

Utility Shareholders  
of North Dakota

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## ND Public Service Commission brings the EPA to North Dakota to talk Carbon Regulation; Heitkamp gets McCarthy to meet with utilities

After months of denying invitations to come to North Dakota and hold public comment sessions over its proposed emissions standards for existing fossil-fuel electric generation units, EPA officials came to the state twice between January and February. Neither visit involved an official EPA listening session, but that doesn't mean North Dakota businesses and citizens missed the opportunity to make their concerns known.

In January, the ND Public Service Commission got the ball rolling by hosting a symposium on EPA carbon regulation. In June of 2013, President Obama rolled out his Climate Action Plan, which set a goal of cutting carbon emissions in half by 2030. "That won't happen without significant changes in how we travel, how we transport goods, how we heat our homes and how we power our lives and our

"because there's very little agreement often, even on what the facts are. But today, we're going to try to get to the bottom of some of the facts that do exist."

Commissioner Randy Christmann agreed. "In these matters of government regulations, of essential services, big utility companies, the environmental, it seems like hyperbole is much too common and instead of just stating the facts, people tend to throw bombs. But in our role, we need to deal in facts."

Christmann outlined what he thought were the three key points to keep in mind as the discussion continued: the environment, price, and reliability all matter. "We all breathe; we all drink; we all need the earth. I think we can agree that we all care about the air, the water, and the environment. Number one: the environment matters. Secondly, whether we like it or not, it's a world economy we live in... Industry and the jobs that go with it can leave this state, they can leave this nation, so price matters. And number three: We live in a harsh climate...our reality is that electricity is not just a comfort, but people, pets, livestock can die without it, so reliability matters."

Commissioner Brian Kalk focused his comments on protecting reliability and cost for North Dakotan consumers. "No matter what happens today, the discussion and debate will continue. I think we're just trying to figure out what we can do to better utilize our resources in North Dakota to keep our reliability and to keep our cost," he said.

Shaun McGrath, the regional director for the EPA's Region 8 (which includes Colorado, Utah, Wyoming, Montana, South Dakota, and North Dakota) presented an overview of the EPA's belief of the role of greenhouse gas in climate change. He highlighted the president's climate action plan, which imposes strict carbon emission standards on both existing

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**EPA Administrator Gina McCarthy and ND PSC Commissioner Julie Fedorchak listen as utilities share their concerns.**

economy," Commissioner Julie Fedorchak said. Fedorchak called the symposium a fact-finding mission. "I think that's somewhat of an elusive goal in a subject like this," she said in opening comments of the symposium,

# Greetings From Bismarck ...

*"That's what we're missing. We're missing argument. We're missing debate. We're missing colloquy. We're missing all sorts of things. Instead, we're accepting."*

– Studs Terkel

*"Let me explain. No, there is too much. Let me sum up."*

– Indigo Montoya, The Princess Bride



With each news panel or political commentary I watch or read, I become increasingly disappointed in the breakdown of civil dialogue. Our manners have declined so much that talking over another person has become commonplace. Gone are the days when someone asks a question and allows the responder to answer completely. Gone are the days when a person responds to a question with a substantive answer. We have been trained, insidiously, to follow buzzwords and talking points to the extent that the rest of the discussion doesn't seem to matter. We have become a sound bite society, and civility, respect, facts and logic have taken a backseat to easy, provocative packaging.

We've settled for the sound bites for a variety of reasons. One, sound bites are easy. We're busy, we're tired, and the world throws a lot of complex things at us. On the surface, sound bites help us dispose of things quickly and easily so we can get on with our lives. Two, we lack expertise or attention to make sense of complexity, so we want someone else to tell us what we need to know. We turn to others to give us what we want, assuming they've done the mental heavy lifting. Three, we too easily throw in the towel when faced with conflict. When people start asking questions, the people with the answers (or the power) get defensive. It's easier to control a society when you control the debate. When we start asking questions, we get hit with a barrage of attack tools to shut us down. It becomes easier to

stop asking and settle for what we're told. Few things are really simple enough to be explained with sound bites. We settle for them, but in settling, we're allowing ourselves to be managed by the people who craft the sound bites.

For example, the next time you hear phrases like "settled science" bundled with "climate change", know that you're being fed a sound bite in order to shut down any contrary dialogue. You're being handled. In a well-mannered, civil society, questioning those phrases could launch good discussion. In a sound bite society, any challenge to the message invites ridicule.

