiration of these permits, renewal applications are submitted. Permits continue in force beyond the expiration date, provided the application for renewal is submitted by the required date, usually six months prior to expiration. One permit was renewed in 2006. The next permit will expire in 2009. State water discharge permits issued under the requirements of the Clean Water Act are maintained for power production facilities on the Yellowstone and Missouri rivers. These permits also have five-year lives. Montana-Dakota renews these permits as necessary prior to expiration. Other permits held by these facilities may include an initial siting permit, which is typically a one-time, preconstruction permit issued by the state; state permits to dispose of combustion by-products; state authorizations to withdraw water for operations; and Army Corps permits to construct water intake structures. Montana-Dakota's Army Corps permits grant one-time permission to construct and do not require renewal. Other permit terms vary and the permits are renewed as necessary.

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

On November 20, 2006, the Sierra Club sent a notice of intent to file a citizen suit in federal court under the Clean Air Act to the co-owners, including Montana-Dakota, of the Big Stone Station. For more information regarding this notice, see Item 8 - Note 20.

Montana-Dakota did not incur any material environmental expenditures in 2006. Expenditures are estimated to be \$4.6 million, \$16.3 million and \$4.2 million in 2007, 2008 and 2009, respectively, to maintain environmental compliance as new emission controls are required. Projects will include sulfur-dioxide and mercury control equipment installation at the power plants. For matters involving Montana-Dakota and the ND Health Department, see Item 8 - Note 20.

### NATURAL GAS DISTRIBUTION

**General** Montana-Dakota sells natural gas at retail, serving over 231,000 residential, commercial and industrial customers in 145 communities and adjacent rural areas as of December 31, 2006, and provides natural gas transportation services to certain customers on its system. Great Plains sells natural gas at retail, serving over 22,000 residential, commercial and industrial customers in 19 communities and adjacent rural areas as of December 31, 2006, and provides natural gas transportation services to certain customers on its system. These services for the two public utility divisions are provided through distribution systems aggregating approximately 5,600 miles. Montana-Dakota and Great Plains have obtained and hold, or are in the process of renewing, valid and existing franchises authorizing them to conduct their natural gas operations in all of the municipalities they serve where such franchises are required. For additional information regarding Montana-Dakota's and Great Plains' franchises, see Item 7 - MD&A - Prospective Information - Natural Gas Distribution. As of December 31, 2006, Montana-Dakota's and Great Plains' net natural gas distribution plant investment approximated \$164.0 million.

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

The percentage of Montana-Dakota's and Great Plains' 2006 natural gas utility operating revenues by jurisdiction is as follows: North Dakota - 39 percent; Minnesota - 11 percent; Montana - 24 percent; South Dakota - 20 percent; and Wyoming - 6 percent. The natural gas distribution operations of Montana-Dakota are subject to regulation by the NDPSC, MTPSC, SDPUC and WYPSC regarding retail rates, service, accounting and certain security issuances. The natural gas distribution operations of Great Plains are subject to regulation by the NDPSC and MNPUC regarding retail rates, service, accounting and certain security issuances.

During 2006, the Company entered into a definitive merger agreement to acquire Cascade. For more information regarding Cascade, see Item 8 - Note 22.

**System Supply, System Demand and Competition** Montana-Dakota and Great Plains serve retail natural gas markets, consisting principally of residential and firm commercial space and water heating users, in portions of North Dakota, including Bismarck, Dickinson, Wahpeton, Williston, Minot and Jamestown; western Minnesota, including Fergus Falls, Marshall and Crookston; eastern Montana, including Billings, Glendive and Miles City; western and north-central South Dakota, including Rapid City, Pierre and Mobridge; and northern Wyoming, including Sheridan. These markets are highly seasonal and sales volumes depend largely on the weather, the effects of which are mitigated in certain jurisdictions by a weather normalization mechanism discussed in Regulatory Matters.

The following table reflects this segment's natural gas sales, natural gas transportation volumes and degree days as a percentage of normal:

Years Ended December 31,	2006	2005	2004
		(Mdk)	
Sales:			
Residential	<b>18,998</b>	20,086	20,303
Commercial	<b>13,830</b>	14,457	14,598
Industrial	<b>1,725</b>	1,688	1,706
Total	<b>34,553</b>	36,231	36,607
Transportation:			

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Commercial	1,579	1,637	1,702
Industrial	12,479	12,928	12,154
Total	14,058	14,565	13,856
Total throughput	48,611	50,796	50,463
Degree days * (% of normal)	86.7%	90.9%	90.7%

\* Degree days are a measure of daily temperature-related demand for energy for heating.

