NOTES TO THE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

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SEE PAGE 123 FOR REQUIRED INFORMATION.

Definitions

The following abbreviations and acronyms used in the Notes are defined below:

Abbreviation or Acronym	
AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
BART	Best available retrofit technology
Big Stone Station	475-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership)
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Company	MDU Resources Group, Inc.
Coyote Station	427-MW coal fired electric generating facility near Beulah, North Dakota (25 percent ownership)
EBITDA	Earnings before interest, taxes, depreciation and amortization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
K-Plan	Company's 401(k) Retirement Plan
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
SDPUC	South Dakota Public Utilities Commission
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan
Wygen III	100-MW coal-fired electric generating facility near Gillette, Wyoming (25 percent ownership)
WYPSC	Wyoming Public Service Commission

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The Company is a diversified natural resource company, which was incorporated under the laws of the state of Delaware in 1924. Montana-Dakota and Great Plains are public utility divisions of the Company.

Montana-Dakota 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 services. The Company provides service to more than 138,000 electric and 286,000 natural gas residential, commercial, industrial and municipal customers in 277 communities and adjacent rural areas as of December 31, 2014.

Montana-Dakota is subject to regulation by the FERC, NDPSC, MTPSC, SDPUC, and WYPSC. Great Plains is subject to regulation by the MNPUC and the NDPSC.

The Company owns two wholly owned subsidiaries, Centennial and MDU Energy Capital, as well as ownership interests in the assets, liabilities and expenses of jointly owned electric generating facilities.

The financial statements were prepared in accordance with the accounting requirements of the FERC set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than GAAP. These requirements differ from GAAP related to the presentation of certain items including, but not limited to, the current portion of long-term debt, deferred income taxes, cost of removal liabilities, and current unrecovered purchased gas costs. As required by the FERC for Form 1 report purposes, the Company reports its subsidiary investments using the equity method rather than consolidating the assets, liabilities, revenues and expenses of the subsidiaries, as required by GAAP. If GAAP were followed, utility plant, other property and investments would increase by $1.8 billion; current and accrued assets would increase by $1.0 billion; deferred debits would increase by $732.5 million; long-term debt would increase by $1.3 billion; other noncurrent liabilities and current and accrued liabilities would increase by $796.6 million; deferred credits would increase by $1.3 billion; and capital would increase by $115.7 million as of December 31, 2014. Furthermore, operating revenues would increase by $4.0 billion and operating expenses, excluding income taxes, would increase by $3.6 billion for the twelve months ended December 31, 2014. In addition, net cash provided by operating activities would increase by $406.8 million; net cash used in investing activities would increase by $611.0 million; net cash provided by financing activities would increase by $239.9 million; the effect of exchange rate changes on cash would decrease by $155,000; and the net change in cash and cash equivalents would be a increase of $35.6 million for the twelve months ended December 31, 2014. Reporting its subsidiary investments using the equity method rather than GAAP has no effect on net income or retained earnings.

The Notes to Financial Statements accompanying this FERC Form No. 1 relate to the nonconsolidated parent company and its two public utility divisions. For information on disclosures of the subsidiary companies, refer to the Company's Form 10-K.

Montana-Dakota and Great Plains are regulated businesses which account for certain income and expense items under the provisions of regulatory accounting, which requires these businesses to defer as regulatory assets or liabilities certain items that would have otherwise been reflected as expense or income, respectively, based on the expected regulatory treatment in future rates. The expected recovery or flowback of these deferred items generally is based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are being amortized consistently with the regulatory treatment established by the FERC and the applicable state public service commissions. See

Note 3 for more information regarding the nature and amounts of these regulatory deferrals.

Management has also evaluated the impact of events occurring after December 31, 2014, up to the date of issuance of these consolidated financial statements.

Cash and cash equivalents
The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable and allowance for doubtful accounts
Accounts receivable consists primarily of trade receivables from the sale of goods and services which are recorded at the invoiced amount. The total balance of receivables past due 90 days or more was $800,000 and $623,000 at December 31, 2014 and 2013, respectively.

The allowance for doubtful accounts is determined through a review of past due balances and other specific account data. Account balances are written off when management determines the amounts to be uncollectible. The Company's allowance for doubtful accounts at December 31, 2014 and 2013 was $485,000 and $444,000, respectively.

Inventories and natural gas in storage
Inventories, other than natural gas in storage, were stated at the lower of average cost or market value. Natural gas in storage is 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. Inventories at December 31 consisted of:

	2014	2013
	(In thousands)	
Plant materials and operating supplies	$ 19,800	$ 19,097
Gas stored underground-current	9,350	5,387
Fuel stock	4,418	4,752
Merchandise	16	75
Total	$ 33,584	$ 29,311

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was $2.5 million and $1.6 million at December 31, 2014 and 2013, respectively.

Investments
The Company's investments include its investment in subsidiary companies, the cash surrender value of life insurance policies, an insurance contract, and other miscellaneous investments. The Company measures its investment in the insurance contract at fair value with any unrealized gains and losses recorded on the Statement of Income. The Company has not elected the fair value option for its other investments. For more information, see Notes 4 and 11.

Property, plant and equipment
Additions to property, plant and equipment are recorded at cost. When regulated assets are retired, or otherwise disposed of in the ordinary course of business, the original cost of the asset is charged to accumulated depreciation. With respect to the retirement or disposal of all other assets, the resulting gains or losses are recognized as a component of income. The Company is permitted to capitalize AFUDC on regulated construction projects and to include such amounts in rate base when the related facilities are placed in service.

The amount of AFUDC and interest capitalized for the years ended December 31 was as follows:

	2014	2013
	(In thousands)	
AFUDC - borrowed	$ 2,092	$ 1,937
AFUDC - equity	$ 3,988	$ 3,071

Property, plant and equipment are depreciated on a straight-line basis over the average useful lives of the assets. The Company collects removal costs for plant assets in regulated utility rates. These amounts are included in accumulated provision for depreciation, amortization and depletion.