However, ridicule is less costly than living under pre-packaged assumptions. For example, consider the EPA's continued efforts to saddle utilities with burdensome (and questionably relevant) regulations. It's one thing to bear a heavy burden in order to accomplish a necessary and useful end; it's another to bear the burden when the efficacy of its intended result is nebulous and the premise on which the burden claims to exist is unsubstantiated.

We need to continue to demand true dialogue rather than accept what the handlers feed us. We deserve more than a summarized version of the world. Good or bad, complex or simple, it's time to do the heavy lifting on the front end of the conversation rather than bear the burden of what the "easy" path has created.



**Carlee McLeod**  
USND President

## Words to Ponder...

*Well, first of all, no professor should be able to say, I refuse to defend my position. I refuse to debate my position.*

– Alan Dershowitz

*I love argument, I love debate. I don't expect anyone just to sit there and agree with me, that's not their job.*

– Margaret Thatcher

*A good leader can engage in a debate frankly and thoroughly, knowing that at the end he and the other side must be closer, and thus emerge stronger. You don't have that idea when you are arrogant, superficial, and uninformed.*

– Nelson Mandela

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# Oil Pipeline Inspection and Safety – A New Approach

Most North Dakotans believe the development of our energy resources has been good for our state. Oil, coal, wind, and natural gas, along with our booming agricultural sector, and the best work force in America, have combined to make us the envy of the nation. Our entire state has prospered, but with every opportunity comes challenges.

One challenge is public safety, as it relates to the transportation and delivery of oil. Currently, we do not have adequate pipeline capacity, a situation that is exacerbated by the refusal of the Administration to approve the Keystone XL pipeline. So, our producers have had to rely on rail transit to move our oil. The answer is to increase our pipeline capacity. But, as the oil pipeline spill at Tioga demonstrates, there are challenges to insure that our citizens and their property are safe.

Your Public Service Commission (PSC) regulates natural gas transmission and distribution lines in North Dakota. These lines are inspected on a yearly basis and more often if required. The regulation of oil and hazardous liquid pipelines is handled, for the present, by the U.S. Pipeline and Hazardous Material Safety Administration, or PHMSA. They inspect these pipelines roughly every three years. Currently, PHMSA does not have a federal inspector stationed in North Dakota.

Recently, a meeting was held between PHMSA and the PSC. One of the items discussed was the possibility that the PSC would institute, with the approval of PHMSA, a state controlled safety program for oil and hazardous liquids pipelines within North Dakota. The federal officials

said they would support such a program should the state meet federal requirements. It would mean that we would adopt existing federal pipeline standards and have qualified, trained state inspectors just like we do for our natural gas pipeline safety program.

We are not looking for new regulations. It will be our intention that these pipelines will be inspected by North Dakota inspectors and have a local “touch point” on the program.

We need to have the ability to move product, via pipelines, so as to lessen the dependence on rail transportation. The Casselton accident was too close for comfort. Pipelines, properly sited, constructed, and maintained, are the best option to move our energy products. Our agricultural producers are being hampered by the lack of rail transportation of their products.

We will be in consultation with the Governor’s office and the Legislature as we consider this proposal. The Governor and the Legislature share our determination to improve and enhance safety and security as it relates to our pipelines, both natural gas and oil.



**Brian Kalk**  
Chairman, ND Public  
Service Commission

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## Otter Tail Corporation Appoints Charles S. MacFarlane President and Chief Operating Officer

Otter Tail Corporation has appointed of Charles (Chuck) S. MacFarlane, current president and CEO of Otter Tail Power Company, to the role of president and chief operating officer of Otter Tail Corporation, effective April 14, 2014. In his new role, MacFarlane will advance the growth and profitability strategies in place at both Otter Tail Power Company and the manufacturing and infrastructure businesses under Varistar, while current Otter Tail Corporation President and CEO, Edward J. (Jim) McIntyre will continue to guide corporate strategy. McIntyre expects to retire at the corporation’s annual shareholder meeting in 2015. MacFarlane is expected to be named as McIntyre’s successor at that time. Otter Tail Power Company intends to name MacFarlane’s successor in the second quarter 2014.

“I am delighted to announce Chuck’s new role at Otter Tail Corporation,” said McIntyre. “His achievements and wide-ranging management experience, insights into the corporation’s culture, and appreciation for its diversified business model, make him ideally qualified for this new

role. Under his leadership, Otter Tail Power Company has produced consistently strong financial results, while keeping rates low and maintaining good relationships with customers and regulators.”

