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EDITED TRANSCRIPT

MDU - Q12022 MDU Resources Group, Inc. Earnings Call

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OVERVIEW:

MDU reported 1Q22 earnings \$31.7m, or \$0.16 per share. Expects 2022 EPS to be \$2.00-2.15.

CORPORATE PARTICIPANTS

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

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Nicole A. Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

CONFERENCE CALL PARTICIPANTS

Brent Thielman D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Brian Russo Sidoti & Company, LLC - Research Analyst

Dariusz Lozny BofA Securities, Research Division - Research Analyst

Ryan Levine Citigroup Inc., Research Division - VP

PRESENTATION

Operator

Hello. My name is Jamaria, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2022 First Quarter Conference Call. (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 May 19. The conference ID number for the replay is 2188415. The numbers 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, and welcome, everyone, to our first quarter 2022 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investor Relations tab.

Leading today's discussion along with me will be Dave Goodin, President and CEO of MDU Resources. Also with us today 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.

During our call, we will make 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 may differ materially. For more information about the risks and uncertainties that could cause our actual results to vary from any forward-looking statements, please refer to our most recent SEC filings.

We may also make reference to certain non-GAAP information. For a reconciliation of any non-GAAP information to appropriate GAAP metrics, please refer to our earnings release. I will start by providing consolidated financial results for the first quarter before handing the call over to Dave Goodin for his comments and his forward look.

Yesterday, we announced first quarter earnings of \$31.7 million or \$0.16 per share compared to first quarter 2021 earnings of \$52.1 million or \$0.26 per share. Our combined utility business reported net income of \$47.6 million for the quarter compared to \$46.9 million for the first quarter of 2021. The electric utility segment reported strong first quarter earnings of \$11.3 million compared to \$10.7 million for the same period in 2021.

Driving the results was a 2.5% increase in electric retail sales volumes, primarily from colder weather and higher transmission revenues. Results of this business were impacted by lower investment returns on certain benefit plan investments.

Our natural gas segment also reported strong first quarter earnings of \$36.3 million, slightly higher than the previous year. A 9% increase in retail natural gas sales volumes across all customer classes which, of course, were partially offset by weather normalization and decoupling mechanisms, along with improved rate relief in certain jurisdictions, positively impacted earnings for the quarter. Partially offsetting these increases were higher operation and maintenance expense and again, lower investment returns on certain benefit plans.

The pipeline business earned \$7.3 million in the first quarter compared to \$8.9 million in the first quarter of 2021. The North Bakken expansion project placed in service on February 1 drove higher transportation revenue, which had a positive impact to earnings for the quarter. However, this was more than offset by higher operating expenses, lower storage related revenue and lower investment returns on benefit plans.

Now turning to our construction businesses. Our Construction Services Group had record revenues in the first quarter of \$552.6 million and reported first quarter earnings of \$21.3 million. This is compared to the prior year's first quarter revenue of \$518.5 million, which also included last year's record first quarter earnings of \$29.8 million. Increased volumes and utility-related transmission and distribution work, along with a larger volume of work in the renewable and commercial markets, were offset by a reduction in the amount of higher-margin storm repair and fire hardening power line work. Lower industrial margins, due to the timing of projects, were partially offset by higher commercial margins at the electrical and mechanical portion of this business.

Our construction materials business also had a record first quarter revenue of \$310 million and reported a seasonal loss of \$40 million compared to prior year first quarter revenues of \$265.7 million and a seasonal loss of \$30.8 million. Higher average product pricing and higher volumes across all product lines drove top line growth. However, higher fuel, repair and maintenance and labor-related costs more than offset the increase. Also negatively impacting the quarter were higher selling, general and administrative expenses, primarily from higher payroll-related costs, less bad debt recovery than the prior year and lower investment returns on benefit plans.

As I mentioned in the segment discussions, our companies were impacted by lower investment returns on certain nonqualified benefit plans. In total, that impact was \$6.2 million after tax when compared to the first quarter of 2021. Finally, the company continues to maintain a strong balance sheet and ample access to working capital to finance our operations as we get into the peak seasons ahead of us.

