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MDU - Q3 2021 MDU Resources Group, Inc. Earnings Call

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OVERVIEW:

Co. reported 3Q21 earnings of \$139.3m or \$0.68 per share. Expects full-year 2021 EPS to be \$1.90-2.05.

CORPORATE PARTICIPANTS

David C. Barney President & CEO of Knife River Corporation

David L. Goodin MDU Resources Group, Inc. - President, CEO & Director

Jason L. Vollmer MDU Resources Group, Inc. - VP & CFO

Jeffrey S. Thiede President & CEO of MDU Construction Services Group, Inc.

Trevor J. Hastings President & CEO of WBI Holdings, Inc.

CONFERENCE CALL PARTICIPANTS

Brian J. Russo Sidoti & Company, LLC - Research Analyst

Christopher Ellinghaus Siebert Williams Shank & Co., L.L.C., Research Division - MD, Principal & Senior Equity Utility Analyst

Dariusz Lozny BofA Securities, Research Division - Research Analyst

Ryan Levine Citigroup Inc., Research Division - VP

PRESENTATION

Operator

Hello. My name is Erica, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2021 Third Quarter Conference Call.

(Operator Instructions)

This call will be available for replay beginning at 5:00 p.m. Eastern Time today through 11:59 p.m. Eastern Time on November 18. The conference ID for the replay is 5194306. The number to dial for the replay is 1 (855) 859-2056 or (404) 537-3406.

I would now like to turn the conference over to Jason Vollmer, Vice President and Chief Financial Officer of MDU Resources Group.

Thank you. Mr. Vollmer, you may begin your conference.

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Thank you, Erica, and welcome, everyone, to our third quarter 2021 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investors tab. President and CEO, Dave Goodin and I will be leading today's discussion.

On the line to answer questions following our prepared remarks are: Dave Barney, President and CEO of Knife River Corporation; Jeff Thiede, President and CEO of MDU Construction Services Group; Nicole Kivisto, President and CEO of our Utility Group; Trevor Hastings, President and CEO of WBI Energy; and Stephanie Barth, Vice President, Chief Accounting Officer and Controller of MDU Resources.

Today's discussion, including responses to questions, may contain certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although the company believes that its expectations and beliefs are based on reasonable assumptions, actual results could differ materially. In addition, any non-GAAP measures discussed today are reconciled to the most directly comparable GAAP measure in our earnings release and SEC filings.

Yesterday, we announced third quarter earnings of \$139.3 million or \$0.68 per share compared to third quarter 2020 earnings of \$153.1 million or \$0.76 per share. On a year-to-date basis, we have earned \$291.6 million or \$1.44 per share compared to the prior year's \$277.9 million or \$1.39 per share.

Let's look at some of the details by segment, starting with the quarterly comparison of our construction operations. Construction services reported third quarter earnings of \$23.1 million compared to the prior year's record third quarter earnings of \$29.8 million. EBITDA at this business decreased \$10.9 million from the same period in 2020 to \$35.9 million. Results were negatively impacted by \$5.5 million after tax for changes in estimates on a construction contract during the quarter. This business also had decreased margins from higher employee costs attributed to a shortage of available skilled labor.

While we saw less storm recovery work this quarter than the prior year, the demand for our general utility work has remained very strong. Our construction materials business reported earnings of \$96.3 million for the third quarter, down from the prior year's \$107.3 million. EBITDA decreased \$13.4 million from the same period last year to \$158.9 million. The primary drivers behind the decreased earnings were lower asphalt and related product sales and margins as well as lower contracting revenues.

Asphalt products and contracting margins were impacted by an increase in asphalt oil and diesel fuel costs as well as less available highway paving work in certain regions when you compare that to the strong third quarter we experienced in 2020. Partially offsetting these impacts were lower selling, general and administrative expense, primarily from lower incentive accruals and lower benefit-related costs.

Turning to our regulated energy delivery business. Our combined utility business reported net income of \$5.2 million for the quarter compared to a net loss of \$800,000 in the third quarter of 2020. The electric utility segment reported strong third quarter earnings of \$20.6 million compared to \$16.8 million for the same period in 2020. Warmer weather helped drive an 11.1% increase in electric retail sales volumes, along with more businesses being open when compared to last year due to pandemic-related impacts. Increased MISO revenues and transmission interconnect upgrades also had a positive impact on earnings at this business.