“The opportunity to help further increase the value of our corporation is invigorating,” said MacFarlane. “Otter Tail Corporation’s approach to diversification - through our electric platform and through our manufacturing and infrastructure platform under Varistar- has never been more important to the long-term success of the company. I am privileged to serve alongside such a strong executive team, leadership bench and talented, dedicated employees.”

McIntyre added, “Naming Chuck president now gives the two of us the chance to work closely together for a year before I retire, which represents sound succession planning for the organization. I look forward to collaborating with Chuck during the coming year to help ensure a smooth transition.”



## NDPSC brings EPA to North Dakota (cont. from page 1)

and new source power plants. After his presentation, industry members were each given time to express their concerns with the proposed rules.

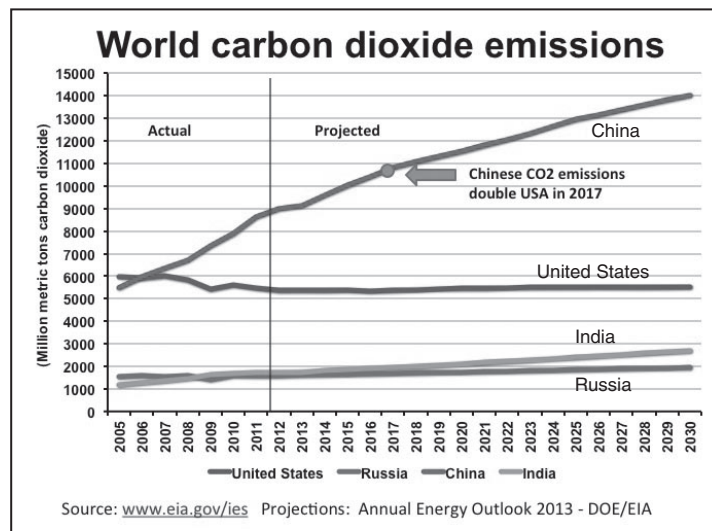
Utility representatives addressed the following points: industry must be given credit for early action; EPA guidelines for adequately demonstrated technologies must be based on what is achievable by affected sources; states must be given flexibility to avoid stranded resources; states must be given flexibility to recognize regional differences in generation resources, utility industry structure, and participation in regional transmission organizations; and industry must be given sufficient time to demonstrate compliance.

The concept of “adequately demonstrated technology” took center stage in the symposium. While many proponents of carbon capture and sequestration (CCS) point to studies or limited projects for its feasibility, CCS technologies haven’t been adequately demonstrated for use with North Dakota generation. “There is way too much at stake to rely on anything that is unproven... When I think of ‘proven’ technology, I think of something that not only has been developed and built but has actually worked for a while,” Christmann said.

Congressman Kevin Cramer told the group he was encouraged by U.S. House of Representatives hearings on the topic of “adequately demonstrated technology”, and he noted that a report by the Office of Management and Budget said that CCS was not yet adequately demonstrated. He also said he appreciated that McGrath admitted that he was not an expert on CCS or climate change, but encouraged him to listen to those who are. “You can either be really smart or you can be really resourceful. And one of the things that has frustrated me with regard to this rule...is that the EPA has not listened very effectively, in fact they’ve not listened hardly at all to the experts. They’ve all but ignored the people affected by the rule.”

The utility representatives emphasized the need for credit for early action. Most utilities operating in North Dakota have already diversified their generation mix to include wind and other renewables. Many upgrades have been made to improve efficiency of existing units and minimize environmental concerns. Early action has already reduced emission rates dramatically. Frank Prager, Vice President of environmental affairs at Xcel Energy, discussed the company’s proactive renewable efforts, citing that they are already the nation’s number one wind provider. “Our goal is to provide our customers with clean, safe and reliable energy at a reasonable price and the key to doing that is fuel diversity and a balanced approach.”

State flexibility in achieving emission standards was highlighted. Frank Morehouse, President and CEO of Montana-Dakota Utilities pointed out that the new source



rule is so stringent that utilities might not be able to run natural gas turbines to back up renewable sources. He urged flexibility and noted that natural gas fills in the gaps when the wind doesn’t blow.

Cost to the consumer will increase if the proposed regulations become final. Each utility’s generation mix is different, so increased costs vary. Morehouse said consumer costs could increase by 45%. Otter Tail Power Company President and CEO Chuck MacFarlane said the cost increase to comply would be around 35% by 2025.