Property, plant and equipment at December 31 was as follows:

	2014	2013	Weighted Average Depreciable Life in Years
	(Dollars in thousands, where applicable)		
Electric:			
Generation	$ 627,952	$ 570,394	42
Distribution	343,692	308,202	39
Transmission	229,997	196,824	48
Construction in progress	150,445	141,365	-
Other	100,094	94,286	15
Natural gas distribution:			
Distribution	400,223	348,167	41
Construction in progress	11,350	10,219	-
Other	105,117	100,774	13
Less accumulated depreciation, depletion and amortization	781,151	760,971	
Net utility plant	$ 1,187,719	$ 1,009,260	
Nonutility property	$ 16,086	$ 15,630	
Less accumulated depreciation, depletion and amortization	3,484	2,902	
Net nonutility property	$ 12,602	$ 12,728	

Impairment of long-lived assets

The Company reviews the carrying values of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. No impairment losses were recorded in 2014 and 2013. Unforeseen events and changes in circumstances could require the recognition of impairment losses at some future date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. Goodwill is required to be tested for impairment annually, which is completed in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

The goodwill impairment test is a two-step process performed at the reporting unit level. The Company has determined that the reporting units for its goodwill impairment test are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. The first step of the impairment test involves comparing the fair value of each reporting unit to its carrying value. If the fair value of a reporting unit exceeds its carrying value, the test is complete and no impairment is recorded. If the fair value of a reporting unit is less than its carrying value, step two of the test is performed to determine the amount of impairment loss, if any. The impairment is computed by comparing the implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the carrying value is greater than the implied fair value, an impairment loss must be recorded. For the years ended December 31, 2014 and 2013, there were no impairment losses recorded. At December 31, 2014, the fair value of the natural gas distribution reporting unit substantially exceeded its carrying value. For more information on goodwill, see Note 2.

Determining the fair value of a reporting unit requires judgment and the use of significant estimates which include assumptions about the Company's future revenue, profitability and cash flows, amount and timing of estimated capital expenditures, inflation rates, weighted average cost of capital, operational plans, and current and future economic conditions, among others. The fair value of each reporting unit is determined using a weighted combination of income and market approaches. The Company uses a discounted cash flow methodology for its income approach. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specified period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects the best estimate of the weighted average cost of capital at each reporting unit. The weighted average cost of capital of 5.0 percent, and a long-term growth rate projection of 3.1 percent were utilized in the goodwill impairment test performed in the fourth quarter of 2014. Under the market approach, the Company estimates fair value using multiples derived from comparable sales transactions and enterprise value to EBITDA for comparative peer companies for each respective reporting unit. These multiples are applied to operating data for each reporting unit to arrive at an indication of fair value. In addition, the Company adds a reasonable control premium when calculating the fair value utilizing the peer multiples, which is estimated as the premium that would be received in a sale in an orderly transaction between market participants. The Company believes that the estimates and assumptions used in its impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is reasonably assured. The Company recognizes utility revenue each month based on the services provided to all utility customers during the month. Accrued utility revenues represent revenues recognized in excess of amounts billed. Accrued utility revenues were $47.4 million and $49.6 million at December 31, 2014 and 2013, respectively. The Company recognizes all other revenues when services are rendered or goods are delivered. The Company presents revenues net of taxes collected from customers at the time of sale to be remitted to governmental authorities, including sales and use taxes.

Asset retirement obligations

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for the recorded amount or incurs a regulatory asset or liability. For more information on asset retirement obligations, see Note 6.

Legal costs
The Company expenses external legal fees as they are incurred.

Natural gas costs recoverable or refundable through rate adjustments
Under the terms of certain orders of the applicable state public service commissions, the Company is deferring natural gas commodity, transportation and storage costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments over a 12 month period. Natural gas costs recoverable or refundable, as applicable, through rate adjustments were $10.7 million and $8.0 million at December 31, 2014 and 2013, respectively, which is included in unrecovered purchased gas costs.

Income taxes
The Company and its subsidiaries file consolidated method federal income tax returns and combined and separate state income tax returns. Federal income taxes paid by the Company, as parent of the consolidated group, are allocated to the individual subsidiaries based on the ratio of the separate company computations of tax. The Company makes a similar allocation for state income taxes paid in connection with combined state filings. The Company provides deferred federal and state income taxes on all temporary differences between the book and tax basis of the Company's assets and liabilities. Taxes recoverable from customers have been recorded as regulatory assets. Taxes refundable to customers and excess deferred income tax balances associated with the Company's rate-regulated activities have been recorded as regulatory liabilities. These regulatory assets and liabilities are expected to be recovered from or refunded to customers in future rates in accordance with applicable regulatory procedures.

The Company uses the deferral method of accounting for investment tax credits and amortizes the credits on regulated electric and natural gas distribution plant over various periods that conform to the ratemaking treatment prescribed by the applicable state public service commissions.

Tax positions taken or expected to be taken in an income tax return are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in interest and penalties, respectively.

Use of estimates
The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as impairment testing of long-lived assets and goodwill; fair values of acquired assets and liabilities under the acquisition method of accounting; property depreciable lives; tax provisions; uncollectible accounts; environmental and other loss contingencies; accumulated provision for revenues subject to refund; unbilled revenues; actuarially determined benefit costs; asset retirement obligations; and the valuation of stock-based compensation. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Cash flow information
Cash expenditures for interest and income taxes for the years ended December 31 were as follows:

		2014		2013
		(In thousands)		
Interest, net of amount capitalized	$	**17,398**	$	16,152
Income taxes paid (refunded), net	$	**18,561**	$	(11,453)

Noncash investing transactions at December 31 were as follows:

		2014		2013
		(In thousands)		
Property, plant and equipment additions in accounts payable	$	**6,451**	$	7,075

New accounting standards
Revenue from Contracts with Customers In May 2014, the FASB issued guidance on accounting for revenue from contracts with customers. The guidance provides for a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. This guidance will be effective for the Company on January 1, 2017. Entities will have the option of using either a full retrospective or modified retrospective approach to adopting the guidance. Under the modified approach, an entity would recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption. In addition, the modified approach will require additional disclosures. The Company is evaluating the effects the adoption of the new revenue guidance will have on its results of operations, financial position, cash flows and disclosures, as well as its method of adoption.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. This guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. Entities may present this information either on the face of the statement where net income is presented or in the notes. This guidance was effective for the Company on January 1, 2014, and is to be applied prospectively. The guidance required additional disclosures, however it did not impact the Company's results of operations, financial position or cash flows.

Comprehensive income (loss)
Comprehensive income (loss) is the sum of net income (loss) as reported and other comprehensive income (loss). The Company's other comprehensive loss resulted from postretirement liability adjustments and other comprehensive loss recorded by its subsidiaries.

The postretirement liability adjustment in other comprehensive income was $465,000 and $454,000, net of tax of $(285,000) and $(304,000), for the years ended December 31, 2014 and 2013, respectively.

