MDU RESOURCES GROUP INC
Form 10-Q
August 07, 2008

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

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2008

OR

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

For the Transition Period from _____________ to ______________

Commission file number 1-3480

MDU Resources Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	41-0423660
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 31, 2008: 183,216,763 shares.

DEFINITIONS

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

Abbreviation or Acronym	
2007 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2007
ALJ	Administrative Law Judge
Anadarko	Anadarko Petroleum Corporation
APB	Accounting Principles Board
APB Opinion No. 28	Interim Financial Reporting
Badger Hills Project	Tongue River-Badger Hills Project
Bbl	Barrel of oil or other liquid hydrocarbons
Bcf	Billion cubic feet
BER	Montana Board of Environmental Review
Big Stone Station	450-MW coal-fired electric generating facility located near Big Stone City, South Dakota (22.7 percent ownership)
Big Stone Station II	Proposed coal-fired electric generating facility located near Big Stone City, South Dakota (the Company anticipates ownership of at least 116 MW)
BLM	Bureau of Land Management
Brazilian Transmission Lines	Centennial Resources' equity method investment in companies owning ECTE, ENTE and ERTE
Btu	British thermal unit
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
CBNG	Coalbed natural gas
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial International	Centennial Energy Resources International, Inc., a direct wholly owned subsidiary of Centennial Resources
Centennial Power	Centennial Power, Inc., a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
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

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EBSR	Elk Basin Storage Reservoir, one of Williston Basin's natural gas storage reservoirs, which is located in Montana and Wyoming
ECTE	Empresa Catarinense de Transmissão de Energia S.A.
EIS	Environmental Impact Statement
ENTE	Empresa Norte de Transmissão de Energia S.A.
EPA	U.S. Environmental Protection Agency
ERTE	Empresa Regional de Transmissão de Energia S.A.
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
FSP	FASB Staff Position
FSP FAS 157-2	Effective Date of FASB Statement No. 157
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Hart-Scott-Rodino Act	Hart-Scott-Rodino Antitrust Improvements Act
Hartwell	Hartwell Energy Limited Partnership, a former equity method investment of the Company (sold in the third quarter of 2007)
Howell	Howell Petroleum Corporation, a wholly owned subsidiary of Anadarko
Indenture	Indenture dated as of December 15, 2003, as supplemented, from the Company to The Bank of New York as Trustee
Innovatum	Innovatum Inc., a former indirect wholly owned subsidiary of WBI Holdings (the stock and Innovatum's assets have been sold)
Intermountain	Intermountain Gas Company, a regulated natural gas distribution company
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
kWh	Kilowatt-hour
LWG	Lower Willamette Group
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
MDU Brasil	MDU Brasil Ltda., an indirect wholly owned subsidiary of Centennial International
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MEPA	Montana Environmental Policy Act
MMBtu	Million Btu
MMcf	Million cubic feet
MMdk	Million decatherms
MNPUC	Minnesota Public Utilities Commission

Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company

Montana BOGC	Montana Board of Oil & Gas Conservation
Montana DEQ	Montana State Department of Environmental Quality
Montana Federal District Court	U.S. District Court for the District of Montana
Montana State District Court	Montana Twenty-Second Judicial District Court, Big Horn County
Mortgage	Indenture of Mortgage dated May 1, 1939, as supplemented, amended and restated, from the Company to The Bank of New York and Douglas J. MacInnes, successor trustees
MPX	MPX Termoceara Ltda. (49 percent ownership, sold in June 2005)
MW	Megawatt
ND Health Department	North Dakota Department of Health
NDPSC	North Dakota Public Service Commission
NEPA	National Environmental Policy Act
Ninth Circuit	U.S. Ninth Circuit Court of Appeals
NPRC	Northern Plains Resource Council
NSPS	New Source Performance Standards
OPUC	Oregon Public Utilities Commission
Order on Rehearing	Order on Rehearing and Compliance and Remanding Certain Issues for Hearing
Oregon DEQ	Oregon State Department of Environmental Quality
Prairielands	Prairielands Energy Marketing, Inc., an indirect wholly owned subsidiary of WBI Holdings
PSD	Prevention of Significant Deterioration
ROD	Record of Decision
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
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. 115	Accounting for Certain Investments in Debt and Equity Securities
SFAS No. 141 (revised)	Business Combinations (revised 2007)
SFAS No. 157	Fair Value Measurements
SFAS No. 159	The Fair Value Option for Financial Assets and Financial Liabilities
SFAS No. 160	Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (Consolidated Financial Statements)
SFAS No. 161	Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133
South Dakota Federal District Court	U.S. District Court for the District of South Dakota
South Dakota SIP	South Dakota State Implementation Plan
TRWUA	Tongue River Water Users' Association
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
Williston Basin	Williston Basin Interstate Pipeline Company, an indirect wholly owned subsidiary of WBI Holdings

