MDU Resources Group, Inc. NYSE:MDU

Earnings Call

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Call Participants

EXECUTIVES

Brent Miller
Treasurer

Jason L. Vollmer
Chief Financial Officer

Nicole A. Kivisto
President & CEO

ANALYSTS

Aidan Charles Kelly
JPMorgan Chase & Co, Research Division

Andrew Kadavy
Wells Fargo Securities, LLC, Research Division

Christopher Ronald Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

Ryan Michael Levine
Citigroup Inc., Research Division

Tanner William James
Jefferies LLC, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the MDU Resources Group, Inc. Q2 2026 Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Brent Miller, Treasurer of MDU Resources Group. Brent, please go ahead.

Brent Miller
Treasurer

Thank you, and welcome, everyone, to the MDU Resources Group Second Quarter 2026 Earnings Conference Call. Our earnings release and supporting materials for this call are available on our website at mdu.com under the Investors section. Leading today's call are Nicole Kivisto, President and Chief Executive Officer; and Jason Vollmer, Chief Financial Officer of MDU Resources Group.

During today's call, we will make certain forward-looking statements within the meaning of the federal securities laws. Please refer to our SEC filings for a discussion of risks and uncertainties that could cause actual results to differ. I will now turn the call over to Nicole for her prepared remarks. Nicole?

Nicole A. Kivisto
President & CEO

Thank you, Brent, and good afternoon, everyone. We appreciate you joining us today and for your continued interest in MDU Resources. This morning, we reported second quarter 2026 earnings of $21.3 million or $0.10 per share. Our results reflected continued execution across our regulated utility and pipeline businesses. New rates, customer growth, investments such as Badger Wind Farm and higher retail sales volumes helped drive the results. We delivered solid results while also continuing to advance strategic infrastructure opportunities that continue to support long-term growth.

A key highlight for the quarter was certainly the continued advancement of the proposed Bakken East pipeline project. With recently signed precedent agreements, we now have executed agreements with all customers that submitted binding open season interest, totaling nearly 1.2 billion cubic feet per day of transportation capacity with a negotiated option in place that may increase contracted volumes to nearly all of the original interest from our binding open season. We continue to design the project for 1.4 billion cubic feet per day of transportation capacity.

Overall project design is being finalized based on confirmed customer volumes and delivery locations before a final investment decision is made, which is expected ahead of a FERC 7(c) filing. This application is now anticipated to be filed in the fourth quarter of 2026.

The proposed in-service dates of Phase 1 in late 2029 and Phase 2 in late 2030 remain unchanged. As development progresses, we continue to evaluate financing, partnership and other commercial options to support the projected $2.7 billion to $3.2 billion project. The potential Bakken East investment remains incremental to our current capital program.

We also continue to see encouraging development activity across our service territory, including data center opportunities and broader infrastructure demand. Our approach to serving data centers is grounded in protecting existing customers and ensuring that growth creates value for the communities we serve. Data center customers are responsible for paying the costs associated with connecting to and being served by the electric system, including infrastructure and energy-related expenses. At the same time, the additional revenue generated from serving these customers can help support the electric system and contribute to reducing certain fixed costs for existing retail customers by allocating them across a broader customer base. This current approach creates benefits for all customers.

During the quarter, we did enter into an electric service agreement with Applied Digital to serve Polaris Forge 3, an AI factory near Center, North Dakota. At full capacity, the campus would require 430 megawatts of electricity. Approval of the ESA and other regulatory filings by the North Dakota Public Service Commission is pending. We now have over 1 gigawatt of data center load under signed ESAs with approximately 240 megawatts currently online with additional volumes expected over the next few years as additional buildings are constructed.

On the electric regulatory front, we did file a North Dakota general rate case on June 30, 2026, requesting an annual revenue increase of approximately $34.5 million with interim rates of approximately $26.3 million requested to begin on September 1 of this year. The filing reflects electric infrastructure investments, normal depreciation, reliability improvements, system safety and higher operation and maintenance expense.

In Montana, interim rates reflecting an annual increase of approximately $10.4 million remain in effect subject to refund, and a settlement agreement of $10 million has been filed and is pending commission approval.