That summarizes our financial highlights for the quarter. And now I'll 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, everyone, for spending time with us today and for your continued interest in MDU Resources. We've had a solid start to the year, reporting top line revenue growth across all segments, with both of our construction businesses reporting record first quarter revenues. As expected, we did experience and continue to experience inflationary pressures. However, we are encouraged by record construction backlog and the various growth opportunities at our regulated businesses. We are proud of our team's ability to continue to execute on its business plans to provide strong results while navigating through inflationary and supply chain challenges.

To summarize activity by business segment, I'll start off with the regulated energy delivery businesses. Utility reported higher earnings on a combined basis for the quarter as it continues to experience strong customer growth across the service territory. Our customer base grew 1.7% on a year-over-year basis, and we expect this growth to continue at a pace between 1% and 2% compounded annually over the next 5 years. We also expect rate base growth at 5% compounded annually over the next 5 years as well. And this is driven primarily by investments in system infrastructure upgrades and replacements to safely meet customer demand. This business continues to seek regulatory recovery for the investments associated with providing safe and reliable electric and natural gas service to our growing customer base.

In March, our natural gas utility filed a multiparty natural gas rate settlement in the state of Washington that would increase revenue by approximately \$10.7 million annually, which is approximately 4% higher than current rates. A hearing on the settlement is set for June 1. You can read more about this and our other regulatory filings in our Form 10-Q filed this morning.

At our electric utility, construction is soon to commence on Heskett Station Unit IV, which is expected to be in service during the first half of 2023. Heskett IV, as a reminder to those, is a natural gas peaking unit that will aid in partially replacing needed capacity with the retirement of our coal-fired Heskett Station Units I and Unit II, which in the first quarter this year were retired and the coal-fired Lewis & Clark Unit #1, which was retired in the first quarter of last year.

I would also like to recognize the efforts of our many employees who work tirelessly to restore power to customers in Northwest North Dakota who were impacted by the recent major snow and ice storms. These storms caused widespread power outages and significant damage to the company's electric transmission and distribution system, and we had at one point over 18,000 customers out of service. Our teams have restored power to all communities as of last weekend and continue with storm damage repair and cleanup activities. Again, we thank our employees for their hard work and our thoughts are also with our customers impacted by this event.

At our pipeline business, we also had a solid quarter. As Jason noted, this business recorded higher transportation revenues related to the North Bakken expansion that was placed into service here just on February 1. This project is well-positioned in the Bakken and can be readily expanded in the future for forecasted natural gas production growth.

In addition to that opportunity, we are excited about the multiple pipeline expansion projects on the horizon such as the Wahpeton Expansion Project in Eastern North Dakota, which is expected to be in service in 2024, pending regulatory approval. This project involves constructing approximately 60 miles of 12-inch pipeline from our existing facilities at Mapleton, North Dakota, down to Wahpeton, North Dakota. And will add some 20 million cubic feet per day of natural gas capacity and is expected to cost approximately \$75 million.

In the more near term, this business has entered into long-term customer agreements for 4 additional projects. Pending regulatory approval, these projects are expected to be completed here in later 2022 and into 2023, and combining to add some incremental 300 million cubic feet per day of natural gas transport capacity to the system.

Now I'd like to move on to our construction platform. At our Construction Services Group, we had record revenues during the quarter with growth at nearly all its business lines, underscoring this business' capabilities to perform a diverse range of projects. We continue to see strong demand for utility-related work as initiatives for grid hardening and optimization projects take shape. We're also excited about the increasing demand for renewable projects as well as higher institutional demand in the education and government sectors. Although earnings were down during the quarter compared to the prior year's record first quarter earnings, we're also optimistic about the rest of '22 and beyond.

