MDU RESOURCES GROUP INC
Form 10-Q
May 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For The Quarterly Period Ended March 31, 2013

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

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

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

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 ý No o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 ý Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2013: 188,830,529 shares.

DEFINITIONS

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

Abbreviation or Acronym	
2012 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2012
Alusa	Tecnica de Engenharia Electrica - Alusa
ASC	FASB Accounting Standards Codification
BART	Best available retrofit technology
Bbl	Barrel
Bicent	Bicent Power LLC
Big Stone Station	475-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership)
BOE	One barrel of oil equivalent - determined using the ratio of one barrel of crude oil, condensate or natural gas liquids to six Mcf of natural gas
BOPD	Barrels of oil per day
Brazilian Transmission Lines	Company's equity method investment in the company owning ECTE, ENTE and ERTE (ownership interests in ENTE and ERTE were sold in the fourth quarter of 2010 and portions of the ownership interest in ECTE were sold in the third quarter of 2012 and the fourth quarters of 2011 and 2010)
Btu	British thermal unit
Calumet	Calumet Specialty Products Partners, L.P.
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
CELESC	Centrais Elétricas de Santa Catarina S.A.
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
CEMIG	Companhia Energética de Minas Gerais
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 Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
Colorado State District Court	Colorado Thirteenth Judicial District Court, Yuma County
Company	MDU Resources Group, Inc.
Coyote Creek	Coyote Creek Mining Company, LLC, a subsidiary of The North American Coal Corporation
Coyote Station	427-MW coal-fired electric generating facility near Beulah, North Dakota (25 percent ownership)
Dakota Prairie Refining	Dakota Prairie Refining, LLC
dk	Decatherm
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ECTE	Empresa Catarinense de Transmissão de Energia S.A. (5.01 percent ownership interest at March 31, 2013, 2.5, 2.5 and 14.99 percent ownership interests were sold in the third quarter of 2012 and the fourth quarters of 2011 and 2010, respectively)
ENTE	Empresa Norte de Transmissão de Energia S.A. (entire 13.3 percent ownership interest sold in the fourth quarter of 2010)
EPA	U.S. Environmental Protection Agency
ERTE	Empresa Regional de Transmissão de Energia S.A. (entire 13.3 percent ownership interest sold in the fourth quarter of 2010)
Exchange Act	Securities Exchange Act of 1934, as amended

FASB	Financial Accounting Standards Board
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
Hawaiian Cement	Hawaiian Cement, an indirect wholly owned subsidiary of Knife River
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
JTL	JTL Group, Inc., an indirect wholly owned subsidiary of Knife River
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
Knife River - Northwest	Knife River Corporation - Northwest, an indirect wholly owned subsidiary of Knife River
kWh	Kilowatt-hour