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

Montana-Dakota and Great Plains obtain their system requirements directly from producers, processors and marketers. Such natural gas is supplied by a portfolio of contracts specifying market-based pricing, and is transported under transportation agreements by Williston Basin, Kinder Morgan, Inc., South Dakota Intrastate Pipeline Company, Northern Border Pipeline Company, Viking Gas Transmission Company and Northern Natural Gas Company to provide firm service to their customers. Montana-Dakota also has contracted with Williston Basin and Great Plains has contracted with Northern Natural Gas Company to provide firm storage services that enable both divisions to meet winter peak requirements as well as allow them to better manage their natural gas costs by purchasing natural gas at more uniform daily volumes throughout the year. Demand for natural gas, which is a widely traded commodity, is sensitive to seasonal heating and industrial load requirements as well as changes in market price. Montana-Dakota and Great Plains believe that, based on regional supplies of natural gas and the pipeline transmission network currently available through its suppliers and pipeline service providers, supplies are adequate to meet their system natural gas requirements for the next five years.

**Regulatory Matters** In September 2004, Great Plains filed an application with the MNPUC for a natural gas rate increase. For additional information regarding Great Plains' natural gas rate increase filing, see Item 8 - Note 19.

Montana-Dakota's and Great Plains' retail natural gas rate schedules contain clauses permitting monthly adjustments in rates based upon changes in natural gas commodity, transportation and storage costs. Current regulatory practices allow Montana-Dakota and Great Plains to recover increases or refund decreases in such costs within a period ranging from 24 to 28 months from the time such costs are paid.

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

**Environmental Matters** Montana-Dakota's and Great Plains' natural gas distribution operations are subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. Montana-Dakota and Great Plains believe they are in substantial compliance with those regulations.

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

Montana-Dakota and Great Plains did not incur any material environmental expenditures in 2006 and do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations in relation to the natural gas distribution operations through 2009.

Montana-Dakota commenced the remediation of a historic manufactured gas plant located in Bismarck, North Dakota, in early 2007. Expenses related to this work are not expected to be material and are expected to be recovered through the regulatory process. In addition, Montana-Dakota has had an economic interest in five other historic manufactured gas plants within its service territory, none of which are currently being actively investigated, and for which any remediation expenses are not expected to be material.

## **CONSTRUCTION SERVICES**

**General** MDU Construction Services specializes in electrical line construction, pipeline construction, inside electrical wiring and cabling, external lighting and traffic signalization, and mechanical and fire protection services as well as the manufacture and distribution of specialty equipment. These services are provided to utilities and large manufacturing, commercial, government and institutional customers.

During 2006, the Company acquired a construction service business in Nevada. This acquisition was not material to the Company.

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

MDU Construction Services operates a fleet of owned and leased trucks and trailers, support vehicles and specialty construction equipment, such as backhoes, excavators, trenchers, generators, boring machines and cranes. In addition, as of December 31, 2006, MDU Construction Services owned or leased offices in 16 states. This space is used for offices, equipment yards, warehousing, storage and vehicle shops. At December 31, 2006, MDU Construction Services' net plant investment was approximately \$45.8 million.

MDU Construction Services' backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts and the estimated value of future services that it expects to provide under other master agreements. The backlog at December 31, 2006, was approximately \$527 million compared to \$403 million at December 31, 2005. MDU Construction Services expects to complete a significant amount of this backlog during the year ending December 31, 2007. Due to the nature of its contractual arrangements, in many instances MDU Construction Services' customers are not committed to the specific volumes of services to be purchased under a contract, but rather MDU Construction Services is committed to perform these services if and to the extent requested by the customer. The customer is, however, obligated to obtain these services from MDU Construction Services if they are not performed by the customer's employees. Therefore, there can be no assurance as to the customer's requirements during a particular period or that such estimates at any point in time are predictive of future revenues.

This industry is experiencing a shortage of lineworkers in certain areas. MDU Construction Services works with the National Electrical Contractors Association and the IBEW on hiring and recruiting qualified lineworkers.