In Wyoming, our general rate case settlement was approved for an annual increase of $5.8 million with rates effective April 1, 2026.

Also in June, the North Dakota Public Service Commission approved the route permit for the Jamestown-to-Ellendale Transmission Project. This project is expected to enhance reliability, improve resiliency, reduce transmission congestion and support access to lower-cost energy across the region.

At our natural gas distribution segment, positive regulatory outcomes in Idaho, Washington, Montana and Wyoming, as well as higher retail sales volumes and continued customer growth supported improved year-over-year results. In Washington, we did file a multiyear natural gas case requesting an annual revenue increase of $25.1 million in year 1 and $18.1 million in year 2.

Our Oregon general rate case remains pending with a multiparty settlement agreement, which was filed on July 31, 2026, with a requested annual increase of approximately $12.2 million. We also do anticipate filing a Minnesota general rate case later this year.

At our pipeline segment, strategic growth initiatives continue to advance. The Line Section 32 expansion project remains on schedule following our FERC Section 7(c) application filing in March of 2026, and continues to target a late 2028 in-service date, subject to regulatory approvals. Development activities for the potential Minot Industrial Project also continue under agreements currently extended through late 2026.

In addition, our pipeline business filed a FERC rate case on May 29 of this year, requesting a $31 million annual revenue increase. Approximately 30% of the requested revenue increase is due to proposed new depreciation and amortization rates. FERC accepted and suspended the proposed rates on June 30, with rates to become effective December 1, 2026, subject to refund and the outcome of hearing procedures if a settlement with our customers and FERC is not reached.

Looking ahead, we are reaffirming our 2026 earnings per share guidance range of $0.93 to $1. This guidance is based on assumptions, including normal weather, economic and operating conditions for the remainder of the year, continued customer growth, successful execution of approved capital investment programs and constructive regulatory outcomes. Our long-term earnings per share growth objective remains at 6% to 8%.

Our capital program for 2026 through 2030 totals approximately $3.1 billion, with planned investments of approximately $1.1 billion in our electric business, $1.4 billion at our natural gas distribution business and $643 million at our pipeline. We remain focused on disciplined execution of this plan while advancing additional infrastructure opportunities that support customers, communities and stockholders.

As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to delivering safe, reliable, cost-effective and environmentally responsible energy services while positioning the company for compelling long-term growth.

And with that, I will now turn the call over to Jason for the financial update. Jason?

Jason L. Vollmer
Chief Financial Officer

Thank you, Nicole. As Nicole mentioned, we announced this morning second quarter earnings of $21.3 million or $0.10 per share compared to $13.7 million or $0.07 per share for the second quarter of 2025. On a year-to-date basis, earnings were $102.1 million or $0.49 per share compared to $95.7 million or $0.47 per share for the first 6 months of last year.

Turning to our individual businesses. Our electric utility reported second quarter earnings of $14.7 million compared to $10.4 million for the same period in 2025. Results benefited from higher retail sales revenue, including recovery mechanisms associated with renewable investments such as the Badger Wind Farm, which contributed $3.3 million in earnings during the quarter. Interim rates in Montana and new rates in Wyoming, along with higher retail sales volumes across all major customer classes also contributed to the increase.

Our natural gas distribution segment reported a seasonal second quarter loss of $3.9 million compared to a seasonal loss of $7.4 million in the second quarter of 2025. The improved year-over-year results was primarily driven by new rates in Idaho, Washington, Montana and Wyoming, as well as higher retail sales volumes across all customer classes. Retail sales volumes increased 6.7% and customer growth was 1.6% year-over-year. These benefits were partially offset by higher interest expense resulting from higher long-term debt balances.

The pipeline segment earned $14.4 million in the second quarter compared to $15.4 million in the same period in 2025. The decrease was driven by lower other income and higher depreciation and amortization expense from a growth project placed in service. These impacts were partially offset by continued customer demand for short-term natural gas transportation contracts and interruptible storage services, along with contributions from previously constructed growth projects, including a contracted volume increase.