The after-tax changes in the components of accumulated other comprehensive loss were as follows:

Twelve Months Ended December 31, 2014	Postretirement Liability Adjustment	Subsidiary Other Comprehensive Loss	Total Accumulated Other Comprehensive Loss
		(In thousands)	
Balance at December 31, 2013	$ (4,459)	$ (33,746)	$ (38,205)
Other comprehensive income (loss) before reclassifications	519	(13,244)	(12,725)
Amounts reclassified from accumulated other comprehensive loss	(54)	1,679	1,625
Amounts reclassified from accumulated other comprehensive loss to a regulatory asset	—	7,202	7,202
Net current-period other comprehensive income (loss)	465	(4,363)	(3,898)
Balance at December 31, 2014	**$ (3,994)**	**$ (38,109)**	**$ (42,103)**

Twelve Months Ended December 31, 2013	Postretirement Liability Adjustment	Subsidiary Other Comprehensive Loss	Total Accumulated Other Comprehensive Loss
		(In thousands)	
Balance at December 31, 2012	$ (4,913)	$ (43,808)	$ (48,721)
Other comprehensive income before reclassifications	348	12,104	12,452
Amounts reclassified from accumulated other comprehensive loss	106	(2,042)	(1,936)
Net current-period other comprehensive income	454	10,062	10,516
Balance at December 31, 2013	$ (4,459)	$ (33,746)	$ (38,205)

Reclassifications out of accumulated other comprehensive loss were as follows:

Twelve Months Ended December 31,	**2014**	2013	Location on Statement of Income
	(In thousands)		
Amortization of postretirement liability losses included in net periodic benefit cost	$ **87**	$ (176)	(a)
	(33)	70	Income taxes
	54	(106)	
Subsidiary reclassifications out of accumulated other comprehensive loss	**(1,679)**	2,042	Equity in earnings of Subsidiary Companies
Total reclassifications	$ **(1,625)**	$ 1,936	

(a) Included in net periodic benefit cost (credit). For more information, see Note 11.

Note 2 - Goodwill and Other Intangible Assets

The carrying amount of goodwill, which is related to the natural gas distribution business, remained unchanged at $4.8 million for the years ended December 31, 2014 and 2013. This amount is included in miscellaneous deferred debits. No impairments have been recorded in any periods.

Note 3 - Regulatory Assets and Liabilities

The following table summarizes the individual components of unamortized regulatory assets and liabilities as of December 31:

	Estimated Recovery Period*	2014	2013
		(In thousands)	
Regulatory assets:			
Pension and postretirement benefits (a)	(f)	$ 103,851	$ 67,130
Taxes recoverable from customers (a)	Over plant lives	12,963	10,902
Unrecovered purchased gas costs	Up to 12 months	10,651	8,020
Unamortized loss on required debt	Up to 12 years	6,688	7,407
Costs related to identifying generation development (a) (e)	Up to 12 years	4,165	4,512
Plant costs (a)	Up to 2 years	3,953	4,333
Other (a) (b) (g)	Largely within 1 year	7,676	6,026
Total regulatory assets		149,947	108,330
Regulatory liabilities:			
Plant removal and decommissioning costs (c)		131,529	110,790
Taxes refundable to customers (d)		6,955	7,802
Accumulated provision for rate refunds		450	191
Pension and postretirement benefits (d)		91	8,017
Other (h)		7,989	2,369
Total regulatory liabilities		147,014	129,169
Net regulatory position		$ 2,933	$ (20,839)

* Estimated recovery period for regulatory assets currently being recovered in rates charged to customers.
(a) Included in other regulatory assets on the Comparative Balance Sheet.
(b) Included in prepayments on the Comparative Balance Sheet.
(c) Included in accumulated provision for depreciation, amortization and depletion and asset retirement obligations on the Comparative Balance Sheet.
(d) Included in other regulatory liabilities on the Comparative Balance Sheet.
(e) Included in unrecovered plant and regulatory study costs on the Comparative Balance Sheet.
(f) Recovered as expense is incurred.
(g) Included in miscellaneous deferred debits on the Comparative Balance Sheet.
(h) Included in miscellaneous deferred debits, accumulated deferred investment tax credits and other regulatory assets on the Comparative Balance Sheet.

The regulatory assets are expected to be recovered in rates charged to customers. A portion of the Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates. As of December 31, 2014 and 2013, approximately $119.2 million and $92.8 million respectively, of regulatory assets were not earning a rate of return.

If, for any reason, the Company's regulated business ceases to meet the criteria for application of regulatory accounting for all or part of their operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statement of income or accumulated other comprehensive income (loss) in the period in which the discontinuance of regulatory accounting occurs.

Note 4 - Fair Value Measurements

The Company measures its investments in certain fixed-income and equity securities at fair value with changes in fair value recognized in income. The Company anticipates using these investments, which consist of an insurance contract, to satisfy its obligations under its unfunded, nonqualified benefit plan for executive officers and certain key management employees, and invests in these fixed-income and equity securities for the purpose of earning investment returns and capital appreciation. These investments, which totaled $43.9 million and $41.6 million as of December 31, 2014 and 2013, respectively, are classified as Other Investments on the Comparative Balance Sheet. The net unrealized gains on these investments for the years ended December 31, 2014 and 2013, were $2.3 million and $9.0 million, respectively. The change in fair value, which is considered part of the cost of the plan, is classified in Other Income and Deductions as Life Insurance on the Statement of Income.

The fair value of the Company's money market funds approximates cost.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's assets and liabilities measured on a recurring basis are determined using the market approach.

The Company's Level 2 money market funds consist of investments in short-term unsecured promissory notes and the value is based on comparable market transactions taking into consideration the credit quality of the issuer.

The estimated fair value of the Company's Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2014 and 2013, there were no transfers between Levels 1 and 2.

The Company's assets and liabilities measured at fair value on a recurring basis were as follows:

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
	(In thousands)			
Assets:				
Money market funds	$ —	$ 183	$ —	$ 183
Insurance contract*	—	43,870	—	43,870
Total assets measured at fair value	$ —	$ 44,053	$ —	$ 44,053

* The insurance contract invests approximately 20 percent in common stock of mid-cap companies, 18 percent in common stock of small-cap companies, 29 percent in common stock of large-cap companies, 32 percent in fixed-income investments and 1 percent in cash equivalents.

	Fair Value Measurements at December 31, 2013, Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
	(In thousands)			
Assets:				
Money market funds	$ —	$ 1,110	$ —	$ 1,110
Insurance contract*	—	41,564	—	41,564
Total assets measured at fair value	$ —	$ 42,674	$ —	$ 42,674

* The insurance contract invests approximately 29 percent in common stock of mid-cap companies, 28 percent in common stock of small-cap companies, 28 percent in common stock of large-cap companies and 15 percent in fixed-income investments.

The Company's long-term debt is not measured at fair value on the Comparative Balance Sheet and the fair value is being provided for disclosure purposes only. The fair value was based on discounted future cash flows using current market interest rates. The estimated fair value of the Company's Level 2 long-term debt at December 31 was as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Long-term debt	$ **508,274**	$ **572,041**	$ 434,706	$ 469,787

The carrying amounts of the Company's remaining financial instruments included in current assets and current liabilities approximate their fair values.

Note 5 - Debt

Certain debt instruments of the Company, including those discussed later, contain restrictive covenants and provisions. In order to borrow under the respective credit agreement, the Company must be in compliance with the applicable covenants and certain other conditions. In the event the Company does not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued.