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

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

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

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

MDU Construction Services did not incur any material environmental expenditures in 2006 and does not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2009.

#### **PIPELINE AND ENERGY SERVICES**

**General** Williston Basin, the regulated business of WBI Holdings, owns and operates over 3,700 miles of transmission, gathering and storage lines and owns or leases and operates 27 compressor stations in the states of Montana, North Dakota, South Dakota and Wyoming. Three underground storage fields in Montana and Wyoming provide storage services to local distribution companies, producers, natural gas marketers and others, and serve to enhance system deliverability. Williston Basin's system is strategically located near five natural gas producing basins, making natural gas supplies available to Williston Basin's transportation and storage customers. The system has 11 interconnecting points with other pipeline facilities allowing for the receipt and/or delivery of natural gas to and from other regions of the country and from Canada. At December 31, 2006, Williston Basin's net plant investment was approximately \$235.5 million. Under the Natural Gas Act, as amended, Williston Basin is subject to the jurisdiction of the FERC regarding certificate, rate, service and accounting matters.

Bitter Creek, the nonregulated pipeline business, owns and operates gathering facilities in Colorado, Kansas, Montana and Wyoming. Bitter Creek also owns a one-sixth interest in the assets of various offshore gathering pipelines, an associated onshore pipeline and related processing facilities. In total, these facilities include over 1,800 miles of field gathering lines and 83 owned or leased compression facilities, some of which interconnect with Williston Basin's system. In addition, Bitter Creek provides installation sales and/or leasing of alternate energy delivery systems, primarily propane air facilities, energy efficiency product sales and installation services to large end users.

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

In 2006, WBI Holdings sold Innovatum, a cable and pipeline magnetization and locating company. Certain assets of Innovatum were not included in the sale; however, the Company is actively pursuing a sale of those remaining assets. For additional information regarding Innovatum, see Item 8 - Notes 2 and 3.



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

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

Williston Basin transports substantially all of Montana-Dakota's natural gas, primarily utilizing firm transportation agreements, which for the year ended December 31, 2006, represented 66 percent of Williston Basin's currently subscribed firm transportation contract demand. Montana-Dakota has a firm transportation agreement with Williston Basin for a term of five years expiring in June 2012. In addition, Montana-Dakota has a contract with Williston Basin to provide firm storage services to facilitate meeting Montana-Dakota's winter peak requirements for a term of 20 years expiring in July 2015.

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

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

Natural gas supplies from certain traditional regional sources have declined during the past several years and such declines are anticipated to continue. As a result, Williston Basin anticipates that a potentially significant amount of the future supply needed to meet its customers' demands will come from nontraditional and off-system sources. The Company's CBNG assets in the Powder River Basin are expected to meet some of these supply needs. For additional information regarding CBNG legal proceedings, see Item 1A - Risk Factors - Environmental and Regulatory Risks and Item 8 - Note 20. Williston Basin expects to facilitate the movement of these supplies by making available its transportation and storage services. Williston Basin will continue to look for opportunities to increase transportation, gathering and storage services through system expansion and/or other pipeline interconnections or enhancements that could provide substantial future benefits.

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

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

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

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

WBI Holdings' pipeline and energy services operations did not incur any material environmental expenditures in 2006 and do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2009.

## NATURAL GAS AND OIL PRODUCTION

**General** Fidelity is involved in the acquisition, exploration, development and production of natural gas and oil resources. Fidelity's activities include the acquisition of producing properties and leaseholds with potential development opportunities, exploratory drilling and the operation and development of natural gas and oil production properties. Fidelity shares revenues and expenses from the development of specified properties in proportion to its ownership interests. Fidelity's business is focused primarily in three core regions: Rocky Mountain, Mid-Continent/Gulf States and Offshore Gulf of Mexico.

### Rocky Mountain

Fidelity's properties in this region are primarily located in the states of Colorado, Montana, North Dakota and Wyoming. Fidelity owns in fee or holds natural gas and oil leases for the properties it operates that are in the Bonny Field located in eastern Colorado, the Baker Field in southeastern Montana and southwestern North Dakota, the Bowdoin area located in north-central Montana, and the Powder River Basin of Montana and Wyoming. In 2006, Fidelity acquired and became the operator of natural gas and oil properties in the Big Horn Basin of Wyoming. This acquisition was not material to the Company. Fidelity also owns nonoperated natural gas and oil interests and undeveloped acreage positions in this region.