WUTC	Washington Utilities and Transportation Commission

INTRODUCTION

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. Cascade distributes natural gas in Washington and Oregon. These operations also supply related value-added products and services.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings (comprised of the pipeline and energy services and the natural gas and oil production segments), Knife River (construction materials and contracting segment), MDU Construction Services (construction services segment), Centennial Resources and Centennial Capital (both reflected in the Other category). For more information on the Company’s business segments, see Note 15.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MDU RESOURCES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
	(In thousands, except per share amounts)			
Operating revenues:				
Electric, natural gas distribution and pipeline and energy services	$ 376,324	$ 195,488	$ 893,586	$ 463,500
Construction services, natural gas and oil production, construction materials and contracting, and other	875,448	786,877	1,480,093	1,306,356
	1,251,772	982,365	2,373,679	1,769,856
Operating expenses:				
Fuel and purchased power	15,718	15,489	34,495	32,607
Purchased natural gas sold	145,060	40,294	421,684	139,129
Operation and maintenance:				
Electric, natural gas distribution and pipeline and energy services	61,828	46,659	121,390	91,315
Construction services, natural gas and oil production, construction materials and contracting, and other	687,479	629,782	1,185,097	1,075,631
Depreciation, depletion and amortization	89,678	70,044	176,909	139,846
Taxes, other than income	53,518	37,312	108,041	69,574
	1,053,281	839,580	2,047,616	1,548,102
Operating income	198,491	142,785	326,063	221,754
Earnings from equity method investments	2,039	4,030	3,864	6,084
Other income (expense)	(37)	883	1,528	2,215
Interest expense	19,186	17,478	37,842	34,854
Income before income taxes	181,307	130,220	293,613	195,199
Income taxes	65,800	48,184	107,055	71,756
Income from continuing operations	115,507	82,036	186,558	123,443
Income from discontinued operations, net of tax (Note 3)	---	7,439	---	12,694

Net income	115,507	89,475	186,558	136,137
Dividends on preferred stocks	171	171	343	343
Earnings on common stock	$ 115,336	$ 89,304	$ 186,215	$ 135,794

(continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.

MDU RESOURCES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME (continued)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Earnings per common share -- basic				
Earnings before discontinued operations	$ .63	$ .45	$ 1.02	$ .68
Discontinued operations, net of tax	---	.04	---	.07
Earnings per common share -- basic	$ .63	$ .49	$ 1.02	$ .75
Earnings per common share -- diluted				
Earnings before discontinued operations	$ .63	$ .45	$ 1.01	$ .67
Discontinued operations, net of tax	---	.04	---	.07
Earnings per common share -- diluted	$ .63	$ .49	$ 1.01	$ .74
Dividends per common share	$ .1450	$ .1350	$ .2900	$ .2700
Weighted average common shares outstanding -- basic	182,972	181,847	182,785	181,595
Weighted average common shares outstanding -- diluted	183,727	182,746	183,513	182,469

The accompanying notes are an integral part of these consolidated financial statements.