The following table summarizes the outstanding revolving credit facilities of the Company:

Company	Facility	Facility Limit	Amount Outstanding at December 31, 2014	Amount Outstanding at December 31, 2013	Letters of Credit at December 31, 2014	Expiration Date
			(Dollars in millions)			
MDU Resources Group, Inc.	Commercial paper/Revolving credit agreement (a)	$ 175.0	$ 77.5 (b)	$ 78.9 (b)	$ —	5/8/19

(a) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of $225.0 million). There were no amounts outstanding under the credit agreement.

(b) Amount outstanding under commercial paper program included in other long-term debt on the Comparative Balance Sheet.

The Company's commercial paper program is supported by a revolving credit agreement. While the amount of commercial paper outstanding does not reduce available capacity under the revolving credit agreement, the Company does not issue commercial paper in an aggregate amount exceeding the available capacity under its credit agreement.

The following includes information related to the preceding table.

Long-term debt

MDU Resources Group, Inc. On May 8, 2014, the Company amended the revolving credit agreement to increase the borrowing limit to $175.0 million and extend the termination date to May 8, 2019. The Company's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings.

The credit agreement contains customary covenants and provisions, including covenants of the Company not to permit, as of the end of any fiscal quarter, (A) the ratio of funded debt to total capitalization (determined on a consolidated basis) to be greater than 65 percent or (B) the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Other covenants include limitations on the sale of certain assets and on the making of certain loans and investments.

There are no credit facilities that contain cross-default provisions between the Company and any of its subsidiaries.

Long-term Debt Outstanding Long-term debt outstanding at December 31 was as follows:

		2014		2013
		(In thousands)		
Senior Notes at a weighted average rate of 5.66%, due on dates ranging from September 30, 2016 to April 15, 2044	$	**430,000**	$	355,000
Commercial paper at an interest rate of 0.40%, supported by revolving credit agreement		**77,500**		78,924
Credit agreements at a weighted average rate of 5.64%, due on dates ranging from January 1, 2017 to November 30, 2038		**774**		782
Total long-term debt	$	**508,274**	$	434,706

The amounts of scheduled long-term debt maturities for the five years and thereafter following December 31, 2014, aggregate $109,000 in 2015; $50.1 million in 2016; $110,000 in 2017; $100.0 million in 2018; $77.5 million in 2019 and $280.4 million thereafter.

Note 6 - Asset Retirement Obligations

The Company records obligations related to the decommissioning of certain electric generating facilities, special handling and disposal of hazardous materials at certain electric generating facilities, natural gas distribution facilities and buildings, and certain other obligations as asset retirement obligations.

A reconciliation of the Company's liability for the years ended December 31 was as follows:

		2014		2013
		(In thousands)		
Balance at beginning of year	$	**7,143**	$	6,789
Liabilities settled		**(991)**		—
Revisions in estimates		**(28)**		(17)
Accretion expense		**386**		371
Balance at end of year	$	**6,510**	$	7,143

The Company believes that largely all expenses related to asset retirement obligations at the Company's regulated operations will be recovered in rates over time and, accordingly, defers such expenses as regulatory assets.

Note 7 - Preferred Stocks
Preferred stocks at December 31 were as follows:

	2014	2013
	(In thousands, except shares and per share amounts)	
Authorized:		
Preferred -		
500,000 shares, cumulative, par value $100, issuable in series		
Preferred stock A -		
1,000,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Preference -		
500,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Outstanding:		
4.50% Series - 100,000 shares	$ 10,000	$ 10,000
4.70% Series - 50,000 shares	5,000	5,000
Total preferred stocks	$ 15,000	$ 15,000

For the years 2014 and 2013, dividends declared on the 4.50% Series and 4.70% Series preferred stocks were $4.50 and $4.70 per share, respectively. The 4.50% Series and 4.70% Series preferred stocks outstanding are subject to redemption, in whole or in part, at the option of the Company with certain limitations on 30 days notice on any quarterly dividend date at a redemption price, plus accrued dividends, of $105 per share and $102 per share, respectively.

In the event of a voluntary or involuntary liquidation, all preferred stock series holders are entitled to $100 per share, plus accrued dividends.

The affirmative vote of two-thirds of a series of the Company's outstanding preferred stock is necessary for amendments to the Company's charter or bylaws that adversely affect that series; creation of or increase in the amount of authorized stock ranking senior to that series (or an affirmative majority vote where the authorization relates to a new class of stock that ranks on parity with such series); a voluntary liquidation or sale of substantially all of the Company's assets; a merger or consolidation, with certain exceptions; or the partial retirement of that series of preferred stock when all dividends on that series of preferred stock have not been paid. The consent of the holders of a particular series is not required for such corporate actions if the equivalent vote of all outstanding series of preferred stock voting together has consented to the given action and no particular series is affected differently than any other series.

Subject to the foregoing, the holders of common stock exclusively possess all voting power. However, if cumulative dividends on preferred stock are in arrears, in whole or in part, for one year, the holders of preferred stock would obtain the right to one vote per share until all dividends in arrears have been paid and current dividends have been declared and set aside.

Note 8 - Common Stock
For the years 2014 and 2013, dividends declared on common stock were $.7150 and $.6950 per common share, respectively.

The Company's Stock Purchase Plan provides interested investors the opportunity to make optional cash investments and to reinvest all or a percentage of their cash dividends in shares of the Company's common stock. The K-Plan is partially funded with the Company's common stock. From January 2014 to December 2014, the Stock Purchase Plan and K-Plan, with respect to Company stock, were funded with shares of authorized but unissued common stock. From January 2013 through December 2013, purchases of shares of common stock on the open market were used to fund the Stock Purchase Plan and K-Plan. At December 31, 2014, there were 14.9 million shares of common stock reserved for original issuance under the Stock Purchase Plan and K-Plan.

The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on common stock. The declaration and payment of dividends is at the sole discretion of the board of directors, subject to limitations imposed by the Company's credit agreements, federal and state laws, and applicable regulatory limitations. In addition, the Company and Centennial are generally restricted to paying dividends out of capital accounts or net assets. The following discusses the most restrictive limitations.

Pursuant to a covenant under a credit agreement, Centennial may only make distributions to the Company in an amount up to 100 percent of Centennial's consolidated net income after taxes, excluding noncash write-downs, for the immediately preceding fiscal year. Intermountain and Cascade have regulatory limitations on the amount of dividends each can pay. Based on these limitations, approximately $2.3 billion of the net assets of the Company's subsidiaries were restricted from being used to transfer funds to the Company at December 31, 2014. In addition, the Company's credit agreement also contains restrictions on dividend payments. The most restrictive limitation requires the Company not to permit the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Based on this limitation, approximately $259 million of the Company's (excluding its subsidiaries) net assets, which represents common stockholders' equity including retained earnings, would be restricted from use for dividend payments at December 31, 2014. In addition, state regulatory commissions may require the Company to maintain certain capitalization ratios. These requirements are not expected to affect the Company's ability to pay dividends in the near term.