LPP	Lea Power Partners, LLC, a former indirect wholly owned subsidiary of Centennial Resources (member interests were sold in October 2006)
LWG	Lower Willamette Group
MBbls	Thousands of barrels
MBOE	Thousands of BOE
Mcf	Thousand cubic feet
MDU Brasil	MDU Brasil Ltda., an indirect wholly owned subsidiary of Centennial Resources
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
MMBtu	Million Btu
MMcf	Million cubic feet
MMdk	Million decatherms
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana DEQ	Montana Department of Environmental Quality
Montana First Judicial District Court	Montana First Judicial District Court, Lewis and Clark County
Montana Seventeenth Judicial District Court	Montana Seventeenth Judicial District Court, Phillips County
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
New York Supreme Court	Supreme Court of the State of New York, County of New York
NGL	Natural gas liquids
Oil	Includes crude oil and condensate
Omimex	Omimex Canada, Ltd.
OPUC	Oregon Public Utility Commission
Oregon DEQ	Oregon State Department of Environmental Quality
Prairielands	Prairielands Energy Marketing, Inc., an indirect wholly owned subsidiary of WBI Holdings
PRP	Potentially Responsible Party
psi	pounds per square inch
ROD	Record of Decision
SDPUC	South Dakota Public Utilities Commission
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SourceGas	SourceGas Distribution LLC
VIE	Variable interest entity
WBI Energy	WBI Energy, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Midstream	WBI Energy Midstream, LLC an indirect wholly owned subsidiary of WBI Holdings (previously Bitter Creek Pipelines, LLC, name changed effective July 1, 2012)
WBI Energy Transmission	WBI Energy Transmission, Inc., an indirect wholly owned subsidiary of WBI Holdings (previously Williston Basin Interstate Pipeline Company, name changed effective July 1, 2012)
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
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. Cascade distributes natural gas in Oregon and Washington. Intermountain distributes natural gas in Idaho. Great Plains distributes natural gas in western Minnesota and southeastern North Dakota. These operations also supply related value-added services.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings (comprised of the pipeline and energy services and the exploration and 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 March 31,	
	2013	2012
	(In thousands, except per share amounts)	
Operating revenues:		
Electric, natural gas distribution and pipeline and energy services	$424,124	$395,081
Exploration and production, construction materials and contracting, construction services and other	507,480	457,726
Total operating revenues	931,604	852,807
Operating expenses:		
Fuel and purchased power	21,608	18,420
Purchased natural gas sold	199,187	185,428
Operation and maintenance:		
Electric, natural gas distribution and pipeline and energy services	66,101	68,401
Exploration and production, construction materials and contracting, construction services and other	394,019	376,146
Depreciation, depletion and amortization	93,561	85,380
Taxes, other than income	52,597	47,975
Total operating expenses	827,073	781,750
Operating income	104,531	71,057
Earnings (loss) from equity method investments	(311)	1,253
Other income	1,242	1,098
Interest expense	20,874	19,439
Income before income taxes	84,588	53,969
Income taxes	27,996	18,079
Income from continuing operations	56,592	35,890
Loss from discontinued operations, net of tax (Note 9)	(77)	(100)
Net income	56,515	35,790
Dividends declared on preferred stocks	171	171
Earnings on common stock	$56,344	$35,619
Earnings per common share - basic:		
Earnings before discontinued operations	$.30	$.19
Discontinued operations, net of tax	—	—
Earnings per common share - basic	$.30	$.19
Earnings per common share - diluted:		
Earnings before discontinued operations	$.30	$.19
Discontinued operations, net of tax	—	—
Earnings per common share - diluted	$.30	$.19

Dividends declared per common share	$.1725	$.1675
Weighted average common shares outstanding - basic	188,831	188,811
Weighted average common shares outstanding - diluted	189,222	189,182

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

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net income	$56,515	$35,790
Other comprehensive loss:		
Net unrealized loss on derivative instruments qualifying as hedges:		
Net unrealized loss on derivative instruments arising during the period, net of tax of $(3,168) and $(2,225) in 2013 and 2012, respectively	(5,849)	(3,770)
Less: Reclassification adjustment for gain on derivative instruments included in net income, net of tax of $1,626 and $1,366 in 2013 and 2012, respectively	2,772	2,329
Net unrealized loss on derivative instruments qualifying as hedges	(8,621)	(6,099)
Net unrealized gain (loss) on available-for-sale investments:		
Net unrealized loss on available-for-sale investments arising during the period, net of tax of $(24) and $(2) in 2013 and 2012, respectively	(44)	(4)
Less: Reclassification adjustment for loss on available-for-sale investments included in net income, net of tax of $(19) and $(16) in 2013 and 2012, respectively	(35)	(30)
Net unrealized gain (loss) on available-for-sale investments	(9)	26
Amortization of postretirement liability losses included in net periodic benefit cost, net of tax of $319 in 2013	648	—
Foreign currency translation adjustment, net of tax of $37 and $138 in 2013 and 2012, respectively	88	144
Other comprehensive loss	(7,894)	(5,929)
Comprehensive income	$48,621	$29,861