MDU RESOURCES GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2008	June 30, 2007	December 31, 2007
	(In thousands, except shares and per share amounts)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 82,039	$ 68,134	$ 105,820
Receivables, net	769,379	642,559	715,484
Inventories	267,125	221,179	229,255
Deferred income taxes	47,442	---	7,046
Short-term investments	13,768	16,700	91,550
Prepayments and other current assets	175,293	78,535	64,998
Current assets held for sale and related to discontinued operations	---	69,662	179
	1,355,046	1,096,769	1,214,332
Investments	121,279	136,585	118,602
Property, plant and equipment	6,507,164	4,953,171	5,930,246
Less accumulated depreciation, depletion and amortization	2,408,093	1,851,825	2,270,691
	4,099,071	3,101,346	3,659,555
Deferred charges and other assets:			
Goodwill	437,832	227,029	425,698
Other intangible assets, net	32,485	17,150	27,792
Other	166,019	113,193	146,455
Noncurrent assets held for sale and related to discontinued operations	---	410,662	---
	636,336	768,034	599,945
	$ 6,211,732	$ 5,102,734	$ 5,592,434
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	$ 79,960	$ ---	$ 1,700
Long-term debt due within one year	87,366	131,661	161,682
Accounts payable	396,715	284,208	369,235
Taxes payable	46,200	38,769	60,407
Deferred income taxes	---	1,396	---
Dividends payable	26,723	24,725	26,619
Accrued compensation	55,631	47,440	66,255
Other accrued liabilities	295,153	108,450	163,990
Current liabilities held for sale and related to discontinued operations	---	14,156	---
	987,748	650,805	849,888
Long-term debt	1,474,908	1,224,286	1,146,781
Deferred credits and other liabilities:			
Deferred income taxes	685,480	570,590	668,016

Other liabilities	472,989	349,895	396,430
Noncurrent liabilities held for sale and related to discontinued operations	---	35,488	---
	1,158,469	955,973	1,064,446
Commitments and contingencies			
Stockholders' equity:			
Preferred stocks	15,000	15,000	15,000
Common stockholders' equity:			
Common stock			
Shares issued -- $1.00 par value, 183,706,236 at June 30, 2008, 182,416,029 at June 30, 2007 and 182,946,528 at December 31, 2007	183,706	182,416	182,947
Other paid-in capital	925,784	895,838	912,806
Retained earnings	1,567,035	1,190,935	1,433,585
Accumulated other comprehensive loss	(97,292)	(8,893)	(9,393)
Treasury stock at cost – 538,921 shares	(3,626)	(3,626)	(3,626)
Total common stockholders' equity	2,575,607	2,256,670	2,516,319
Total stockholders' equity	2,590,607	2,271,670	2,531,319
	$ 6,211,732	$ 5,102,734	$ 5,592,434

The accompanying notes are an integral part of these consolidated financial statements.

MDU RESOURCES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)	
Operating activities:		
Net income	$ 186,558	$ 136,137
Income from discontinued operations, net of tax	---	12,694
Income from continuing operations	186,558	123,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	176,909	139,846
Earnings, net of distributions, from equity method investments	(1,844)	(722)
Deferred income taxes	34,870	24,756
Changes in current assets and liabilities, net of acquisitions:		
Receivables	(46,550)	(14,083)
Inventories	(36,482)	(16,690)
Other current assets	(111,199)	(25,259)
Accounts payable	18,953	(11,644)
Other current liabilities	11,209	(38,040)
Other noncurrent changes	6,381	(1,107)
Net cash provided by continuing operations	238,805	180,500
Net cash used in discontinued operations	---	(41,884)
Net cash provided by operating activities	238,805	138,616
Investing activities:		
Capital expenditures	(386,014)	(242,729)
Acquisitions, net of cash acquired	(271,191)	(329)
Net proceeds from sale or disposition of property	26,379	10,848
Investments	80,389	17,309
Net cash used in continuing operations	(550,437)	(214,901)
Net cash used in discontinued operations	---	(1,379)
Net cash used in investing activities	(550,437)	(216,280)
Financing activities:		
Issuance of short-term borrowings	79,960	---
Repayment of short-term borrowings	(1,700)	---
Issuance of long-term debt	379,644	186,578
Repayment of long-term debt	(125,637)	(85,028)
Proceeds from issuance of common stock	4,945	15,775
Dividends paid	(53,296)	(49,300)
Tax benefit on stock-based compensation	3,737	4,505
Net cash provided by continuing operations	287,653	72,530
Net cash provided by discontinued operations	---	---