Note 9 - Stock-Based Compensation

The Company has several stock-based compensation plans under which it is currently authorized to grant restricted stock and stock. As of December 31, 2014, there are 5.6 million remaining shares available to grant under these plans. The Company generally issues new shares of common stock to satisfy restricted stock, stock and performance share awards.

Total stock-based compensation expense (after tax), excluding the amount recognized by the Company's subsidiaries, was $717,000 and $629,000 in 2014 and 2013, respectively.

As of December 31, 2014, total remaining unrecognized compensation expense, excluding the amount to be recognized by the Company's subsidiaries, related to stock-based compensation was approximately $1.3 million (before income taxes) which will be amortized over a weighted average period of 1.6 years.

Stock awards

Nonemployee directors may receive shares of common stock instead of cash in payment for directors' fees under the nonemployee director stock compensation plan. There were 43,088 shares with a fair value of $1.1 million and 36,713 shares with a fair value of $1.1 million issued under this plan during the years ended December 31, 2014 and 2013, respectively.

Performance share awards

Since 2003, key employees of the Company and its subsidiaries have been awarded performance share awards each year. Entitlement to performance shares is based on the Company's total shareholder return over designated performance periods as measured against a selected peer group.

Target grants of performance shares outstanding at December 31, 2014, were as follows:

Grant Date	Performance Period	Target Grant of Shares
February 2012	2012-2014	251,196
March 2013	2013-2015	240,419
February 2014	2014-2016	196,840

Participants may earn from zero to 200 percent of the target grant of shares based on the Company's total shareholder return relative to that of the selected peer group. Compensation expense is based on the grant-date fair value as determined by Monte Carlo simulation. The blended volatility term structure ranges are comprised of 50 percent historical volatility and 50 percent implied volatility. Risk-free interest rates were based on U.S. Treasury security rates in effect as of the grant date. Assumptions used for grants of performance shares issued in 2014 and 2013 were:

	2014	2013
Grant-date fair value	**$ 41.13**	$ 29.01
Blended volatility range	**18.94 % - 20.43 %**	16.10% - 19.39%
Risk-free interest rate range	**.03 % - .74 %**	.09% - .40%
Discounted dividends per share	**$ 2.15**	$ 2.12

The fair value of the performance shares that vested during the year ended December 31, 2014 was $16.6 million. There were no performance shares that vested in 2013.

A summary of the status of the performance share awards for the year ended December 31, 2014, was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	749,991	$ 21.99
Granted	196,840	41.13
Additional performance shares earned	236,699	19.99
Vested	(491,213)	19.99
Forfeited	(3,862)	29.01
Nonvested at end of period	688,455	$ 28.16

Note 10 - Income Taxes

Income before income taxes for the years ended December 31, 2014 and 2013, respectively was $65,012 and $61,704.

Income tax expense (benefit) for the years ended December 31 was as follows:

	2014	2013
	(In thousands)	
Current:		
Federal*	$ (24,811)	$ (12,057)
State	(4,859)	(690)
	(29,670)	(12,747)
Deferred:		
Income taxes:		
Federal	41,207	24,572
State	3,676	1,801
Investment tax credit - net	1,644	(47)
	46,527	26,326
Total income tax expense	$ 16,857	$ 13,579

*Includes $(95) related to the change in uncertain tax benefits for the year ended December 31, 2014. There was no change in uncertain tax benefits for the year ended December 31, 2013.

Components of deferred tax assets and deferred tax liabilities at December 31 were as follows:

	2014	2013
	(In thousands)	
Deferred tax assets:		
Accrued pension costs	$ 38,914	$ 26,146
Compensation-related	11,119	12,675
Customer advances	8,597	7,116
Other	3,357	3,974
Total deferred tax assets	61,987	49,911
Deferred tax liabilities:		
Depreciation and basis differences on property, plant and equipment	309,343	256,026
Other	545	3,125
Total deferred tax liabilities	309,888	259,151
Net regulatory matters deferred tax asset (liability)	(2,619)	6,797
Net deferred income tax liability	$ (250,520)	$ (202,443)

As of December 31, 2014 and 2013, no valuation allowance has been recorded associated with the previously identified deferred tax assets.

The following table reconciles the change in the net deferred income tax liability from December 31, 2013, to December 31, 2014, to deferred income tax expense:

		2014
		(In thousands)
Change in net deferred income tax liability from the preceding table	$	48,077
Deferred taxes associated with other comprehensive loss		(285)
Other		(1,265)
Deferred income tax expense for the period	$	46,527

Total income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income (loss) before taxes. The reasons for this difference were as follows:

Years ended December 31,	2014		2013	
	Amount	%	Amount	%
	(Dollars in thousands)			
Computed tax at federal statutory rate	$ 22,754	35.0	$ 21,596	35.0
Increases (reductions) resulting from:				
Federal renewable energy credit	(3,587)	(5.5)	(3,404)	(5.5)
AFUDC equity	(1,396)	(2.1)	(1,075)	(1.7)
Deductible K-Plan dividends	(1,091)	(1.7)	(866)	(1.4)
Nonqualified benefit plan	(1,013)	(1.6)	(3,504)	(5.7)
Resolution of tax matters and uncertain tax positions	(42)	(0.1)	—	—
Amortization and deferral of investment tax credit	(575)	(0.9)	(47)	(0.1)
State income taxes, net of federal income tax benefit	2,162	3.3	1,491	2.4
Other	(355)	(0.5)	(612)	(1.0)
Total income tax expense	$ 16,857	25.9	$ 13,579	22.0

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years ending prior to 2007. The Company and the Internal Revenue Service have agreed to a settlement for the 2007 through 2009 tax years.

A reconciliation of the unrecognized tax benefits (excluding interest) for the years ended December 31 was as follows:

	2014	2013
	(In thousands)	
Balance at beginning of year	$ 95	$ 95
Additions for tax positions of prior years	—	—
Settlements	(95)	—
Balance at end of year	$ —	$ 95

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate at December 31, 2013 was $116,000, including approximately $21,000 for the payment of interest and penalties.

For the years ended December 31, 2014 and 2013, the Company recognized approximately $70,000 and $8,000, respectively, in interest expense. Penalties were not material in 2014 and 2013. The Company recognized interest income of approximately $108,000 and $102,000 for the years ended December 31, 2014 and 2013, respectively. The Company had accrued assets of approximately $667,000 and $526,000 at December 31, 2014 and 2013, respectively, for the receipt of interest income.

Note 11 - Employee Benefit Plans

Pension and other postretirement benefit plans

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. The Company uses a measurement date of December 31 for all of its pension and postretirement benefit plans. Other postretirement plans presented here include certain of the Company's subsidiaries.