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

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

	March 31, 2013	March 31, 2012	December 31, 2012
(In thousands, except shares and per share amounts)			
ASSETS			
Current assets:			
Cash and cash equivalents	$74,149	$91,389	$49,042
Receivables, net	635,564	539,589	678,123
Inventories	334,872	313,341	317,415
Deferred income taxes	29,885	42,239	22,846
Commodity derivative instruments	5,936	26,698	18,304
Prepayments and other current assets	68,828	64,897	42,351
Total current assets	1,149,234	1,078,153	1,128,081
Investments	106,846	113,799	103,243
Property, plant and equipment	8,303,065	7,798,770	8,107,751
Less accumulated depreciation, depletion and amortization	3,678,535	3,419,574	3,608,912
Net property, plant and equipment	4,624,530	4,379,196	4,498,839
Deferred charges and other assets:			
Goodwill	636,039	635,389	636,039
Other intangible assets, net	16,318	19,991	17,129
Other	295,215	312,103	299,160
Total deferred charges and other assets	947,572	967,483	952,328
Total assets	$6,828,182	$6,538,631	$6,682,491
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings	$37,500	$—	$28,200
Long-term debt due within one year	171,094	202,215	134,108
Accounts payable	375,942	321,369	388,015
Taxes payable	55,748	51,019	46,475
Dividends payable	32,744	31,800	171
Accrued compensation	31,382	28,463	48,448
Commodity derivative instruments	7,379	20,183	—
Other accrued liabilities	205,394	255,172	204,698
Total current liabilities	917,183	910,221	850,115
Long-term debt	1,618,569	1,213,974	1,610,867
Deferred credits and other liabilities:			
Deferred income taxes	802,805	798,669	755,102
Other liabilities	814,643	842,169	818,159
Total deferred credits and other liabilities	1,617,448	1,640,838	1,573,261
Commitments and contingencies			
Equity:			
Preferred stocks	15,000	15,000	15,000
Common stockholders' equity:			
Common stock			
Authorized - 500,000,000 shares, $1.00 par value			
	189,369	189,369	189,369

Shares issued - 189,369,450 at March 31, 2013 and 2012 and December 31, 2012			
Other paid-in capital	1,038,970	1,035,800	1,039,080
Retained earnings	1,480,784	1,589,985	1,457,146
Accumulated other comprehensive loss	(56,615)	(52,930)	(48,721)
Treasury stock at cost - 538,921 shares	(3,626)	(3,626)	(3,626)
Total common stockholders' equity	2,648,882	2,758,598	2,633,248
Total stockholders' equity	2,663,882	2,773,598	2,648,248
Noncontrolling interest	11,100	—	—
Total equity	2,674,982	2,773,598	2,648,248
Total liabilities and equity	$6,828,182	$6,538,631	$6,682,491

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

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

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Operating activities:		
Net income	$56,515	$35,790
Loss from discontinued operations, net of tax	(77)	(100)
Income from continuing operations	56,592	35,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	93,561	85,380
Earnings, net of distributions, from equity method investments	1,277	1,181
Deferred income taxes	44,663	32,596
Changes in current assets and liabilities, net of acquisitions:		
Receivables	32,206	101,917
Inventories	(19,126)	(38,357)
Other current assets	(25,855)	(21,556)
Accounts payable	(35,091)	(29,851)
Other current liabilities	(7,338)	(33,751)
Other noncurrent changes	(4,318)	(8,349)
Net cash provided by continuing operations	136,571	125,100
Net cash provided by (used in) discontinued operations	303	(107)
Net cash provided by operating activities	136,874	124,993
Investing activities:		
Capital expenditures	(188,475)	(174,429)
Acquisitions, net of cash acquired	—	(242)
Net proceeds from sale or disposition of property and other	18,176	18,256
Investments	(514)	(27)
Net cash used in continuing operations	(170,813)	(156,442)
Net cash provided by discontinued operations	—	—
Net cash used in investing activities	(170,813)	(156,442)
Financing activities:		
Issuance of short-term borrowings	9,300	—
Issuance of long-term debt	112,015	—
Repayment of long-term debt	(67,123)	(8,297)
Proceeds from issuance of common stock	—	88
Dividends paid	(171)	(31,794)
Excess tax benefit on stock-based compensation	—	26
Contribution from noncontrolling interest	5,000	—
Net cash provided by (used in) continuing operations	59,021	(39,977)
Net cash provided by discontinued operations	—	—
Net cash provided by (used in) financing activities	59,021	(39,977)
Effect of exchange rate changes on cash and cash equivalents	25	43
Increase (decrease) in cash and cash equivalents	25,107	(71,383)