“I think it’s critical for the public to know how this is going to affect you. It’s important to know how it’s going to affect your family budget, how it’s going to affect your business budget, how it’s going to position us in a global economy to be and to continue to be competitive, and so I applaud the commission for doing exactly that,” Cramer said. “Nobody knows it better than North Dakotans. I always say ‘I have the solution to America’s energy policy: just turn it over to North Dakota’. Not only will we have low cost energy, we’ll have clean air, clean water, fertile land and a high quality of life and a high standard of living.”

To his credit, Director McGrath remained in the audience throughout the entire symposium, listening to industry concerns and public comment, as well as presentations by the David Glatt of the ND State Health Department, John Moura from the North American Electric Reliability Corporation (NERC), and Charles McConnell, executive director of the Energy and Environment Initiative. McConnell’s presentation restored some excitement in the room by talking about carbon capture and utilization research and potential projects of the future. He emphasized utilization rather than storage and said that North Dakota’s oil play could benefit eventually (but not until it was adequately demonstrated) by using captured carbon in enhanced oil recovery.

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## NDPSC brings EPA to North Dakota (cont.)

Following the symposium, Senator Heidi Heitkamp brought EPA Administrator Gina McCarthy to the state to hear for herself what industry had to say. McCarthy met with Governor Dalrymple, followed by a roundtable discussion with utility representatives. While McCarthy said she was visiting to tell the states they didn't need to worry, industry expressed the same concerns as were discussed in the symposium, and more discussion was had on the global economy. By 2017, for instance, China's emissions will double those of the US, and the proposed EPA rules will not result in any noticeable change to global emissions.

The discussion is far from finished. In a bipartisan and effort, Energy and Power Subcommittee Chairman Ed Whitfield (R-KY) and Senator Joe Manchin (D-WV)

introduced legislation to ensure EPA rules consider fuel sources separately, provide that coal standards have been demonstrated by at least six units across the nation for over one year each, separate standards for lignite coal that have been demonstrated for over a year at three separate units. In addition, the legislation would require federal law to set an effective date for any rules promulgated for existing power plants. It would also require the EPA to report to Congress before establishing any rule establishing greenhouse gas (GHG) emissions, showing the economic impact of the rule and the projected effects on global GHG emissions. Lastly, the legislation would repeal EPA's prior GHG standards for new power plants. Stay tuned.

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## WBI Energy's Dakota Pipeline moves forward with announcement of open season for capacity commitments

WBI Energy, the pipeline and energy services subsidiary of MDU Resources Group, announced that planning for a 375-mile natural gas pipeline stretching from western North Dakota to northwestern Minnesota is underway, and an open season seeking capacity commitments has begun.

"The Dakota Pipeline offers another avenue to move Bakken-produced natural gas out of the area and complements our other ongoing activities to build connections to several natural gas processing facilities," said David L. Goodin, president and CEO of MDU Resources. "The increase in natural gas pipeline capacity out of the region will provide additional transportation opportunities for new production as it comes on line, as well as more capacity for natural gas captured through industry's efforts to reduce the flaring of this valuable resource."

North Dakota Gov. Jack Dalrymple has been concerned about the amount of natural gas flaring in the state and has asked an industry task force to provide recommendations. "We are committed to working with WBI Energy and the entire energy industry so that we continue to reduce flaring, add value to our energy resources and help meet the nation's energy needs," Dalrymple said. "This pipeline is part of the solution and I commend MDU Resources and WBI Energy for their commitment to North Dakota and to the responsible development of our energy resources."

Rapidly growing natural gas production in western North Dakota, coupled with increasing demand from industrial, commercial and residential markets in eastern North Dakota, Minnesota, Wisconsin, Michigan and other Midwest markets, has generated strong interest in the Dakota Pipeline from potential shippers across the region.

"This project provides access to markets in the Mid-Continent and Great Lakes regions of the U.S. We have

been encouraged by the interest the marketplace has shown in this project to date," said Steven L. Bietz, president and CEO of WBI Energy. "Through the open season process, we intend to secure capacity commitments for the Dakota Pipeline and begin the process for obtaining the necessary permits and regulatory approvals." An open season is pipeline industry terminology for a time period when interested shippers make binding bids for firm transportation capacity on the new pipeline.

The proposed route will provide access to interconnections with pipelines operated by Great Lakes Gas Transmission Limited Partnership, Viking Gas Transmission Company and, potentially TransCanada Pipelines Limited. The interconnections would be at a point in northwestern Minnesota.