Defined pension plan benefits to all nonunion and certain union employees hired after December 31, 2005, were discontinued. In 2010, all benefit and service accruals for nonunion and certain union plans were frozen. Effective June 30, 2011, all benefit and service accruals for an additional union plan were frozen. These employees will be eligible to receive additional defined contribution plan benefits.

Effective January 1, 2010, eligibility to receive retiree medical benefits was modified at certain of the Company's businesses. Employees who had attained age 55 with 10 years of continuous service by December 31, 2010, will be provided the current retiree medical insurance benefits or can elect the new benefit, if desired, regardless of when they retire. All other current employees must meet the new eligibility criteria of age 60 and 10 years of continuous service at the time they retire. These employees will be eligible for a specified company funded Retiree Reimbursement Account. Employees hired after December 31, 2009, will not be eligible for retiree medical benefits.

In 2012, the Company modified health care coverage for certain retirees. Effective January 1, 2013, post-65 coverage was replaced by a fixed-dollar subsidy for retirees and spouses to be used to purchase individual insurance through an exchange.

Changes in benefit obligation and plan assets for the years ended December 31, 2014 and 2013, and amounts recognized in the Comparative Balance Sheet at December 31, 2014 and 2013, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ **230,279**	$ 262,910	$ **43,206**	$ 49,593
Service cost	**—**	—	**787**	906
Interest cost	**10,056**	9,240	**1,862**	1,700
Plan participants' contributions	**—**	—	**817**	830
Actuarial (gain) loss	**45,308**	(24,667)	**10,155**	(5,998)
Benefits paid	**(16,060)**	(17,204)	**(3,824)**	(3,825)
Benefit obligation at end of year	**269,583**	230,279	**53,003**	43,206
Change in net plan assets:				
Fair value of plan assets at beginning of year	**190,935**	177,801	**48,661**	43,411
Actual gain on plan assets	**14,001**	20,324	**4,367**	7,944
Employer contribution	**12,202**	10,014	**103**	301
Plan participants' contributions	**—**	—	**817**	830
Benefits paid	**(16,060)**	(17,204)	**(3,824)**	(3,825)
Fair value of net plan assets at end of year	**201,078**	190,935	**50,124**	48,661
Funded status – (under) over	$ **(68,505)**	$ (39,344)	$ **(2,879)**	$ 5,455
Amounts recognized in the Comparative Balance Sheet at December 31:				
Other deferred debits (credits)	$ **(68,505)**	$ (39,344)	$ **(2,879)**	$ 5,455
Net amount recognized	$ **(68,505)**	$ (39,344)	$ **(2,879)**	$ 5,455
Amounts recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities) consist of:				
Actuarial loss	$ **114,805**	$ 74,036	$ **14,638**	$ 6,776
Prior service credit	**—**	—	**(11,156)**	(12,132)
Total	$ **114,805**	$ 74,036	$ **3,482**	$ (5,356)

Employer contributions and benefits paid in the preceding table include only those amounts contributed directly to, or paid directly from, plan assets. The above table includes amounts related to regulated operations, which are recorded as regulatory assets (liabilities) and are expected to be reflected in rates charged to customers over time. For more information on regulatory assets (liabilities), see Note 3.

Unrecognized pension actuarial losses in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized on a straight-line basis over the expected average remaining service lives of active participants for non-frozen plans and over the average life expectancy of plan participants for frozen plans. The market-related value of assets is determined using a five-year average of assets.

The pension plans all have accumulated benefit obligations in excess of plan assets. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans at December 31 were as follows:

	2014	2013
	(In thousands)	
Projected benefit obligation	$ 269,583	$ 230,279
Accumulated benefit obligation	$ 269,583	$ 230,279
Fair value of plan assets	$ 201,078	$ 190,935

Components of net periodic benefit cost for the Company's pension and other postretirement benefit plans for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(In thousands)			
Components of net periodic benefit cost (credit):				
Service cost	$ —	$ —	$ 787	$ 906
Interest cost	10,056	9,240	1,862	1,700
Expected return on assets	(12,177)	(11,438)	(2,603)	(2,546)
Amortization of prior service credit	—	—	(976)	(976)
Recognized net actuarial loss	2,716	4,028	529	961
Net periodic benefit cost (credit)	595	1,830	(401)	45
Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities):				
Net (gain) loss	43,485	(33,553)	8,391	(11,396)
Amortization of actuarial loss	(2,716)	(4,028)	(529)	(961)
Amortization of prior service credit	—	—	976	976
Total recognized in accumulated other comprehensive (income) loss/regulatory assets (liabilities)	40,769	(37,581)	8,838	(11,381)
Total recognized in net periodic benefit cost and accumulated other comprehensive (income) loss/regulatory assets (liabilities)	$ 41,364	$ (35,751)	$ 8,437	$ (11,336)

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss or regulatory asset(liability), as applicable, into net periodic benefit cost in 2015 is $4.0 million. The estimated net loss and prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive loss or regulatory asset(liability), as applicable, into net periodic benefit cost in 2015 are $1.4 million and $1.2 million, respectively. Prior service cost is amortized on a straight line basis over the average remaining service period of active participants.

Weighted average assumptions used to determine benefit obligations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Discount rate	3.68 %	4.50%	3.73 %	4.49%
Expected return on plan assets	7.00 %	7.00%	6.00 %	6.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Discount rate	**4.51 %**	3.62%	**4.49 %**	3.65%
Expected return on plan assets	**7.00 %**	7.00%	**6.00 %**	6.00%

The expected rate of return on pension plan assets is based on a targeted asset allocation range determined by the funded ratio of the plan. As of December 31, 2014, the expected rate of return on pension plan assets is based on the targeted asset allocation range of 40 percent to 50 percent equity securities and 50 percent to 60 percent fixed-income securities and the expected rate of return from these asset categories. The expected rate of return on other postretirement plan assets is based on the targeted asset allocation range of 65 percent to 75 percent equity securities and 25 percent to 35 percent fixed-income securities and the expected rate of return from these asset categories. The expected return on plan assets for other postretirement benefits reflects insurance-related investment costs.