The other category reported a second quarter net loss of $3.9 million compared to a net loss of $4.7 million in the same period last year. The year-over-year improvement was primarily due to discontinued operations and associated with a $1.5 million tax benefit related to strategic initiative costs. We continue to maintain a strong balance sheet and ample access to working capital to finance operations through our peak periods.
That summarizes our financial highlights for the quarter. We appreciate your interest in MDU Resources, and ask now that we open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Constantine Lednev with Wells Fargo.

Andrew Kadavy
Wells Fargo Securities, LLC, Research Division

Actually, it's Andrew Kadavy on for Constantine right now. Maybe on the financing options for Bakken East. We've seen some peers use a variety of instruments to finance these bigger projects. Are you seeing any favorable markets out there that could help you efficiently finance the project?

Jason L. Vollmer
Chief Financial Officer

Yes. Certainly, this is Jason. I can field that one. I think, again, as we've stated before, at this point, we're very excited to have reached executing all of the precedent agreements we have in place as we've been working towards that progress. We continue to look at all options as we think about financing a project of this size and scope. And I think, as you mentioned, we've seen others out there, too. we've been very focused on getting these precedent agreements signed and getting to a point of a decision. And of course, you need to get in front of our Board to look at a final investment decision on this project. So I think it's safe to say we'll look at all options out there. We feel very confident in the ability to finance a project like this and certainly some good appetite out there for these types of assets today.

Andrew Kadavy
Wells Fargo Securities, LLC, Research Division

And would that, I guess, the financing options would be -- would that be part of the Board's FID decision? And is that still on schedule for the third quarter? Or is that -- were you looking at fourth quarter for that?

Jason L. Vollmer
Chief Financial Officer

Yes. So right now, what we've stated in a little bit of a new update in our release this quarter, we are looking to make our 7(c) filing in the fourth quarter. I think we would have previously looked at third quarter based on the schedule. Certainly, some of the precedent agreement negotiations took a little bit longer. As Nicole mentioned, these have been -- some of these recently signed here.

So we will continue to bring our Board up to speed on where we're at with the project. They've been certainly involved all the way along. Work is continuing on this project and has continued from the beginning since we started looking at this. So I'm not going to be specific on a time line date yet. I think we need to go through the process of now getting the right information in front of our Board to make a decision in the right manner. But certainly, would happen ahead of the 7(c) filing, which we are now expecting to happen in the fourth quarter.

Operator

Your next question comes from the line of Julien Dumoulin-Smith with Jefferies.

Tanner William James
Jefferies LLC, Research Division

It's actually Tanner on for Julien. Thanks for the new Bakken East disclosures here. Could you maybe provide a little more information on the negotiated option in place, the strategic rationale behind it? And how you would classify the commercial alternatives and not taking the option?

Nicole A. Kivisto
President & CEO

Yes, I can take that. So I appreciate the question. And I guess I just want to start by echoing what Jason said. I really want to give a shout out to the WBI team, extremely proud of the milestone here that we announced today with the recently signed precedent agreements that get us to all customers really that were in the nonbinding open season showed up here. So that's real positive news.

We did reference the option, as you mentioned. And essentially, what we've done with that customer is they're working -- all customers are working on timing with their applicable customers. And so we worked an arrangement out where they have an option to essentially add more volumes at an already negotiated agreement. And so essentially, if that happens, what we alluded to in the release is that gets us very close to that open season amount.

Now saying that, I will say a key data point that we disclosed here also would be that we still are designing the project at 1.4 Bcf a day. So I feel good about that. And then just highlighting a couple of the other key updates, which Jason alluded to, too, which is with the precedent agreements being recently signed, we did allude to moving that 7(c) filing back to the fourth quarter and note that we would make a final investment decision ahead of that. In-service dates, as we mentioned, they'll remain unchanged.

Tanner William James
Jefferies LLC, Research Division

Understood. Great. Is the state backstop a portion of the executed agreements? Or have they or have you found an offtaker to stand in their place?

Nicole A. Kivisto
President & CEO

Yes. The state is part of the precedent agreements that we have signed.