The Dakota Pipeline has been designed to initially transport approximately 400 million cubic feet per day of natural gas and, depending on user commitments, could be expanded to more than 500 MMcf/d. At a transport volume of 400 MMcf/d, the pipeline carries enough natural gas annually to provide the needs of 1.3 million homes.

The project investment for the proposed 375-mile pipeline system is estimated to be approximately \$650 million. The majority of the new pipeline would be comprised of 24-inch diameter pipeline and includes two new compressor stations.

Following receipt of the contractual capacity commitments from the open season and the granting of the necessary permits and regulatory approvals, construction on the new pipeline could begin in 2016 with completion expected in 2017.

# Companies report 2013 year-end earnings, declare dividends

## Xcel Energy Inc.

Xcel Energy Inc. reported 2013 GAAP earnings of \$948 million, or \$1.91 per share, compared with 2012 GAAP earnings of \$905 million, or \$1.85 per share.

Ongoing earnings, which exclude adjustments for certain items, were \$1.95 per share for 2013 compared with \$1.82 per share in 2012. Ongoing earnings increased as a result of higher electric and gas margins due to rate increases in various states, the impact of favorable colder weather on our natural gas business and reduced interest charges. These positive factors were partially offset by planned increases in operating and maintenance expenses and depreciation.

"It was a successful year from both an operational and financial perspective," stated Ben Fowke, Chairman, President and Chief Executive Officer. "The investments we have made in our system were once again tested by severe storms experienced across our service territories. We were well prepared, meeting all of our customer energy requirements with minimal disruptions. This would not have been possible without the tremendous efforts of our skilled and dedicated employees. Further, we successfully completed several major construction projects including the Monticello nuclear extended life and uprate project as well as the Prairie Island steam generator replacement. We are set to increase our future wind production by 40 percent, which is expected to provide significant fuel savings to our customers over the next twenty years. Financially, we delivered earnings within our guidance range for the ninth consecutive year and raised the dividend for the tenth consecutive year."

"We are reaffirming our 2014 ongoing earnings guidance of \$1.90 to \$2.05 per share. Our credit ratings remain strong, we will continue to make smart investments and we are committed to improving our regulatory compact by proposing rate mitigation plans and measures such as multi-year rate cases. I believe we are a premium company, well-positioned for the future," said Fowke.

The board of directors raised the quarterly dividend on the company's common stock from 28 cents per share to 30 cents per share, which is equivalent to an annual rate of \$1.20 per share. The Board declared the first quarter common stock dividend payable April 20, 2014, to shareholders of record on March 20, 2014. The Board plans to review dividend policy annually at the February board meeting and does not anticipate further increases to the quarterly dividend in 2014.

## Otter Tail Corporation

Otter Tail Corporation announced financial results for the year ended December 31, 2013. Consolidated net income from continuing operations increased to \$50.2 million, or \$1.37 per diluted share, from \$39.0 million, or \$1.05 per diluted share, in 2012. Diluted earnings per share (EPS) from continuing operations on a non-GAAP basis were \$1.54 compared with \$1.31 for 2012, an 18% improvement year over year. Non-GAAP based earnings exclude net-of-tax costs of \$6.2 million in 2013 and \$9.3 million in 2012 related to early retirements of debt. Consolidated revenues increased 4% to \$893.3 million compared with \$859.2 million in 2012. Consolidated operating income increased 18% to \$96.9 million compared with \$82.0 million in 2012. Consolidated net income totaled \$50.9 million, or \$1.39 per diluted share, compared with a consolidated net loss of \$5.3 million, or (\$0.17) per diluted share for 2012.

"Disciplined execution of our strategy produced strong results both at Otter Tail Power Company and at the Varistar manufacturing and infrastructure companies and put us in a solid position for 2014," said Otter Tail Corporation President and CEO Jim McIntyre.

"Otter Tail Power Company continued to invest in environmental upgrades at its power plants and in regional transmission projects with other utilities. Construction of a new air-quality control system at Big Stone Plant was more than 25% complete at year-end with a stellar safety record and an 18% lower cost estimate compared with its original budget. Environmental cost recovery riders approved in Minnesota and North Dakota in December 2013 and implemented in January 2014 allow for Otter Tail Power Company to earn a return on funds invested in the project while it is under construction. Investment with other utilities in three CapX2020 transmission projects and two 345-kv projects deemed 'multi-value projects,' or MVPs, by the Midcontinent Independent System Operator (MISO) also are generating growth in our Electric segment," said McIntyre.