Health care rate assumptions for the Company's other postretirement benefit plans as of December 31 were as follows:

	2014	2013
Health care trend rate assumed for next year	**4.0 %**	6.0 %
Health care cost trend rate - ultimate	**6.0 %**	6.0 %
Year in which ultimate trend rate achieved	**1999**	1999

The Company's other postretirement benefit plans include health care and life insurance benefits for certain retirees. The plans underlying these benefits may require contributions by the retiree depending on such retiree's age and years of service at retirement or the date of retirement. The accounting for the health care plans anticipates future cost-sharing changes that are consistent with the Company's expressed intent to generally increase retiree contributions each year by the excess of the expected health care cost trend rate over six percent.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2014:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(In thousands)	
Effect on total of service and interest cost components	$ 55	$ (49)
Effect on postretirement benefit obligation	$ 1,263	$ (1,125)

The Company's pension assets are managed by 15 outside investment managers. The Company's other postretirement assets are managed by one outside investment manager. The Company's investment policy with respect to pension and other postretirement assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses. The Company's policy guidelines allow for investment of funds in cash equivalents, fixed-income securities and equity securities. The guidelines prohibit investment in commodities and futures contracts, equity private placement, employer securities, leveraged or derivative securities, options, direct real estate investments, precious metals, venture capital and limited partnerships. The guidelines also prohibit short selling and margin transactions. The Company's practice is to periodically review and rebalance asset categories based on its targeted asset allocation percentage policy.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's pension plans' assets are determined using the market approach.

The carrying value of the pension plans' Level 2 cash equivalents approximates fair value and is determined using observable inputs in active markets or the net asset value of shares held at year end, which is determined using other observable inputs including pricing from outside sources. Units of this fund can be redeemed on a daily basis at their net asset value and have no redemption restrictions. The assets are invested in high quality, short-term instruments of domestic and foreign issuers. There are no unfunded commitments related to this fund.

The estimated fair value of the pension plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the pension plans' Level 1 and Level 2 collective and mutual funds are based on the net asset value of shares held at year end, based on either published market quotations on active markets or other known sources including pricing from outside sources. Units of these funds can be redeemed on a daily basis at their net asset value and have no redemption restrictions. There are no unfunded commitments related to these funds.

The estimated fair value of the pension plans' Level 2 corporate and municipal bonds is determined using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, future cash flows and other reference data.

The estimated fair value of the pension plans' Level 1 U.S. Government securities are valued based on quoted prices on an active market.

The estimated fair value of the pension plans' Level 2 U.S. Government securities are valued mainly using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, to be announced prices, future cash flows and other reference data. Some of these securities are valued using pricing from outside sources.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2014 and 2013, there were no transfers between Levels 1 and 2.

The fair value of the Company's pension plans' assets (excluding cash) by class were as follows:

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
		(In thousands)		
Assets:				
Cash equivalents	$ —	$ 3,195	$ —	$ 3,195
Equity securities:				
U.S. companies	22,174	—	—	22,174
International companies	2,945	—	—	2,945
Collective and mutual funds *	75,130	43,947	—	119,077
Corporate bonds	—	33,746	—	33,746
Municipal bonds	—	5,936	—	5,936
U.S. Government securities	8,512	3,887	—	12,399
Total assets measured at fair value	$ 108,761	$ 90,711	$ —	$ 199,472

*Collective and mutual funds invest approximately 13 percent in common stock of large-cap U.S. companies, 13 percent in U.S. Government securities, 23 percent in corporate bonds, 33 percent in common stock of international companies and 18 percent in other investments.

	Fair Value Measurements at December 31, 2013, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
		(In thousands)		
Assets:				
Cash equivalents	$ 1,454	$ 5,364	$ —	$ 6,818
Equity securities:				
U.S. companies	35,696	—	—	35,696
International companies	22,488	—	—	22,488
Collective and mutual funds *	66,296	24,225	—	90,521
Corporate bonds	—	24,360	—	24,360
Municipal bonds	—	4,311	—	4,311
U.S. Government securities	4,269	2,472	—	6,741
Total assets measured at fair value	$ 130,203	$ 60,732	$ —	$ 190,935

*Collective and mutual funds invest approximately 11 percent in common stock of mid-cap U.S. companies, 19 percent in common stock of large-cap U.S. companies, 12 percent in U.S. Government securities, 27 percent in corporate bonds, 13 percent in common stock of international companies and 18 percent in other investments.

The estimated fair values of the Company's other postretirement benefit plans' assets are determined using the market approach.

The estimated fair value of the other postretirement benefit plans' Level 2 cash equivalents is valued at the net asset value of shares held at year end, based on published market quotations on active markets, or using other known sources including pricing from outside sources. Units of this fund can be redeemed on a daily basis at their net asset value and have no redemption restrictions. The assets are invested in high-quality, short-term money market instruments that consist of municipal obligations.

There are no unfunded commitments related to this fund.

The estimated fair value of the other postretirement benefit plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the other postretirement benefit plans' Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2014 and 2013, there were no transfers between Levels 1 and 2.

The fair value of the Company's other postretirement benefit plans' assets (excluding cash) by asset class were as follows:

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
		(In thousands)		
Assets:				
Cash equivalents	$ —	$ 1,178	$ —	$ 1,178
Equity securities:				
U.S. companies	1,054	—	—	1,054
Insurance contract*	—	47,892	—	47,892
Total assets measured at fair value	$ 1,054	$ 49,070	$ —	$ 50,124

* The insurance contract invests approximately 54 percent in common stock of large-cap U.S. companies, 11 percent in U.S. Government securities, 10 percent in mortgage-backed securities, 10 percent in corporate bonds and 15 percent in other investments.

	Fair Value Measurements at December 31, 2013, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
		(In thousands)		
Assets:				
Cash equivalents	$ 444	$ 756	$ —	$ 1,200
Equity securities:				
U.S. companies	1,060	—	—	1,060
Insurance contract*	—	46,401	—	46,401
Total assets measured at fair value	$ 1,504	$ 47,157	$ —	$ 48,661

* The insurance contract invests approximately 55 percent in common stock of large-cap U.S. companies, 12 percent in U.S. Government securities, 8 percent in mortgage-backed securities, 8 percent in common stock of mid-cap U.S. companies, 9 percent in corporate bonds, and 8 percent in other investments.

The Company expects to contribute approximately $2.2 million to its defined benefit pension plans in 2015. The Company does not expect to contribute to its postretirement benefit plans in 2015.

The following benefit payments, which reflect future service, as appropriate, and expected Medicare Part D subsidies are as follows:

Years	Pension Benefits	Other Postretirement Benefits	Expected Medicare Part D Subsidy
	(In thousands)		
2015	$ 14,152	$ 2,768	$ 173
2016	14,280	2,755	169
2017	14,476	2,794	164
2018	14,708	2,842	159
2019	14,949	2,850	154
2020 – 2024	77,548	14,304	664

Nonqualified benefit plans
In addition to the qualified plan defined pension benefits reflected in the table at the beginning of this note, the Company also has unfunded, nonqualified benefit plans for executive officers and certain key management employees that generally provide for defined benefit payments at age 65 following the employee's retirement or to their beneficiaries upon death for a 15-year period. The Company's net periodic benefit cost for these plans was $3.7 million and $4.1 million in 2014 and 2013, respectively. The total projected benefit obligation for these plans was $66.5 million and $61.9 million at December 31, 2014 and 2013, respectively. The accumulated benefit obligation for these plans was $61.6 million and $57.2 million at December 31, 2014 and 2013, respectively. A weighted average discount rate of 3.50 percent and 4.32 percent at December 31, 2014 and 2013, respectively, and a rate of compensation increase of 4.00 percent and 4.00 percent at December 31, 2014 and 2013, respectively, were used to determine benefit obligations. A discount rate of 4.32 percent and 3.45 percent for the years ended December 31, 2014 and 2013, respectively, and a rate of compensation increase of 4.00 percent and 3.00 percent for the years ended December 31, 2014 and 2013, respectively, were used to determine net periodic benefit cost.