Cash and cash equivalents -- beginning of year	49,042	162,772
Cash and cash equivalents -- end of period	$74,149	$91,389

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

MDU RESOURCES GROUP, INC.
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

March 31, 2013 and 2012
(Unaudited)

Note 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 2012 Annual Report, and the standards of accounting measurement set forth in the interim reporting guidance in the ASC 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 2012 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. Depreciation, depletion and amortization expense is reported separately on the Consolidated Statements of Income and therefore is excluded from the other line items within operating expenses. Management has also evaluated the impact of events occurring after March 31, 2013, up to the date of issuance of these consolidated interim financial statements.

Note 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.

Note 3 - 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 net of allowance for doubtful accounts, and costs and estimated earnings in excess of billings on uncompleted contracts. The total balance of receivables past due 90 days or more was $39.6 million, $34.6 million and $34.3 million as of March 31, 2013 and 2012, and December 31, 2012, 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 as of March 31, 2013 and 2012, and December 31, 2012, was $10.8 million, $12.2 million and $10.8 million, respectively.

Note 4 - Inventories and natural gas in storage
Inventories, other than natural gas in storage for the Company's regulated operations, were stated at the lower of average cost or market value. Natural gas in storage for the Company's regulated operations is generally carried at average cost, or 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 consisted of:

	March 31, 2013	March 31, 2012	December 31, 2012
	(In thousands)		
Aggregates held for resale	$98,120	$85,958	$87,715
Asphalt oil	94,332	82,949	67,480
Materials and supplies	75,868	68,369	69,390
Merchandise for resale	24,342	28,459	31,172
Natural gas in storage (current)	12,811	15,475	29,030

Other	29,399	32,131	32,628
Total	$334,872	$313,341	$317,415

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 $49.6 million, $50.3 million, and $49.7 million at March 31, 2013 and 2012, and December 31, 2012, respectively.

Note 5 - 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 performance share awards. Common stock outstanding includes issued shares less shares held in treasury. Net income was the same for both the basic and diluted earnings per share calculations. A reconciliation of the weighted average common shares outstanding used in the basic and diluted earnings per share calculation was as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Weighted average common shares outstanding - basic	188,831	188,811
Effect of dilutive stock options and performance share awards	391	371
Weighted average common shares outstanding - diluted	189,222	189,182
Shares excluded from the calculation of diluted earnings per share	—	—

Note 6 - Cash flow information

Cash expenditures for interest and income taxes were as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Interest, net of amount capitalized	$21,857	$22,433
Income taxes paid (refunded), net	$(7,246)	$285

Noncash investing transactions were as follows:

	March 31,	
	2013	2012
	(In thousands)	
Property, plant and equipment additions in accounts payable	$92,236	$51,739

Note 7 - New accounting standards

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, 2013, 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.

Disclosures about Offsetting Assets and Liabilities In December 2011, the FASB issued guidance on the disclosure requirements related to balance sheet offsetting. The new disclosure requirements relate to the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. In January 2013, the FASB issued guidance clarifying the scope of the disclosures related to balance sheet offsetting. The amendments clarify that this guidance only applies to derivative instruments, repurchase agreements and securities lending transactions that are either offset or subject to an enforceable master netting arrangement. The guidance was effective for the Company on January 1, 2013, and must be applied retrospectively. The guidance required additional disclosures, however it did not impact the Company's results of operations, financial position or cash flows.