Construction services ended the quarter with an all-time record backlog now standing at \$1.67 billion. This is up 31% from the prior year. And we have numerous projects underway across all of our markets, which are expected to contribute to the 2022 results. We expect revenues at this business to be in the range of \$2.2 billion to \$2.4 billion with margins comparable to 2021 levels. And with our ability to successfully attract and retain a skilled workforce which now numbers over 8,300 employees across the footprint, which is up nearly 900 from the same time a year ago. We are well-positioned to complete these projects safely, efficiently, on budget and on time.

And finally, turning to our construction materials business. We also had record revenues in this business, in part from contributions from recent acquisitions and increased product pricing. However, this business recorded a larger seasonal loss, reflecting higher fuel, materials and labor-related costs across all product lines as the company continues to experience inflationary headwinds during the first quarter. As previously mentioned, this business is increasing pricing to offset these inflationary pressures. And while the impacts to those increases were somewhat muted due to the typical low sale volumes during the first quarter, we expect to see the benefits from higher prices as the construction season progresses throughout the year and sales volumes ramp up, especially in our northern tier markets.

Through its successful first quarter bidding season, Knife River increased backlog 15% from the prior year to now standing at \$940 million. Given the strong backlog and record first quarter revenues, we are increasing the revenue guidance by \$150 million to now a range of \$2.45 billion to \$2.65 billion, with margins slightly lower than 2021, reflecting the current inflationary environment.

Knife River is working hard to attract and retain a strong, skilled workforce and through the use of its 270-acre training center in the Pacific Northwest is providing training needed for new entrants to the construction industry as well as continuing education for industry veterans. The Knife River

Training Center, which celebrated its grand opening just last Thursday on April 28, features an 80,000 square foot heated indoor arena for training on trucks and heavy equipment and an attached 16,000-foot square office classroom and lab facility. The accreditation program for the CDL driving school at this facility is complete, which will provide much-needed professional drivers for our operations.

Turning and looking forward, both our construction materials and construction services business are very well-positioned to benefit from the Infrastructure Investment and Jobs Act, which we anticipate will begin to positively impact bidding opportunities here later in 2022 and going forward. Both of these businesses are also actively seeking acquisition opportunities that are complementary to our existing businesses and to increase market presence. Future acquisitions are not included in our stated guidance and would be incremental to our 2022 results. This completes our individual business unit discussion.

Now looking ahead, we are affirming our 2022 earnings guidance in the range of \$2 to \$2.15 per share, with EBITDA guidance in the range of \$900 million to \$950 million. We have a robust capital plan with \$770 million planned for 2022 and nearly \$3.1 billion over the next 5 years. These capital expenditures include line-of-sight opportunities such as the Heskett Station and other infrastructure development at the utility, expansion projects at the pipeline and ongoing equipment replacements at our construction businesses.

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 mission of Building a Strong America while being a great and safe place to work.

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 will come from the line of Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Just wanted to start out on the materials segment and the '22 guidance where you guys moved up the revenue guidance and took down the margin expectations a little bit. So in the context of the comments about expecting greater benefits from price increases and obviously, you guys reaffirmed your full year EPS guidance, how should we think about those moving pieces as far as the earnings expectations for the materials business for the remainder of the year?

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

Yes. I'll ask Dave Barney to weigh in here. I'll maybe steal his headline, though, is that clearly, \$150 million raise on the top line is -- we're seeing some inflationary pressures, but that's also reflecting some pricing adjustments as we think about the remainder of the year, Dariusz. And then as we think about the pricing increases that I noted, we would expect because the first quarter is pretty light volumes in our business, and we really start to see. Again, on a volumetric basis, if we raise, whether it's aggregates, asphalt, ready-mix, that will be -- come into play more as we sell volumes, which are more second quarter and growing, certainly strongest in the third quarter and then we start tapering off somewhere around Thanksgiving time.

So that's how we're literally viewing it. Those price increases will be reflected as our sales volumes ramp up through the remainder of the year, offsetting some of those inflationary pressures. Now Dave Barney, did I leave anything else to say on that? But I think they might be interested in just kind of a general sense, if you will, of kind of what you're seeing out there, maybe from a bidding opportunity perspective.