Tanner William James
Jefferies LLC, Research Division

Understood. And then maybe just following up on the Polaris Forge 3 ESA. You're in front of the commission requesting approval. Can you speak to the magnitude of margin uplift here relative to what we're seeing at the Ellendale campus? And maybe zooming out since you've also recently just filed your electric rate case in the state. Does this give you confidence to be able to elongate the period between filings, given the support to earned ROEs from the capital-light ESA?

Nicole A. Kivisto
President & CEO

Yes, absolutely. We certainly are excited about the ESA that we signed as we disclosed, it's 430 megawatts. As you mentioned, rightfully so, we do have this in front of the state of North Dakota for approval. And so as you can imagine, we would be waiting to get the appropriate approvals before we'd contemplate including that in any of our numbers or providing any financial guidance. So right now, that would not be contemplated in what we're talking about from a long-term growth rate perspective.

Certainly, the way we are working through these negotiations with data center customers, you've heard us talk about this in the past. We are working under a capital-light model as of today. And so incremental margin on data center load is a benefit to the company, but I would say it's also a benefit to our customers. So we really do feel like it's a win-win. So yes, there is a benefit to the company. But as we've talked about with investors in the past, we are sharing a piece of that margin with our retail customers. So they are getting a credit on their bill as well. And then in addition to that, the data center takes on more of that transmission expense that otherwise would have been allocated to our retail customers. So we're also seeing bill impacts, bill reductions to retail customers because of that.

So that kind of gives you -- here's the company side of it, and here's the customer side of it. But the bottom line is the Center ESA right now, we are still waiting for approval and final move forward on that with the state before we would incorporate something like that in our guidance.

Operator

Your next question comes from the line of Aidan Kelly with JPMorgan.

Aidan Charles Kelly
JPMorgan Chase & Co, Research Division

Yes, of course. So I just want to hone in on Bakken East again, clearly, strong commercial momentum to date with the 1.2 Bcf secured you mentioned. And you're still kind of designing for 1.4 Bcf. I guess my question is, are there any factors that would cause you to expand the Bakken East pipe? I know in the past, you've kind of spoken to an overbuild scenario as a consideration. So just curious if you could comment on the potential there and your thoughts in general.

Nicole A. Kivisto
President & CEO

Yes. So as we mentioned in the news release, and I also reiterated as part of my talking points here today, we are still currently working through that overall design. So with these recently signed precedent agreements, we will look at what makes sense in terms of designing the projects so that we can have expandability but also designing the project so that it meets the financial hurdles we need from a Board as well as a shareholder perspective. So it's a balancing act, but certainly, we will be looking at that and contemplating that as we move to a final investment decision.

Aidan Charles Kelly
JPMorgan Chase & Co, Research Division

Great. Understood. Makes sense. And I guess just teeing it all up, you kind of laid out potential FID coming before the 7(c) filing in 4Q and you kind of need to go to the Board for some considerations there. I guess just like for the investment community, when should we kind of expect you to refresh the capital plan and kind of roll in this Bakken East estimate? Is that like kind of on the tails of 4Q? Just any kind of color on the timing there as you kind of see it today.

Jason L. Vollmer
Chief Financial Officer

Aidan, I can take that one. So our normal process for updating capital would really be kind of that late November time frame. So typically, after our third quarter Board meeting, meeting with our Board, updating along the way. Now that said, something the size of a Bakken East project here would be incrementally a large increase to that.

So I think when we get to the Board and we've got an FID decision, a little more clarity around exactly what impact this could have should we decide to proceed here, then I think we would update the market at that point with some sort of a maybe revised range. As you know right now, we've put a range out there in the neighborhood of $2.7 billion to $3.2 billion of the capital range, sorry, on that one. So that is something that we will continue to refine as we go along as we get closer to the ultimate decision here. But I think we'll probably narrow that in. And certainly, by the time we get to our November normal capital increase cycle, we would have kind of a working assumption built into our capital plan, again, if our Board decides to move forward with this project. And certainly, again, at this point, we're excited about the progress we've made to date.