Note 8 - Comprehensive income (loss)

The after-tax changes in the components of accumulated other comprehensive loss as of March 31, 2013, were as follows:

	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Net Unrealized Gain (Loss) on Available-for-sale Investments	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Loss
	(In thousands)				
Balance at December 31, 2012	$6,018	$ 119	$(54,347)	$(511)	$(48,721)
Other comprehensive income (loss) before reclassifications	(5,849)	(44)	—	88	(5,805)
Amounts reclassified from accumulated other comprehensive loss	(2,772)	35	648	—	(2,089)
Net current-period other comprehensive loss	(8,621)	(9)	648	88	(7,894)
Balance at March 31, 2013	$(2,603)	$ 110	$(53,699)	$(423)	$(56,615)

Reclassifications out of accumulated other comprehensive loss were as follows:

	Three Months Ended March 31, 2013	Location on Consolidated Statements of Income
	(In thousands)	
Reclassification adjustment for gain (loss) on derivative instruments included in net income		
Commodity derivative instruments	$4,513	Operating revenues
Interest rate derivative instruments	(115)	Interest expense
	4,398	
	(1,626)	Income taxes
	2,772	
Amortization of postretirement liability losses included in net periodic benefit cost	(967)	(a)
	319	Income taxes
	(648)	
Reclassification adjustment for loss on available-for-sale investments included in net income	(54)	Other income
	19	Income taxes
	(35)	
Total reclassifications	$2,089	

(a) Included in net periodic pension cost (see Note 16 for additional details).

Note 9 - Discontinued operations

In 2007, Centennial Resources sold CEM to Bicent. In connection with the sale, Centennial Resources had agreed to indemnify Bicent and its affiliates from certain third party claims arising out of or in connection with Centennial Resources' ownership or operation of CEM prior to the sale. In addition, Centennial had previously guaranteed CEM's obligations under a construction contract. The Company incurs legal expenses and has accrued liabilities related to this matter. These items are reflected as discontinued operations in the consolidated financial statements and accompanying notes. Discontinued operations are included in the Other category. For more information, see Note 18.

Note 10 - 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 March 31, 2013, include ECTE.

In August 2006, MDU Brasil acquired ownership interests in the Brazilian Transmission Lines. The electric transmission lines are primarily in northeastern and southern Brazil. The transmission contracts provide for revenues denominated in the Brazilian

Real, annual inflation adjustments and change in tax law adjustments. The functional currency for the Brazilian Transmission Lines is the Brazilian Real.

In 2009, multiple sales agreements were signed for the Company to sell its ownership interest in the Brazilian Transmission Lines. In November 2010, the Company completed the sale of its entire ownership interest in ENTE and ERTE and 59.96 percent of the Company's ownership interest in ECTE. The remaining interest in ECTE is being purchased over a four-year period. In August 2012 and November 2011, the Company completed the sale of one-fourth of the remaining interest in each year. Alusa, CEMIG and CELESC hold the remaining ownership interests in ECTE.

At March 31, 2013 and 2012, and December 31, 2012, the equity method investments had total assets of $142.9 million, $105.3 million and $129.0 million, respectively, and long-term debt of $63.9 million, $35.9 million and $65.5 million, respectively. The Company's investment in its equity method investments was approximately $5.7 million, $8.2 million and $6.9 million, including undistributed earnings of $2.2 million, $2.2 million and $3.4 million, at March 31, 2013 and 2012, and December 31, 2012, respectively.

Note 11 - Goodwill and other intangible assets

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

Three Months Ended March 31, 2013	Balance as of January 1, 2013*	Goodwill Acquired During the Year	Balance as of March 31, 2013*
	(In thousands)		
Natural gas distribution	$345,736	$—	$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	104,276	—	104,276
Total	$636,039	$—	$636,039

* Balance is presented net of accumulated impairment of $12.3 million at the pipeline and energy services segment, which occurred in prior periods.

Three Months Ended March 31, 2012	Balance as of January 1, 2012*	Goodwill Acquired During the Year**	Balance as of March 31, 2012*
	(In thousands)		
Natural gas distribution	$345,736	$—	$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,168	458	103,626
Total	$634,931	$458	$635,389

* Balance is presented net of accumulated impairment of $12.3 million at the pipeline and energy services segment, which occurred in prior periods.

** Includes contingent consideration that was not material related to an acquisition in a prior period.

Year Ended December 31, 2012	Balance as of January 1, 2012*	Goodwill Acquired During the Year**	Balance as of December 31, 2012*
	(In thousands)		
Natural gas distribution	$345,736	$—	$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,168	1,108	104,276
Total	$634,931	$1,108	$636,039

* Balance is presented net of accumulated impairment of $12.3 million at the pipeline and energy services segment, which occurred in prior periods.
** Includes contingent consideration that was not material related to an acquisition in a prior period.