David Barney - President & CEO of Knife River Corporation

Yes, I think you pretty much covered it, Dave. But Dariusz, we have raised prices on all product lines to offset that inflationary price increases we're seeing. As Dave said, the first quarter is light due to weather. I'm still optimistic about 2022.

If you look back to our record year of 2020, we had a first quarter loss of 38.2, which was only \$1.8 million less than this year. Back comparing our first quarter to first quarter of 2020, we had a higher margin than 2020, and our backlog is higher and the backlog through March is higher.

So the other thing that -- I'm not sure, Dave, hit on, we have carryover work that's protected, and so we are raising prices, but we do have carryover work that we don't have price increases yet. So that will start happening in the second quarter. So we expect margins to continue to go up through the year. So I hope that answers your question.

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

Dariusz, did that answer your question?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Yes. Absolutely. Yes. Yes. If I could just maybe ask now on the construction services side, just looking through the additional detail that you guys are now providing that's very much appreciated. The renewables segment, it seems like there was quite a jump year-over-year from last year's Q1, still a relatively small portion, but growing fast. However, the gross margin -- the increase in that is comparably with less. Are you guys actively looking to perhaps sacrifice a little bit on the margins there in order to capture market share? Or just how are you thinking about that renewables piece in particular?

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

So Dariusz, I'll ask Jeff to weigh in. But just as a reminder, actually, the renewables space is something we've been doing for well over a dozen years. It can tend to be lumpy at times. But obviously, as we broke that out now among the various segments, it becomes more visible with -- I think it's important for you and investors to get a sense for, Jeff, you want to touch more on the specifics in that renewable space to help out the question that Dariusz had?

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

Yes, absolutely. You can see that our solar work has increased, as you mentioned, and there were some start-up costs involved with the change in those numbers and those percentages. We expect to build upon our success in solar. There's quite a few opportunities out there available in the marketplace. And mostly, people think about Southern Nevada, where we are very well-equipped with experience and teams to be able to build projects, and we are seeing an increased growth and opportunities there.

We also have 3 utility scale solar projects in the Pacific Northwest, and we just picked up another utility scale project in Illinois. And that last project I mentioned is not reflected yet in our numbers that we released or in our backlog, but we see it as a growing market, and we have the experience and we're well-positioned.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Got it. Okay. If I can squeeze one more in here and just more on your overall '22 guidance, I assume that the impact of the Cascade settlement is not included in your EPS guidance given it has not been approved yet, but if you could just confirm that.

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

Dariusz, I think that's a fair assumption. But obviously, we have a multiparty signatory to that as well. So we have to kind of put that into context as well. Anything else to add to that, Nicole?

Nicole Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

Yes. I think as you look at the overall guidance for the corporation for the year, the utility would have provided their share of that to corporate, and we do include some assumptions on our recoverability on that rate case. But essentially, to your point, we do not have final approval yet. And right now, we've got a settlement in front of the commission, 2-party settlement. So we're waiting to hear on that. And once we know, we will certainly let the market know.

Operator

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

Ryan Levine - Citigroup Inc., Research Division - VP

In terms of the free cash flow outlook, look like you took down your organic free cash flow and increased some of your CapEx numbers, about 6%. How are you thinking about financing needs and equity needs heading into the balance of the year?

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

Yes. Thanks, Ryan. This is Jason. I can say, yes, you're spot on. We did bring back the operating cash flow number a bit and also increased a little bit on the CapEx side of things. On the cash flow side, a lot of that's going to be due to just what we've seen even from working capital needs or a lot of it probably related to higher gas prices that we've seen with our utility company and the fact that we'll get recovery of that through purchased gas cost adjustments here in the future. But the timing of that might not match up with what we had originally expected with those higher costs.