Net cash provided by financing activities		287,653		72,530
Effect of exchange rate changes on cash and cash equivalents		198		190
Decrease in cash and cash equivalents		(23,781)		(4,944)
Cash and cash equivalents -- beginning of year		105,820		73,078
Cash and cash equivalents -- end of period	$	82,039	$	68,134

The accompanying notes are an integral part of these consolidated financial statements.

MDU RESOURCES GROUP, INC.
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

June 30, 2008 and 2007
(Unaudited)

1. Basis of presentation

The accompanying consolidated interim financial statements were prepared in conformity with the basis of presentation reflected in the consolidated financial statements included in the Company's 2007 Annual Report, and the standards of accounting measurement set forth in APB Opinion No. 28 and any amendments thereto adopted by the FASB. Interim financial statements do not include all disclosures provided in annual financial statements and, accordingly, these financial statements should be read in conjunction with those appearing in the 2007 Annual Report. The information is unaudited but includes all adjustments that are, in the opinion of management, necessary for a fair presentation of the accompanying consolidated interim financial statements and are of a normal recurring nature.

2. Seasonality of operations

Some of the Company's operations are highly seasonal and revenues from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Accordingly, the interim results for particular businesses, and for the Company as a whole, may not be indicative of results for the full fiscal year.

3. Discontinued operations

As described in Note 3 in the Company's Notes to Consolidated Financial Statements in the 2007 Annual Report, the Company's consolidated financial statements and accompanying notes for prior periods present the results of operations of Innovatum and the domestic independent power production assets as discontinued operations. In addition, the assets and liabilities of these operations were treated as held for sale from the time each of the assets was classified as held for sale.

During the fourth quarter of 2006, the stock and a portion of the assets of Innovatum were sold and the Company sold the remaining assets of Innovatum on January 23, 2008. The loss on disposal of Innovatum was not material.

In July 2007, Centennial Resources sold its domestic independent power production business consisting of Centennial Power and CEM. The gain on the sale of the assets, excluding the gain on the sale of Hartwell as discussed in Note 11, was approximately $85.4 million (after tax).

Operating results related to Innovatum were as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	(In thousands)	
Operating revenues	$ 439	$ 689
Income from discontinued operations before income tax expense (benefit)	104	28
Income tax expense (benefit)	15	(29)
Income from discontinued operations, net of tax	$ 89	$ 57

Operating results related to the domestic independent power production assets were as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	(In thousands)	
Operating revenues	$ 64,291	$ 98,887
Income from discontinued operations before income tax expense	9,532	16,923
Income tax expense	2,182	4,286
Income from discontinued operations, net of tax	$ 7,350	$ 12,637

The carrying amounts of the major assets and liabilities related to the domestic independent power production assets held for sale, as well as the major assets and liabilities related to Innovatum, were as follows:

	June 30, 2007	December 31, 2007
	(In thousands)	
Cash and cash equivalents	$ 1,575	$ ---
Receivables, net	7,878	---
Inventories	555	179
Prepayments and other current assets	59,654	---
Total current assets held for sale and related to discontinued operations	$ 69,662	$ 179
Net property, plant and equipment	$ 391,708	$ ---
Goodwill	11,167	---
Other intangible assets, net	7,241	---
Other	546	---
Total noncurrent assets held for sale and related to discontinued operations	$ 410,662	$ ---
Accounts payable	$ 7,264	$ ---
Other accrued liabilities	6,892	---
Total current liabilities held for sale and related to discontinued operations	$ 14,156	$ ---
Deferred income taxes	$ 32,888	$ ---
Other liabilities	2,600	---
Total noncurrent liabilities held for sale and related to discontinued operations	$ 35,488	$ ---

4. Allowance for doubtful accounts

The Company's allowance for doubtful accounts as of June 30, 2008 and 2007, and December 31, 2007, was $14.3 million, $7.7 million and $14.6 million, respectively.