Our natural gas segment reported an expected seasonal loss of \$15.4 million for the quarter, which was a \$2.2 million improvement from the previous year. Higher adjusted gross margin from rate relief and a 2% increase in retail natural gas sales volumes drove the decreased loss, partially offset by higher O&M expense.

The pipeline business had earnings of \$10.6 million in the third quarter compared to \$8 million in the third quarter of 2020, primarily from higher AFUDC on the company's North Bakken Expansion project.

Also during the quarter, MDU Resources experienced lower income tax benefits of approximately \$4.6 million when compared to the third quarter of 2020 related to the timing of recognition of our consolidated annualized estimated tax rate.

That summarizes the key financial highlights from the quarter. And now I'd like to turn the call over to Dave for his formal remarks. Dave?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thank you, Jason, and thank you to everyone listening, for spending time with us here today and for your continued interest in MDU Resources.

The strength of our two-platform business model was evident during the third quarter as the strong results from our regulated energy delivery business helped offset some of the headwinds our construction businesses faced. MDU Resources remains well positioned for a strong end to 2021 and beyond. To summarize activity by business unit, I'll start off with the regulated energy delivery businesses. Third quarter highlights for our utility operations include significantly high earnings on a year-over-year basis. The utility continues to seek regulatory recovery for the costs associated with providing safe and reliable electric and natural gas service to our growing customer base.

On a combined basis, we saw a 1.7% customer growth since the same period in 2020. And in the third quarter, our natural gas utility refiled in the state of Washington for a \$13.7 million annual rate increase that is currently pending. You can read more about these and other regulatory filings

in our 10-Q that we filed just this morning. We continue preparing to kick off construction in early 2020 on our Heskett Station Unit IV, which is expected to be in service in early 2023.

As a reminder, Heskett IV is a natural gas peaking unit that will aid in partially replacing the generation loss with the pending retirements of our coal-fired Heskett Station Units I and Unit II and the coal-fired Lewis & Clark Unit 1 that was retired in the first quarter of this year.

Our pipeline business, also performed very well throughout the third quarter and reported earnings just shy of its third quarter 2018 record. Construction is well underway on the North Bakken Expansion project. We expect this fully subscribed project will be in service in early 2022 with capacity to transport 250 million cubic feet of natural gas per day for our customers. While a portion of the first year customer committed volumes are delayed 1 year, as we discussed last time at the -- last year at this time, the project is well positioned in the Bakken and can be readily expanded in the future for forecasted natural gas production growth.

I recently had the opportunity to visit the construction site in Northwestern North Dakota with other members of our management team. And I can tell you firsthand, it was impressive to see over 700 employees and contractors safely and efficiently working together to complete this \$260 million project. Our pipeline business also received FERC approval during the third quarter to use the prefiling review process for its Wahpeton Expansion Project. This project involves constructing approximately 60 miles of 12-inch pipeline from our existing facilities at Mapleton, North Dakota extending to Wahpeton, North Dakota. It will add 20 million cubic feet per day of natural gas capacity and is expected to cost approximately \$75 million.

Depending on regulatory approvals, construction is expected to begin in early 2024, with the completion date later that same year. When the North Bakken and Wahpeton Expansion projects are complete, WBI's total system capacity will be more than 2.4 billion cubic feet of natural gas per day, which will help to reduce natural gas flaring in the region and allow producers to move more natural gas to markets.

Now I'd like to move on to our construction platform. Our construction services group results were impacted by changes in estimates on a construction project contract as well as higher labor costs for the quarter. In 2021, the markets where construction services operates have experienced some labor shortages that have, in turn, caused the increased employee-related costs as we continue to focus on the attraction and the retention of skilled specialized labor.

Storm-related utility repair work was down compared to last year, but we continue to see strong demand overall for utility-related work. Demand for sales and leasing of the transmission line equipment that this business manufactures remains very high coupled with the strong CapEx budgets that we see across utility industry, our outlook for the outside specialty contracting remains positive. Opportunities for inside specialty contracting also remain high, especially in the commercial sector.

Construction services ended the quarter with a backlog of \$1.27 billion, down just slightly from the prior year's third year record of \$1.28 billion. Bidding remains competitive across the company's footprint, and we do expect that our relationships with existing customers combined with our high quality of service and effective cost management, will continue to aid us in securing profitable projects.

While construction services had a very strong first half of the year, we have adjusted our revenue and margin guidance for this segment to reflect the impacts up here in the third quarter. We now expect revenues to be in the range of \$2.0 billion to \$2.2 billion with margins comparable to 2020 levels.