On the CapEx side of things, we did see some changes there, some increases as well. That's really just kind of the addition of a few projects to really some pull forward of projects that maybe we're going to be in future parts of our 5-year forecast that we're actually pulling those forward a bit, due to timing of request or just needing to get those projects done a little bit sooner.

On the financing side of things, back to that question, on the increased gas cost portion of it, again, we'll recover those through our normal PGA adjustments as we go forward. So not looking to do any external financing on that. We've got plenty of liquidity and working capital to be able to manage through that process. And really, the increases that we've seen on the CapEx side of the equation are pretty small at this point in time. So not changing any of our forecasted look. As we've stated before, we don't have any plans to issue equity in 2022, absent some larger acquisitions we may do later in the year, that has not changed. We're still in that same position.

Ryan Levine - Citigroup Inc., Research Division - VP

And then I guess switching gears to the materials segment. You disclosed a lot of the ASP dynamics and overall segment contribution. But curious what really drove the decline in margin on a dollar per ton basis? Is it more the ready-mix side or asphalt or other components of your business?

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

Ryan, this is Dave. I'll ask Dave Barney to weigh into that one, Dave?

David Barney - President & CEO of Knife River Corporation

When you look at the aggregate, it's mostly fuel and repair and maintenance on the aggregate side, and it's basically the same on asphalt, fuel, maintenance drove the margins down.

Ryan Levine - Citigroup Inc., Research Division - VP

But is the decline in margin on a per ton basis? Is it more driven by one product over another product? Or is it fairly uniform in terms of the net decline on a per ton basis?

David Barney - President & CEO of Knife River Corporation

Pricing is up on all of our product lines. It's just the maintenance cost and fuel costs have gone up.

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

And Ryan, I would just add to that really because of volumes are so very low in here in the first quarter, the pricing increases that Dave Barney has noted, really will become more visible into the second and third quarters as we start to ramp up volumes there. And so I think it's a very small sample set that you're seeing here in the first quarter with price increases not having a material effect given the low volumes.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And I guess that leads to my follow-up question. In terms of timing of when price increases typically occur, is there a certain period of the year where you try and push most of the price increases across? Or have -- they largely been impacted to reflect the recent inflationary pressures?

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

Dave, can you touch on just kind of in general, what the timing has been on the price adjustments and get a sense for that for Ryan?

David Barney - President & CEO of Knife River Corporation

Yes. And all new jobs are quoting. We're putting the increases into those jobs, Ryan, whether it's construction, whether it's aggregates, ready-mix, asphalt. But like I said, we have carryover work from last year that's protected. Probably a large majority of our first quarter work is protected with the carryover work. So you're going to see the full impact of those increases in the second quarter.

Operator

Your next question will come from the line of Brent Thielman with D.A. Davidson.

Brent Thielman - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Great. I guess first on the services side. Some of your peers in the electrical mechanical business combated some major disruption, sort of other supply chain challenges this last quarter, arguably over the last few quarters. I suspect some of that's going to be transitory, but just wondering if that was a factor here for you this quarter and how you're addressing those challenges going forward to protect margins?

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

Yes, I heard the question, Brent, primarily around labor and supply chain. I'll ask Jeff Thiede to kind of touch on both because particularly, we've actually ramped up employment as of late to an all-time level at CSG, and that's in response to the all-time backlog that we've got, too. But Jeff, a little more detail for Brent as to labor and supply chain.

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

Yes, we certainly received the impacts of the supply chain issues. If you look at our backlog and we are price-protected or, at least, we've got market-level clarification language in our proposals. Our management teams, our estimators and our project managers are working very closely with our customers to identify the risks and try to offer solutions and updates from our vendors is changing every day. And with this material availability and the procurement part of our business, we're responsible for delivering on time and so our vendors, we rely upon them. But we'll also have some impacts when materials are late from other contractors because it does affect the labor, which is our biggest risk out there in the field.

So we're working through this. Our teams are communicating better than they ever have in identifying and updating pricing with our customers, and that's how we're handling it. But we have certainly have been impacted by delays in supply chain and it puts pressure on our labor.