The amount of benefit payments for the unfunded, nonqualified benefit plans are expected to aggregate $3.8 million in 2015; $3.6 million in 2016; $3.8 million in 2017; $4.0 million in 2018, $4.2 million in 2019 and $22.0 million for the years 2020 through 2024.

In 2012, the Company established a nonqualified defined contribution plan for certain key management employees. Expenses incurred under this plan for 2014 and 2013 were $17,000 and $5,000, respectively.

The Company had investments of $62.1 million and $60.4 million at December 31, 2014 and 2013, respectively, consisting of equity securities of $36.6 million and $35.6 million, respectively, life insurance carried on plan participants (payable upon the employee's death) of $18.6 million and $17.8 million, respectively, and other investments of $6.8 million and $7.0 million, respectively. The Company anticipates using these investments to satisfy obligations under these plans.

Defined contribution plans
The Company sponsors various defined contribution plans for eligible employees, and costs incurred under these plans were $10.5 million in 2014 and $11.1 million in 2013.

Note 12 - Jointly Owned Facilities

The financial statements include the Company's ownership interests in the assets, liabilities and expenses of the Big Stone Station, Coyote Station and Wygen III. Each owner of the stations is responsible for financing its investment in the jointly owned facilities.

The Company's share of the stations' operating expenses was reflected in the appropriate categories of operating expenses (fuel, operation and maintenance, and taxes, other than income) in the Statement of Income.

At December 31, the Company's share of the cost of utility plant in service and related accumulated depreciation for the stations was as follows:

	2014	2013
	(In thousands)	
Big Stone Station:		
Utility plant in service	$ 64,283	$ 63,890
Less accumulated depreciation	43,043	41,323
	$ 21,240	$ 22,567
Coyote Station:		
Utility plant in service	$ 138,810	$ 138,261
Less accumulated depreciation	94,443	89,528
	$ 44,367	$ 48,733
Wygen III:		
Utility plant in service	$ 65,597	$ 64,332
Less accumulated depreciation	5,928	4,639
	$ 59,669	$ 59,693

Note 13 - Regulatory Matters and Revenues Subject to Refund

On August 11, 2014, Montana-Dakota filed an application with the MTPSC for a natural gas rate increase. Montana-Dakota requested a total increase of approximately $3.0 million annually or approximately 3.6 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities, depreciation and taxes associated with the increased investment as well as an increase in Montana-Dakota's operation and maintenance expenses. On February 3, 2015, the MTPSC approved an interim increase of $2.0 million or approximately 2.3 percent, subject to refund, to be effective with service rendered on and after February 6, 2015. A Stipulation Agreement covering all issues in the rate case was reached between the Company and the Montana Consumer Counsel and submitted to the MTPSC on March 18, 2015. If approved, the Stipulation will result in an annual increase in revenues of $2.5 million or approximately 2.99 percent. This is an increase of approximately $514,000 over the interim increase authorized in February of 2015. An amended Stipulation reflecting minor changes in rate design was submitted on March 25, 2015. A decision is pending with the MTPSC.

On October 3, 2014, Montana-Dakota filed an application with the WYPSC for a natural gas rate increase. Montana-Dakota requested a total increase of approximately $788,000 annually or approximately 4.1 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities and the associated operation and maintenance expenses, depreciation and taxes associated with the increase in investment. The WYPSC has scheduled a hearing for this matter on May 19, 2015.

On November 14, 2014, Montana-Dakota filed an application with the NDPSC for approval to implement the rate adjustment associated with the electric generation resource recovery rider approved by the NDPSC on August 20, 2014. On January 7, 2015, the NDPSC approved the rate adjustments of $5.3 million annually to be effective with service rendered on and after January 9, 2015.

On December 22, 2014, Montana-Dakota filed an application for advance determination of prudence and a certificate of public convenience and necessity with the NDPSC for the Thunder Spirit Wind project. This project will provide energy, capacity and renewable energy credits to Montana-Dakota's electric customers in North Dakota, Montana and South Dakota. The NDPSC has scheduled a hearing for this matter on May 14, 2015.

On February 6, 2015, Montana-Dakota filed an application with the NDPSC for a natural gas rate increase. Montana-Dakota requested a total increase of approximately $4.3 million annually or approximately 3.4 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities, depreciation and taxes associated with the increased investment as well as an increase in Montana-Dakota's operation and maintenance expenses. Montana-Dakota requested an interim increase of $4.3 million or 3.4 percent, subject to refund. On March 11, 2015 the Commission issued an Order approving interim rates to increase annual revenues by $4.3 million to be effective with service rendered on an after April 7, 2015. The NDPSC also scheduled public input sessions to be held at six locations in Montana-Dakota's North Dakota service territory on April 13-14, 2015. A technical hearing has been scheduled for July 20-21, 2015.

Note 14 - Commitments and Contingencies

Claims and Litigation

The Company is party to claims and lawsuits arising out of its business. The Company accrues a liability for those contingencies when the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is probable or reasonably possible and which are material, the Company discloses the nature of the contingency and, in some circumstances, an estimate of the possible loss. The Company had accrued liabilities of $3.7 million and $1.4 million for contingencies related to litigation as of December 31, 2014 and 2013, respectively.

Operating leases

The Company leases certain equipment, facilities and land under operating lease agreements. The amounts of annual minimum lease payments due under these leases as of December 31, 2014, were $3.9 million in 2015, $3.7 million in 2016, $2.7 million in 2017, $1.9 million in 2018, $1.0 million in 2019 and $19.8 million thereafter. Rent expense was $4.2 million and $3.3 million for the years ended December 31, 2014 and 2013, respectively.

Purchase commitments

The Company has entered into various commitments, largely natural gas and coal supply, purchased power, and natural gas transportation and storage contracts, some of which are subject to variability in volume and price, and a purchase agreement of electric wind generation. These commitments range from one to 10 years. The commitments under these contracts as of December 31, 2014, were $294.2 million in 2015, $77.9 million in 2016, $37.3 million in 2017, $15.9 million in 2018, $12.5 million in 2019 and $55.2 million thereafter. These commitments were not reflected in the Company's financial statements. Amounts purchased under various commitments for the years ended December 31, 2014 and 2013, were $344.7 million and $305.9 million, respectively.