5. Natural gas in storage

Natural gas in storage for the Company's regulated operations is generally carried at cost using the last-in, first-out method. The portion of the cost of natural gas in storage expected to be used within one year was included in inventories and was $11.4 million, $9.7 million and $28.8 million at June 30, 2008 and 2007, and December 31, 2007, respectively. The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was included in other assets and was $43.0 million, $44.2 million, and $43.0 million at June 30, 2008 and 2007, and December 31, 2007, respectively.

6. Inventories

Inventories, other than natural gas in storage for the Company's regulated operations, consisted primarily of aggregates held for resale of $110.2 million, $100.6 million and $102.2 million; materials and supplies of $101.7 million, $75.0 million and $56.0 million; and other inventories of $43.8 million, $35.9 million and $42.3 million, as of June 30, 2008 and 2007, and December 31, 2007, respectively. These inventories were stated at the lower of average cost or market value.

7. Earnings per common share

Basic earnings per common share were computed by dividing earnings on common stock by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per common share were computed by dividing earnings on common stock by the total of the weighted average number of shares of common stock outstanding during the applicable period, plus the effect of outstanding stock options, restricted stock grants and performance share awards. Common stock outstanding includes issued shares less shares held in treasury.

8. Cash flow information

Cash expenditures for interest and income taxes were as follows:

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
Interest, net of amount capitalized	$ 37,504	$ 35,028
Income taxes	$ 91,398	$ 113,919

Income taxes paid for the six months ended June 30, 2008, decreased from the amount paid for the six months ended June 30, 2007, primarily due to estimated quarterly income tax payments paid in 2007 on the estimated gain on the sale of the domestic independent power production assets as discussed in Note 3.

9. New accounting standards

SFAS No. 157 In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements with certain exceptions. SFAS No. 157 was effective for the Company on January 1, 2008. FSP FAS 157-2 delays the effective date of SFAS No. 157 for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. The types of assets and liabilities that are recognized at fair value for which the Company has not applied the provisions of SFAS No. 157, due to the delayed effective date, include nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or new basis event, certain fair value measurements associated with goodwill impairment testing, indefinite-lived intangible assets and nonfinancial long-lived assets measured at fair value for impairment assessment, and asset retirement obligations initially measured at fair value. The adoption of SFAS No. 157, excluding the application to certain nonfinancial assets and nonfinancial liabilities with a delayed effective date of January 1, 2009, did not have a material effect on the Company's financial position or results of operations. The Company is evaluating the effects of the adoption of the delayed provisions of SFAS No. 157.

SFAS No. 159 In February 2007, the FASB issued SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 was effective for the Company on January 1, 2008, and at adoption, the Company elected to measure its investments in certain fixed-income and equity securities at fair value in accordance with SFAS No. 159. These investments prior to January 1, 2008, were accounted for as available-for-sale investments and recorded at fair value with any unrealized gains or losses, net of income taxes, recorded in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets until realized. Upon the adoption of SFAS No. 159, the unrealized gain on the available-for-sale investments of $405,000 (after tax) was recorded as an increase to the January 1, 2008, balance of retained earnings. The adoption of SFAS No. 159 did not have a material effect on the Company's financial position or results of operations.

SFAS No. 141 (revised) In December 2007, the FASB issued SFAS No. 141 (revised). SFAS No. 141 (revised) requires an acquirer to recognize and measure the assets acquired, liabilities assumed and any noncontrolling interests in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exception. In addition, SFAS No. 141 (revised) requires that acquisition-related costs will be generally expensed as incurred. SFAS No. 141 (revised) also expands the disclosure requirements for business combinations. SFAS No. 141 (revised) will be effective for the Company on January 1, 2009. The Company is evaluating the effects of the adoption of SFAS No. 141 (revised).