And finally, our construction materials business. Knife River had a solid third quarter, although down from last year's record third quarter earnings. The primary impact to earnings at this business were higher costs for asphalt oil and diesel fuel as commodity costs return to levels closer to what we saw in 2019. As you may remember, decreased energy-related costs pushed our asphalt and asphalt-related product line margins to a near all-time high last year. Knife River has also been impacted by labor constraints, largely for truck drivers as the COVID-19 pandemic amplified a prior and existing labor shortage.

While labor challenges continue to impact many construction companies, Knife River is actively engaged in attracting the next generation to the construction industry. The company is nearly finishing building a training center on a 270-acre tract of property in the Pacific Northwest. That is designed to enhance the skills of its current employees and those of partner organizations as well as provide training to newcomers to the industry.

The Knife River training center features an 80,000 square foot heated indoor arena for training on trucks and heavy equipment and an attached 16,000 square foot office with classroom and lab facility. The center already is holding classes, helping students build marketable skills through both classroom education and hands-on experience. In addition to developing individual talents, the goal of the center is to showcase construction as a true career of choice. The facilities and classes are open to all construction companies beyond even Knife River.

Given the third quarter results, we have adjusted our margin guidance for this business. Revenues are still expected to be in the range of \$2.1 billion to \$2.3 billion. However, margins are now projected to be slightly lower than those seen in 2020. Knife River backlog as of September 30 was \$651.7 million, a 14% increase from the prior year's \$571.3 million. We are seeing more bidding opportunities in certain regions from strong economic conditions. We have exceptional employees from entry level to management level with a number of our employees spending their entire careers in the industry. I am confident that our management teams will continue to navigate through the labor challenges we are seeing.

Over the last 1.5 years, our teams have managed through numerous challenges presented by the COVID-19 pandemic, and we continue to produce solid results. Overall, MDU Resources and our companies had solid performance through the third quarter, and while results did not reach the level we anticipated, our operations continue to operate safely and effectively. Based on our results through the third quarter, we have adjusted our earnings per share guidance to now a range of \$1.90 to \$2.05 per share.

Looking forward, both our construction materials and construction services businesses are well positioned to benefit from the allocation of the American Rescue Plan Act funds along with a federal infrastructure plan. As the bipartisan bill progresses, the focus on traditional infrastructure projects, including the construction of roads and bridges, electric vehicle and broadband build-out and upgraded power infrastructure will provide significant upside for our construction companies and will also provide funding certainty for our customers in the coming years. We also continue to seek acquisition opportunities that will enhance market share for our construction operations.

As always, MDU Resources is committed to operating with integrity and with a focus on safety while creating superior shareholder value as we continue providing essential services to our customers and delivering on our tagline of building a strong America. I appreciate your interest in and commitment to MDU Resources and ask now that we open the line to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

I'd like to just start at the materials segment. I noticed in the [queue], it seems like the language around disbursements from the American Rescue Plan Act seems a little -- it seems like perhaps you have better visibility on a prospective basis than in previous quarters. It sounds like you're saying states are beginning to do allocations now. Can you maybe comment as to when we might see that manifest itself in that segment's result?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dariusz, I'll start and then ask Dave Barney if he wants to add to that. We're starting to see various state legislators. Legislators actually look to deal with some of those funds that are -- have headed their way. And some of those funds actually have a fuse associated with those. So they need to be used up by a certain point in time. And so I would say that's just in the process of, but I think we would start to -- expect to see some of those funds making their ways to the marketplace as early as next year, but Dave Barney, would you have any other color you'd want to add to that?

David C. Barney - President & CEO of Knife River Corporation

No, Dave, I think you covered it. We would definitely expect more -- to see more of it next year in 2022.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dariusz, did we get your question?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

You certainly did. No, that's very helpful color. If I can stay in the materials segment, I think there was also some additional language in there about you're seeing an increase in bidding opportunities in certain regions related to economic conditions. Could you perhaps elaborate on sort of the delta there or which regions those are? And also what kind of margins you're seeing on those opportunities?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dave, could you take that question, please?

David C. Barney - President & CEO of Knife River Corporation

Sure. We're seeing an increased bidding in quite a few of our regions, especially in our Idaho, Oregon, Montana, they're really strong right now. Even in California, a lot of commercial work coming out. So the margins are tight right now. They're really tight. There's a lot of people bidding on this work, but we'll get our share of it.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Okay. Great. And just if I could ask on -- one on services, the guide down on revenue. Is that principally related to the adjustment related to the 1 contract that you guys called out? Or is it perhaps driven by demand?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. Dariusz, I'll ask Jeff Thiede to respond to that one.