### Mid-Continent/Gulf States

This region includes properties in Alabama, Louisiana, New Mexico, Oklahoma and Texas. Fidelity owns in fee or holds natural gas and oil leases for the properties it operates that are in the Tabasco and Texan Gardens fields of Texas. In addition, Fidelity owns several nonoperated interests and undeveloped acreage positions in this region.

### Offshore Gulf of Mexico

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

Fidelity continues to seek additional reserve and production growth opportunities through the direct acquisition of producing properties, through the acquisition of exploration and development leaseholds and acreage and through exploratory drilling opportunities, as well as development of its existing properties. Future growth is dependent upon its success in these endeavors.

**Operating Information** Information on natural gas and oil production, average realized prices and production costs per Mcf equivalent for 2006, 2005 and 2004, were as follows:

		<b>2006</b>		2005		2004
Natural gas:						
Production (MMcf)		<b>62,062</b>		59,378		59,750
Average realized price per Mcf (including hedges)	\$	<b>6.03</b>	\$	6.11	\$	4.69
Average realized price per Mcf (excluding hedges)	\$	<b>5.62</b>	\$	6.87	\$	4.90
Oil:						
Production (MBbls)		<b>2,041</b>		1,707		1,747
Average realized price per barrel (including hedges)	\$	<b>50.64</b>	\$	42.59	\$	34.16
Average realized price per barrel (excluding hedges)	\$	<b>51.73</b>	\$	48.73	\$	37.75
Production costs, including taxes, per Mcf equivalent:						

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Lease operating costs	\$	.71	\$	.56	\$	.47
Gathering and transportation		.25		.20		.17
Production and property taxes		.47		.50		.32
	\$	1.43	\$	1.26	\$	.96

2006 annual net production by region was as follows:

Region	Natural Gas (MMcf)	Oil (MBbls)	Total (MMcfe)	Percent of Total
Rocky Mountain	47,879	1,172	54,909	74%
Mid-Continent/Gulf States	8,513	560	11,872	16
Offshore Gulf of Mexico	5,670	309	7,526	10
Total	62,062	2,041	74,307	100%

**Well and Acreage Information** Gross and net productive well counts and gross and net developed and undeveloped acreage related to Fidelity's interests at December 31, 2006, were as follows:

	Gross*	Net**
Productive wells:		
Natural gas	4,128	3,373
Oil	3,817	240
Total	7,945	3,613
Developed acreage (000's)	749	377
Undeveloped acreage (000's)	963	399

\* Reflects well or acreage in which an interest is owned.

\*\* Reflects Fidelity's percentage ownership.

**Exploratory and Development Wells** The following table reflects activities relating to Fidelity's natural gas and oil wells drilled and/or tested during 2006, 2005 and 2004:

	Net Exploratory			Net Development			Total
	Productive	Dry Holes	Total	Productive	Dry Holes	Total	
2006	4	1	5	331	1	332	337
2005	2	3	5	312	25	337	342
2004	1	4	5	230	20	250	255

At December 31, 2006, there were 222 gross (194 net) wells in the process of drilling or under evaluation, 215 of which were development wells and 7 of which were exploratory wells. These wells are not included in the previous table. Fidelity expects to complete drilling and testing the majority of these wells within the next 12 months.

The information in the table above should not be considered indicative of future performance nor should it be assumed that there is necessarily any correlation between the number of productive wells drilled and quantities of reserves found or economic value. Productive wells are those that produce commercial quantities of hydrocarbons whether or not they produce a reasonable rate of return.

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

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

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

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

In connection with the development of CBNG properties, certain capital expenditures were incurred related to water handling. For 2006, capital expenditures for water handling in compliance with current laws and regulations were approximately \$800,000 and are estimated to be approximately \$3.3 million, \$2.6 million and \$1.8 million in 2007, 2008 and 2009, respectively. For more information regarding CBNG legal proceedings, see Item 1A - Risk Factors and Item 8 - Note 20.

**Reserve Information** Fidelity's recoverable proved developed and undeveloped natural gas and oil reserves by region at December 31, 2006, are as follows:

Region	Natural Gas (MMcf)	Oil (MBbls)	Total (MMcfe)	Percent of Total	PV-10 Value * (in millions)
Rocky Mountain	413,000	19,600			