The corporation's Board of Directors increased the quarterly common stock dividend to \$0.3025 per share, an indicated annual dividend rate of \$1.21 per share or \$0.02 per share increase over the 2013 rate. The dividend is payable on March 10, 2014 to shareholders of record on February 14, 2014.

This represents the 301st consecutive quarter dividends have been paid on common stock.

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# North Dakotans for Common Sense Conservation: Why We Oppose the Proposed Conservation Amendment

There are several reasons why we – North Dakotans for Common Sense Conservation – oppose the proposed Clean Water, Wildlife and Parks Amendment ballot measure. One of the most important is because it is a constitutional amendment that mandates spending on conservation. This would be the first-ever spending measure enshrined into our constitution. There is a reason we don't dictate spending in the constitution – it would require that funds be spent for a specified area, whether the need is there or not. We already have a system in place to determine funding needs and levels, and that's our legislative process.

This measure would commit five percent of North Dakota's oil extraction tax – conservatively estimated at \$300 to \$400 million a biennium – to a massive new conservation fund and dictates that anywhere from 75 to 90 percent of the fund must be spent each biennium.

The spending requirement in this initiative means that whether or not there are conservation needs, the group must spend over \$3 million a week on average on projects. Spending by mandate is not a North Dakota value. This type of earmark has no place in our state's constitution.

The issue here isn't about conservation. We all care about taking care of our natural resources, environment and wildlife. However, this measure – largely funded by out-of-state special interest groups – legally requires conservation to have funding precedence over education, infrastructure, health and human services, water needs and other important areas. And, any changes to this

constitutional amendment could only be corrected by another statewide vote.

Consider the consequences of signing onto a proposed 25-year government mandate to spend billions of dollars. It's difficult to predict what our funding needs will be in 10 years, much less 25 years.

We shouldn't take away the Legislature's ability to address the most urgent needs as they arise. Funding priorities should be targeted toward immediate needs, not bound by constitutional earmarks.

We are among more than 20 diverse groups that are part of the coalition backing the North Dakotans for Common Sense Conservation. We support a common sense and smart approach to conservation, where spending is not mandated through the constitution. North Dakota already invests more than \$130 million per biennium in conservation and related efforts across the state. We don't need a measure that mandates more spending in our constitution.

We can't support a measure that doesn't measure up.

**USND joins North Dakotans for Common Sense Conservation in opposing the proposed Clean Water, Wildlife, and Parks Amendment which is currently being circulated for signatures. Until the general election, we will include an article in each newsletter addressing reasons the coalition opposes the measure.**

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## Companies report earnings *(cont. from page 6)*

### MDU Resources Group, Inc.

MDU Resources Group, Inc. reported 2013 consolidated adjusted earnings of \$289.9 million, or \$1.53 per share, compared to \$218.9 million, or \$1.16 per share in 2012. Consolidated GAAP earnings were \$278.2 million, or \$1.47 per share, compared to a loss of \$1.4 million, or 1 cent per share, in 2012. The company reported consolidated adjusted earnings of \$90.3 million, or 48 cents per share, in the fourth quarter of 2013 compared to \$76.2 million, or 40 cents per share in the fourth quarter of 2012. Consolidated GAAP earnings were \$91.3 million, or 48 cents per share, compared to a loss of \$61.2 million, or 32 cents per share, in 2012.

"Adjusted earnings grew 32 percent for the year to the highest level since 2008 and shareholders experienced a

total annual return of 48 percent in 2013, so this has been a very successful year," said David L. Goodin, president and CEO of MDU Resources. "All of our businesses are operating exceptionally well. Our focus on substantial capital investment to grow our businesses is having an impact and with the added investments planned for this year, we expect to continue the momentum. We also successfully executed on more than \$100 million in sales of non-strategic assets in 2013 and plan to maintain our focus on the efficient use of capital."

The board of directors today declared quarterly dividends on the company's common stock. The dividend for common stock is 17.75 cents per share, unchanged from the previous quarter. The dividends are payable April 1, 2014, to stockholders of record March 13, 2014.

## Utility Industry Terms

**Reliability:** The degree of performance of the elements of the bulk electric system that results in electricity being delivered to customers within accepted standards and in the amount desired. Reliability may be measured by the frequency, duration, and magnitude of adverse effects on the electric system. Electric system reliability can be addressed by considering two basic and functional aspects of the electric system:

**Adequacy:** The ability of the electric system to supply the aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and reasonably expected unscheduled outages of system elements.

**Security:** The ability of the electric system to withstand sudden disturbances such as electric short circuits or unanticipated loss of system elements.

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