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Thanks for the question. It's primarily driven by timing. Some of our major projects that we are finishing or have finished have not been replaced right away with other projects. If you take a look at our backlog at \$1.27 billion, very close to our record backlog of \$1.28 billion a year ago. It's just a timing issue on when these projects start some of the projects that we have in that backlog has slipped out into next year.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dariusz, I know Jeff maybe broke up a little bit there. Did you catch that, that talking about primarily timing and that given the \$1.27 billion backlog, see it's more of a -- again, more of a timing issue given our strong current backlog that we have.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

I did catch that. And if I could just squeeze in one more briefly. Regarding your 5% to 8% long-term guidance, should we think of that -- now that you're lower on '21, should we think of the sort of run rate off of '21 as potentially being perhaps above or at the high end of that range?

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Dariusz, this is Jason. I can weigh on that one quickly here. I mean 5% to 8% long term, we're confident with that. We reiterated that number here again, as you saw with the release out last night. That's really based off our \$1.95 that we had for 2020, and we feel confident that we'll be able to see that in a long-term run rate standpoint going forward. And I won't comment on exactly how much we would expect year-over-year based on where we see things here. We need to see how 2021 wraps up here for the rest of the year, but very confident that we'll be able to hit that 5% to 8% range over the long term.

Operator

Your next question comes from the line of Ryan Levine with Citi.

Ryan Levine - Citigroup Inc., Research Division - VP

In terms of the construction service business, can you elaborate on what drove the \$5.5 million estimate change with the construction contract?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

I'll just start a little bit and then Jeff can certainly jump in. But it was really -- the largest difference, if you will, think of on a year-over-year basis, again, an estimate on a single project. If you look at the run rate third quarter 2020 versus third quarter 2021, it's really the largest difference between the two. And Jeff, maybe you can add a little more color to that particular project.

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Sure. Thank you, Dave. And good question, Ryan. This project that Dave referenced is now extended almost 1 year and 3 quarters past its original completion date in the baseline schedule. This is significantly impacting labor in a negative way. And also, we have materials that are purchased in a higher cost period later than we had in original estimate. So those are the biggest drivers within that project. And our team is working through to complete this project and put it behind us.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And I guess on the follow-up to that, given the higher costs in Construction Services, if I understood correctly, previously, some of your contracts have cost pass-throughs and inflation provision. Is there anything that happened this quarter that prevented some of those mechanisms to work or reason why we should not expect further deterioration of margin in the service business in light of some of these inflationary pressures?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Yes. Some contracts have those pass-through provisions you mentioned but others do not. And we've seen impact to productivity given the pandemic and also to supply chain availability. A year ago, we thought we'd have more supply chain issues, but inventory levels were still relatively high and [provided drops] with materials we need this year. We're really seeing whether it's light fixtures or piping, underground PVC piping, electronic components, we are seeing those impacts.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And then shifting gears to the North Bakken Expansion. In light of some of the federal policy conversations around methane emission, are you seeing any added interest in expansion opportunities on that pipeline?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Thanks, Ryan. This is Trevor. We continue to see increased activity in the Bakken itself in the last 6 to 12 months in particular. As it relates to the new methane rules that just came out this week. We are evaluating that. One would think on its face, it should add additional pressures for people to capture and move that gas to market. So it should. We haven't seen anything in the last week, but we have seen increased interest in overall just in the Bakken in terms of projects and opportunities to get natural gas out of the basin.

Ryan Levine - Citigroup Inc., Research Division - VP

And does that project have capability to take any hydrogen as well to blend it into the pipe?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Not as currently designed. I mean moving hydrogen through carbon steel pipe is being evaluated in different parts of the world. There are different studies going on in terms of the ability to blend a certain portion of hydrogen into a natural gas stream. So we continue to watch those but not as it's originally designed, it's designed to basically move pipeline quality gas.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Ryan, I'm going to just follow on a little bit from where Trevor left off. You asked about kind of activity in the Bakken and the ability to potentially expand that pipe. Another dynamic that we're seeing, and it's actually being amplified by the North Dakota pipeline authorities, the gas/oil ratio continues to climb as the producers produce oil. And so that actually, well, I think, bode well for our future potential here so far as overall natural gas production, even at current oil levels will likely increase given where the trajectory of the gas/oil ratio is. But a little more detail there, but again, I think it bodes well just for our pipeline and where it's positioned.