SFAS No. 160 In December 2007, the FASB issued SFAS No. 160. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 will be effective for the Company on January 1, 2009. The Company is evaluating the effects of the adoption of SFAS No. 160.

SFAS No. 161 In March 2008, the FASB issued SFAS No. 161. SFAS No. 161 requires enhanced disclosures about an entity’s derivative and hedging activities including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. This Statement will be effective for the Company on January 1, 2009. The Company is evaluating the effects of the adoption of SFAS No. 161.

10. Comprehensive income

Comprehensive income is the sum of net income as reported and other comprehensive income (loss). The Company's other comprehensive income (loss) resulted from gains (losses) on derivative instruments qualifying as hedges and foreign currency translation adjustments. For more information on derivative instruments, see Note 13.

Comprehensive income, and the components of other comprehensive income (loss) and related tax effects, were as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
	(In thousands)	
Net income	$ 115,507	$ 89,475
Other comprehensive income (loss):		
Net unrealized gain (loss) on derivative instruments qualifying as hedges:		
Net unrealized gain (loss) on derivative instruments arising during the period, net of tax of $(37,169) and $6,096 in 2008 and 2007, respectively	(60,644)	9,739
Less: Reclassification adjustment for gain (loss) on derivative instruments included in net income, net of tax of $(5,045) and $1,509 in 2008 and 2007, respectively	(8,230)	2,411
Net unrealized gain (loss) on derivative instruments qualifying as hedges	(52,414)	7,328
Foreign currency translation adjustment, net of tax of $2,570 in 2008	3,977	3,576
	(48,437)	10,904
Comprehensive income	$ 67,070	$ 100,379

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)	
Net income	$ 186,558	$ 136,137
Other comprehensive loss:		
Net unrealized loss on derivative instruments qualifying as hedges:		
Net unrealized gain (loss) on derivative instruments arising during the period, net of tax of $(53,537) and $1,204 in 2008 and 2007, respectively	(87,433)	1,923
Less: Reclassification adjustment for gain on derivative instruments included in net income, net of tax of $2,786 and $6,272 in 2008 and 2007, respectively	4,522	10,018
Net unrealized loss on derivative instruments qualifying as hedges	(91,955)	(8,095)
Foreign currency translation adjustment, net of tax of $2,876 in 2008	4,461	5,684
	(87,494)	(2,411)
Comprehensive income	$ 99,064	$ 133,726

11. Equity method investments

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. The Company's equity method investments at June 30, 2008, include the Brazilian Transmission Lines.

In August 2006, MDU Brasil acquired ownership interests in companies owning the Brazilian Transmission Lines. The interests involve the ENTE (13.3-percent ownership interest), ERTE (13.3-percent ownership interest) and ECTE (25-percent ownership interest) electric transmission lines, which are primarily in northeastern and southern Brazil.

In September 2004, Centennial Resources, through indirect wholly owned subsidiaries, acquired a 50-percent ownership interest in Hartwell, which owns a 310-MW natural gas-fired electric generating facility near Hartwell, Georgia. In July 2007, the Company sold its ownership interest in Hartwell, and realized a gain of $10.1 million ($6.1 million after tax) from the sale.

At June 30, 2008 and 2007, and December 31, 2007, the Company's equity method investments had total assets of $431.1 million, $469.2 million and $398.4 million, respectively, and long-term debt of $218.8 million, $277.2 million and $211.2 million, respectively. The Company's investment in its equity method investments was approximately $63.0 million, $80.6 million and $59.0 million, including undistributed earnings of $8.7 million, $7.6 million and $6.9 million, at June 30, 2008 and 2007, and December 31, 2007, respectively.

12. Goodwill and other intangible assets

The changes in the carrying amount of goodwill were as follows:

Six Months Ended June 30, 2008	Balance as of January 1, 2008	Goodwill Acquired During the Year*	Balance as of June 30, 2008
		(In thousands)	
Electric	$		