Aidan Charles Kelly
JPMorgan Chase & Co, Research Division

Great. Sorry, just one follow-up question on my first question, actually. It's just -- so it is possible upside? And then like, I guess, when would that decision be made, if so?

Jason L. Vollmer
Chief Financial Officer

Yes. And I can maybe just comment on that. So again, we're designing for 1.4 Bcf, and it's really going to support the demand that we are getting here throughout the contracting process where we've got to at this point in time. To Nicole's point, there would be the ability for us to expand on that in the future should we see additional demand arise in the future. That would probably take some additional capital, maybe in the form of additional compression, things like that. So those are the things we'll make decisions on as we go. But right now, we are designing to the demand that we have today, but we would have the ability to potentially upsize this in the future if more demand showed up in future periods.

Operator

[Operator Instructions] Your next question comes from the line of Chris Ellinghaus with Siebert Williams Shank.

Christopher Ronald Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

So could you just give a little color... [Technical Difficulty]

Nicole A. Kivisto
President & CEO

Chris, are you still there? We can't hear you right now.

Operator

[Operator Instructions] Your next question comes from the line of Ryan Levine with Citi.

Ryan Michael Levine
Citigroup Inc., Research Division

I wanted to start off on the North Dakota data center front. Given that we're seeing broad calls and at least publicly around increased community engagement from -- on some of the concerns around data centers in the state. How is MDU approaching the engagement on those potential issues and trying to advance projects that may support load growth in the region?

Nicole A. Kivisto
President & CEO

Yes. So as it relates to where we are currently serving, I'm assuming you're talking about the data center load and conversations around that balancing act. I just want to make sure I'm answering your question.

Ryan Michael Levine
Citigroup Inc., Research Division

Correct, correct.

Nicole A. Kivisto
President & CEO

Yes. So I think as we think about where we're at today in the communities that we've got signed ESAs, we feel pretty good about how that community conversation is moving forward. That being said, we do believe that we need to continue to tell our story in terms of how we are serving data centers and what the potential benefit is, not only to our existing retail customers, but to the communities at large. So we have been engaged with the communities. We've been engaged in other discussions locally in terms of getting that message out, highlighting that information on our website, visiting with our employees about it, et cetera, just to make sure that it's understood in terms of how we are serving data center loads. But specifically, as it relates to those conversations in the areas where we have signed ESAs, we feel good about where we're at today.

Ryan Michael Levine
Citigroup Inc., Research Division

And then just to clarify, given all the momentum around the pipeline expansion and you're indicating that no FID until the fourth quarter. Just to confirm, there's no meaningful milestones that need to be achieved between now and then to move forward with the project? Or any clarification you're able to make around that particular issue?

Nicole A. Kivisto
President & CEO

Yes. I guess I would just clarify your question with the response that is making sure you understand. What we said is we would intend to have an FID before the 7(c) filing, and the 7(c) filing is scheduled for the fourth quarter. So I just want to clarify, we didn't technically say for sure that's when we would move forward with an FID would be the fourth. We said it would be before the filing of that 7(c). So I just want to clarify that.

In terms of other major milestones, as you can imagine, we have continued work on this project all the way through this as we were negotiating precedent agreements, we have been doing numerous things, whether it's boots on the ground activity, whether it's continuing to think about how we might finance a project of this size. So throughout that whole process, we have certainly been engaged with our Board in this discussion as well. And so we'll continue to do that as we head into a final investment decision.

Operator

There are no further questions at this time. I will now turn the call back to Nicole Kivisto for closing remarks.

Nicole A. Kivisto
President & CEO

All right. I want to thank everyone again for joining us today and for your thoughtful questions. We certainly appreciate your continued interest in and support of MDU Resources. As we move through the remainder of 2026, we remain focused on disciplined execution of our capital program, constructive regulatory engagement and advancing infrastructure opportunities that support safe, reliable and affordable energy for our customers.

Finally, I want to close by thanking all of our employees for their ongoing commitment to safety, reliability, operational excellence and customer service. And with that, we look forward to staying engaged with all of you throughout the year. Operator, you may conclude the call.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.