Ryan Levine - Citigroup Inc., Research Division - VP

Great. And then one last question. In terms of the undergrounding opportunity on the West Coast, has MDU had face-to-face conversations with the large potential customer in California?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Jeff, do you want to take that one?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

You bet. we have. We're very well positioned to be a part of this work, which we understand to be a multiyear effort to underground approximately 10,000 miles of power lines, which is the largest commitment to reduce wildfire risk in the whole country. We've submitted our qualifications with PG&E, which is a long-standing customer for us. We've also performed this type of work for PG&E in the past. And given our talented team, our experience, our performance, we expect to capture part of this opportunity once the engineering, the permits and the procurement process lead to bidding opportunities.

Operator

Your next question comes from the line of Chris Ellinghaus with Siebert Williams.

Christopher Ellinghaus - Siebert Williams Shank & Co., LLC, Research Division - MD, Principal & Senior Equity Utility Analyst

You mentioned being below expectations for the quarter. I assume that principally that is the labor and petroleum product cost pressures. Is this a function of not being contractually hedged on the petroleum product side in great detail. And is that something that as you go through the next contracting cycle will reverse? Or was this sort of a special situation for these last couple of quarters?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. Very fair question, Chris. And so the answer is part yes and part, no. And let me break down for you and others, maybe a few of the -- just a few of the major parts. Again, when I think of CSG quarter-over-quarter is really the estimate on the one large project on a year-over-year basis there. But your comment about petroleum or petroleum hedges, if we think quarter-over-quarter, we had roughly about a \$4 million after-tax impact on diesel alone for the quarter within materials. And then the other one that I said is part yes and part no, it's really in the asphalt and asphalt oil-related areas. And I'll say, while still a very good business for us, we didn't enjoy, if you will, the low commodity prices of a year ago. And combined between asphalt and asphalt oil was about a \$10 million after-tax delta between those two.

And so -- to your point, some of that does become hedge, but also some of it is the escalation of inflation that we saw on a quarter-over-quarter basis. So believe we've captured it. It's captured in our forward guidance. As we look through the remainder of the year, we feel good about these businesses. It was just more of a one-quarter occurrence.

Christopher Ellinghaus - Siebert Williams Shank & Co., LLC, Research Division - MD, Principal & Senior Equity Utility Analyst

Okay. So really depending on how you bid your contract, this was an unanticipated spike in the oil prices that next year you will be able to anticipate as you are contracting?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

I would say that's certainly true for the diesel and diesel related products. I think for the asphalt and asphalt oil, it also becomes a product of what's out in the marketplace and what's available from what others are providing. And so again, we enjoyed some record high margins in that business a year ago, very solid margins this year, but off some record high margins that we had a year ago.

Christopher Ellinghaus - Siebert Williams Shank & Co., LLC, Research Division - MD, Principal & Senior Equity Utility Analyst

Okay. And you also sort of mentioned that volumes on road work might have been down. Was that a function of some customer trying to anticipate that surge in asphalt oil cost and maybe postponing work? Or what led to that volumetric decline, you think?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

So I will say it was more specific to a couple of areas. And then Dave Barney, if you would like to add to this. One area being in Hawaii, for instance, given more restrictive lockdowns in the islands. And again, we have a strong presence throughout the islands. That certainly had an effect on the amount of workload that we were able to work on in the islands. And then our second area that, I'd say, we were down more on a year-over-year basis, but really seeing it more of a 1-year down because next year's forecast looks much more promising. Is our -- kind of our Minnesota and Northern Minnesota area, just happened to be an off year, if you will, for some of what we would typically see in some of that highway asphalt and asphalt-related overlay type activity.

And so those would be kind of the key areas that we saw. Other areas, again, we're quite strong, in general, but again, due to some COVID activities and more just from a bid timing perspective.

Dave Barney, anything to add to that or any more details that you might have?

David C. Barney - President & CEO of Knife River Corporation

No it was just a timing of work. We just didn't see a lot of -- we saw enough asphalt pavement work, but we didn't see what we've seen in the past. We expect that to turn around. And as Dave said, our Minnesota operations, we knew they might be off a little bit on their asphalt paving work this year. And a few other regions were down on asphalt paving. We expect that to turn around in 2022. But on another note, Chris, we do fixed forward contracts on our fuel, but we can only do about 50% of that.