Brent Thielman - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Okay. I appreciate that, Jeff. Maybe one more on that side. One of your peers this morning, Jeff, talked about a very small but sort of growing element or made a point to talk about a small but growing element of the electrical business related to EV charging for EV charging stations. Is that something you're involved in and could potentially represent a bigger opportunity for you here?

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

Yes. From a national basis, and we have experienced in about 3 of our local markets, so we're keeping a close eye on that, and that will, of course, be a positive impact to our electrical businesses. But also on the distribution side and development of substation expansions, and it will affect us all the way upstream from that. So we are well-positioned, and we're going to continue to look for those opportunities, and we do see this as a growing market.

Brent Thielman - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Okay. Appreciate that. And last one was just on the construction materials side. Just wondering if there's been any disruption related to rebid projects as costs have gone up here sort of over your engineer's estimate. I'm just wondering if -- I suspect that's all transitory as well. But had that not happened, would the backlog be even better? Just curious if you're seeing any of that.

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

Dave, would you take that?

David Barney - President & CEO of Knife River Corporation

Sure, Brent. We have seen in quite a few areas where our bid prices have been over the engineer's estimate in most cases, not all cases, they're awarding those because they're only seeing 1 to 2 bidders on these jobs. So most cases, we're seeing them award. But there have been some jobs, they have not awarded because they're way over the engineer's estimate.

Operator

(Operator Instructions) Your next question will come from the line of Brian Russo with Sdoti.

Brian Russo - Sdoti & Company, LLC - Research Analyst

I just wanted to follow up on the construction services side, just on the margins. Quite a little over 5% operating margins in this first quarter '22 versus the high 7% margin in the first quarter of 2021. Very similar kind of trend that we've seen with some of your other segment services peers. But I'm just curious what -- like the profile of the margins should look like through the remainder of the year in order for you to achieve your margin guidance there?

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

Sure. I noted in the release, we did note that some of the difference on a year-over-year basis was the mix of work in which we had in the first quarter, in particular, I'll say, maybe stronger than typical storm-related activity, first quarter of last year. That has something to do with just the first quarter. I'm going to ask Jeff Thiede to kind of talk about how he's seeing the balance of this year, which I think was the second part of your question, Brian, and just how are we feeling about margins on an overall basis. Jeff?

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

Yes. Our first part of Q1 was a lot slower than our second part of Q1. And with our record backlog, we've built quite a bit of momentum. We've also had project timing. We are building back up in Las Vegas. We came off of the Resorts World project last year and a number of other large projects with our electrical and mechanical, fire protection and underground utility companies. And we're starting to see those hours and the backlog increase in Las Vegas in addition to Columbus, Ohio. So a lot of this was timing of when the mega projects were finishing and when the new projects that we have in our record backlog were starting.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Got it. So is it fair to say that you're going to be burning off lower-margin projects, maybe this quarter or next? And then as the backlog grows as it has, you'll start generating revenues and margins from higher-margin projects more reflective of the current market and industry environments?

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

Could be. Absolutely, could be. We're looking forward to execution and offsetting some of these challenges and headwinds through these projects. And we have increased our prices on labor and materials, and it will be about planning, and it will be about supply chain, and we do see our margins improving on a go-forward basis.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And then just a follow-up on the IIJA and your positioning there. I'm just curious how you see that money being appropriated to the state levels. And what you're positioning and exposure to the DOTs are? And are you involved in maintenance projects, which I would imagine is going to be funded first, at least, quicker than the larger, more complicated expansion-type projects that would have to go through quite a bit of more permitting and engineering? So just want to get a sense of how quickly we could see that type of business grow?

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

Sure. I'll take that one, and then if either Dave or Jeff have anything to add, they certainly could. But our view would be we're pleased and excited that Congress passed the IIJA back in November. Our view is that if we see any of those dollars here in 2022, there will be late '22 at best. So really, it's really not been factored into our guidance for this year. Now hopefully, that come sooner rather than later, but that's kind of our expectation. It would be more of a 2023 and beyond. You did mention the DOT or road-related activity. There's really \$550 billion of new monies included in the IIJA.