Other amortizable intangible assets were as follows:

	March 31, 2013	March 31, 2012	December 31, 2012
	(In thousands)		
Customer relationships	$21,310	$21,010	$21,310
Accumulated amortization	(12,211)	(10,197)	(11,701)
	9,099	10,813	9,609
Noncompete agreements	7,236	7,086	7,236
Accumulated amortization	(5,439)	(4,921)	(5,326)
	1,797	2,165	1,910
Other	10,979	11,442	10,979
Accumulated amortization	(5,557)	(4,429)	(5,369)
	5,422	7,013	5,610
Total	$16,318	$19,991	$17,129

Amortization expense for amortizable intangible assets for the three months ended March 31, 2013 and 2012, was $800,000 and $900,000, respectively. Estimated amortization expense for amortizable intangible assets is $3.7 million in 2013, $3.5 million in 2014, $2.6 million in 2015, $2.2 million in 2016, $1.9 million in 2017 and $3.2 million thereafter.

Note 12 - Derivative instruments

The Company's policy allows the use of derivative instruments as part of an overall energy price, foreign currency and interest rate risk management program to efficiently manage and minimize commodity price, foreign currency and interest rate risk. As of March 31, 2013, the Company had no outstanding foreign currency hedges. The following information should be read in conjunction with Notes 1 and 7 in the Company's Notes to Consolidated Financial Statements in the 2012 Annual Report.

Cascade

Cascade has historically utilized natural gas swap agreements to manage a portion of its regulated natural gas supply portfolio in order to manage fluctuations in the price of natural gas related to core customers in accordance with authority granted by the WUTC and OPUC. Core customers consist of residential, commercial and smaller industrial customers. As of March 31, 2013 and December 31, 2012, Cascade has no outstanding swap agreements. As of March 31, 2012, Cascade held a natural gas swap agreement with total forward notional volumes of 214,000 MMBtu. The fair value of derivative instruments must be estimated as of the end of each reporting period and is recorded on the Consolidated Balance Sheets as an asset or a liability. Periodic changes in the fair market value of the derivative instruments are recorded on the Consolidated Balance Sheets as a regulatory asset or a regulatory liability, and settlements of these arrangements are expected to be recovered through the purchased gas cost adjustment mechanism. Gains and losses on the settlements of these derivative instruments are recorded as a component of purchased natural gas sold on the Consolidated Statements of Income as they are recovered through the purchased gas cost adjustment mechanism. Under the terms of these arrangements, Cascade either pays or receives settlement payments based on the difference between the fixed strike price and the monthly index price applicable to each contract. For the three months ended March 31, 2012, the change in the fair market value of the derivative instruments of $52,000 was recorded as an increase to regulatory assets.

Fidelity
At March 31, 2013 and 2012, and December 31, 2012, Fidelity held oil swap and collar agreements with total forward notional volumes of 2.8 million, 4.0 million and 2.6 million Bbl, respectively, and natural gas swap agreements with total forward notional volumes of 25.9 million, 10.9 million and 11.0 million MMBtu, respectively. In addition, at March 31, 2012, Fidelity held natural gas basis swap agreements with total forward notional volumes of 2.6 million MMBtu. Some of these agreements were designated as cash flow hedging instruments. Fidelity utilizes these derivative instruments to manage a portion of the market risk associated with fluctuations in the price of oil and natural gas and basis differentials on its forecasted sales of oil and natural gas production.

Centennial
At March 31, 2013 and 2012, and December 31, 2012, Centennial held interest rate swap agreements with total notional amounts of $40.0 million, $60.0 million and $50.0 million, respectively, which were designated as cash flow hedging instruments. Centennial entered into these interest rate derivative instruments to manage a portion of its interest rate exposure on the forecasted issuance of long-term debt. Centennial's interest rate swap agreements have mandatory termination dates ranging from May through June 2013.