Christopher Ellinghaus - Seibert Williams Shank & Co., LLC, Research Division - MD, Principal & Senior Equity Utility Analyst

Okay. And on the construction side, presumably, there's some pent-up, maybe backlog that's not in your backlog technically, but for renewable projects, for transmission project, maybe for port work kind of coming to the fore. Are you guys seeing some pent-up demand that you're expecting that will gain some greater momentum next year as we see the legislation, sort of amount and maybe some details of the legislation, helps some of those kinds of projects. And obviously, ports are really constrained. So what are you seeing on the horizon in some of those areas?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes, Chris, thanks for that great question. Jeff, do you want to touch on that, maybe even start with some of our renewable activity.

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Absolutely. We're performing distribution work for utility customers in some parts of the country to handle the demand on the electric vehicles and the charging stations. We're also installing charging stations in many of our locations. We see more opportunities in this market. We're working for a large EV vehicle manufacturer, and we're in conversations with another one to work at their facility as well.

We continue to see expanded opportunities also with the renewables. We recently awarded two projects, one in the mid-\$30 million range, one about \$40 million. One of those comes in the Southwest and other is in Pacific Northwest. We're also partnering with a confidential client to build upon our experience and performance for additional sites across the country in renewables. As far as the port, we just picked up some work in Port Long Beach. And of course, airports, we've got two airports growing right now. And we have an experience to be able to capitalize on expanded infrastructure work in the transportation part of our markets in the future.

Operator

This marks the last call for questions.

(Operator Instructions)

This call will be available for replay beginning at 5 p.m. Eastern Time today through 11:59 p.m. Eastern Time on November 18. The conference ID number for the replay is 5194306.

Your next question comes from the line of Brian Russo with Sdoti.

Brian J. Russo - Sdoti & Company, LLC - Research Analyst

Just on the materials side, you talked about labor shortages, higher asphalt oil and diesel prices. I suppose that your aggregate peers are also experiencing or your material peers are experiencing the same issues. So as the industry as a whole or -- is the industry raising prices and/or is MDU raising prices to kind of sustain margins that you may have seen in 2020?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dave, would you want to take that one, please?

David C. Barney - President & CEO of Knife River Corporation

Sure. Yes, Brian, our margins on our aggregate and ready-mix were up this year over last year. We were able to increase our pricing on aggregates and ready-mix, and we'll continue to do that. It was more on the -- big miss was on the asphalt oil side this year, margins were quite a bit down. In fact, they were about \$11 million out of the \$14 million miss. So the biggest miss on our side was the asphalt oil side of business, but we are increasing our margins on a ready-mix and aggregate.

Brian J. Russo - Sdoti & Company, LLC - Research Analyst

Okay. Got it. And then just on the services side, could you just kind of characterize the types of contracts or mix of contracts, are you fixed cost, cost plus? And then the average duration of a project that when you enter into a project, if it's less than a year, you can lock in your raw material prices without having risk of any inflationary pressures that you might happen to capture with a longer contract?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Sure. This is Jeff. Approximately 80% of our backlog is in our inside businesses and a lot of our projects we secure on a cost plus with a guaranteed max, we brought on early to provide design assist services. So we're updating pricing, and we're coming to our owners or general contractors with recommendations on locking in, whether it's copper or aluminum or pipe or wire. And that process is ever-going. As far as our utility customers, that also is where we work with unitized pricing to try to mitigate any of the procurement for commodity and inflationary pressures that we've seen, especially this year.

Brian J. Russo - Sdoti & Company, LLC - Research Analyst

Okay. And just to clarify on the revised guidance, that is not only the year-to-date performance or the weakening of margins you saw in the third quarter, but it's also capturing what you're experiencing in the fourth quarter as well. Is that accurate to say?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes, Brian, that's accurate. That would be our expectation as we finish 2021 here.

Operator

At this time, there are no further questions. I'd now like to turn the conference back over to management for closing remarks.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thank you, operator, and thank you all for taking the time to join us here on this third quarter earnings call. We are optimistic about our growth opportunities with near-record construction backlog and the ongoing and future regulated energy delivery projects that we highlighted here today. We look forward to connecting again as we finish out 2021 and look forward to 2022. And again, thank you, we appreciate your continued interest in and support of MDU Resources Group. Operator?

Operator

This concludes today's MDU Resources Group conference call. Thank you for your participation. You may now disconnect.

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