Fidelity and Centennial
The fair value of the derivative instruments must be estimated as of the end of each reporting period and is recorded on the Consolidated Balance Sheets as an asset or liability. Changes in the fair value attributable to the effective portion of hedging instruments, net of tax, are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss). To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value is recorded directly in earnings.

There were no components of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness. Gains and losses must be reclassified into earnings as a result of the discontinuance of cash flow hedges if it is probable that the original forecasted transactions will not occur, and there were no such reclassifications.

Gains and losses on the oil and natural gas derivative instruments are reclassified from accumulated other comprehensive income (loss) into operating revenues on the Consolidated Statements of Income at the date the oil and natural gas quantities are settled. The proceeds received for oil and natural gas production are generally based on market prices. Gains and losses on the interest rate derivatives are reclassified from accumulated other comprehensive income (loss) into interest expense on the Consolidated Statements of Income in the same period the hedged item affects earnings. The gains and losses on derivative instruments were as follows:

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Commodity derivatives designated as cash flow hedges:		
Amount of loss recognized in accumulated other comprehensive loss (effective portion), net of tax	$ (6,154)	$ (4,659)
Amount of gain reclassified from accumulated other comprehensive loss into operating revenues (effective portion), net of tax	2,843	2,343
Amount of loss recognized in operating revenues (ineffective portion), before tax	(1,422)	(4,251)
Interest rate derivatives designated as cash flow hedges:		
Amount of gain recognized in accumulated other comprehensive loss (effective portion), net of tax	305	889
	(71)	(14)

Amount of loss reclassified from accumulated other comprehensive loss into interest expense (effective portion), net of tax		
Amount of loss recognized in interest expense (ineffective portion), before tax	(159)	—
Commodity derivatives not designated as hedging instruments:		
Amount of gain (loss) recognized in operating revenues, before tax	(4,410)	55

As of March 31, 2013, the maximum term of the derivative instruments, in which the exposure to the variability in future cash flows for forecasted transactions is being hedged, is 33 months.

Based on March 31, 2013, fair values, over the next 12 months net gains of approximately $1.5 million (after tax) are estimated to be reclassified from accumulated other comprehensive income (loss) into earnings, as the hedged transactions affect earnings.

Certain of Fidelity's and Centennial's derivative instruments contain cross-default provisions that state if Fidelity or any of its affiliates or Centennial fails to make payment with respect to certain indebtedness, in excess of specified amounts, the counterparties could require early settlement or termination of derivative instruments in liability positions. The aggregate fair value of Fidelity's and Centennial's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2013, was $12.4 million. The aggregate fair value of assets that would have been needed to settle the instruments immediately if the credit-risk-related contingent features were triggered on March 31, 2013, was $12.4 million.

The location and fair value of the gross amount of the Company's derivative instruments on the Consolidated Balance Sheets were as follows:

Asset Derivatives	Location on Consolidated Balance Sheets	Fair Value at March 31, 2013	Fair Value at March 31, 2012	Fair Value at December 31, 2012
		(In thousands)		
Designated as hedges:				
Commodity derivatives	Commodity derivative instruments	$1,623	$25,560	$18,084
	Other assets - noncurrent	—	537	—
		1,623	26,097	18,084
Not designated as hedges:				
Commodity derivatives	Commodity derivative instruments	4,313	1,138	220
	Other assets - noncurrent	243	45	—
		4,556	1,183	220
Total asset derivatives		$6,179	$27,280	$18,304

Liability Derivatives	Location on Consolidated Balance Sheets	Fair Value at March 31, 2013	Fair Value at March 31, 2012	Fair Value at December 31, 2012
		(In thousands)		
Designated as hedges:				
Commodity derivatives	Commodity derivative instruments	$5,994	$18,964	$—
	Other liabilities - noncurrent	534	6,098	—
Interest rate derivatives	Other accrued liabilities	4,458	1,168	6,255
	Other liabilities - noncurrent	—	2,153	—
		10,986	28,383	6,255
Not designated as hedges:				
Commodity derivatives	Commodity derivative instruments	1,385	1,219	—
	Other liabilities - noncurrent	74	49	—
		1,459	1,268	—
Total liability derivatives		$12,445		