I know it's built as \$1.2 trillion, but it's really \$550 billion of new monies. I think important for DOTs across the U.S. is that it provides a fair way of funding for the next several years. And there's some assurance, if you will, of funding. And so there isn't a 30-, 60-, 90-day extension of continuum of funding, which we've seen 6, 7 years ago that just really didn't give planners in those departments, much roadway, if you will, to look ahead and kind of plan projects for the same year, upcoming years, those kind of things.

So combined with new monies that \$550 billion, in the big buckets of things, roughly two-thirds of those monies are things we do, whether it's in the traditional infrastructure, whether it's in the -- I'll call electrification of the economy, EV stations, grid hardening, renewables, substation upgrades, those kinds of things. And then, again, the traditional roads, bridges, highways that we do on materials. So how that gets down?

I mean, we understand where dollars are headed, the timing of those. But in summary, kind of '23 is when we'd expect to start to see that and beyond. But it's a lot of what is in there are a lot of the things in which we do, which gives us some confidence, if you will, as a continued funding mechanism. So I don't know if you want to redirect on that, Brian? Or drill down deeper for either Dave or Jeff, for materials or service-specific questions.

Brian Russo - Sdoti & Company, LLC - Research Analyst

No, no. That's helpful. And then just switching gears to the utility side. The settlement in Washington, clearly much improved from the prior outcome. Just curious, are there any rate cases planned in any of your other jurisdictions over the next 12 months that we should be aware of?

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

Sure. Thanks for that, Brian. I'll ask Nicole to weigh in on that. She's front and center on all of those.

Nicole Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

All right. And maybe just quickly, before I get into forecasted rate cases a follow-up on the Washington cases. As you probably will see in our 10-Q, the hearing on that settlement is set for June 1. And so following back to when we may have rates implemented, if anything, is approved on that settlement or if we get approval, that would be on or before September 1. So just giving you a perspective on the timing there. And then as we look ahead over the next several months or the remainder of this year, maybe I'll comment on upcoming cases. In the near term, we do plan to file a North Dakota electric case. The hope there would be that we could to potentially get interim rates in place later this summer. And then looking beyond that, we've got an Idaho case that we will file and most likely a Montana electric. Now in both of those cases, any approved revenue would be realized or implemented in 2023. So it would not have an impact on 2022. So hopefully, that gives you some perspective.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Yes, it does. And then just lastly, the undergrounding of transmission and distribution outlasts in California. Any update there that you could provide us? And I may have missed this earlier.

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

No. I'll ask Jeff to weigh in on that. He's clearly very familiar with that important customer that we have out there.

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

Yes, that grid hardening work is really not new to us, and we've been performing these types of services in the Midwest, Rocky Mountain, Pacific Northwest and Western regions in the country. We are very well-positioned in these high-fire treed districts in the Costa, Nevada and Sonoma Counties, where a lot of this work will take place. We've got a very long history and track record of success with this customer. And our field and management professionals are very, very capable.

I'm confident we're going to participate as one contracting partners when the work is released, but we're tracking this closely. They are currently engaged in the engineering and the right-of-way access, scheduling and procurement. We don't have any of this work for this customer in our backlog yet, but we're very well-positioned.

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 May 19. The conference ID number for the replay is 2188415. At this time, there are no further questions. I would 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 first quarter earnings call. We are optimistic about our growth opportunities with record combined construction backlog and our ongoing and future regulated energy delivery projects. We certainly look forward to connecting with you again as we progress through 2022.

And as a final reminder, I know we've had the Save the Date out there before, but we are hosting an analyst tour at the new Knife River training facility in Corvallis, Oregon on June 7 and 8. We'd love to have you there if you're able to make that in your schedule. Again, thank you. We appreciate your continued interest and support of MDU Resources. And with that, I'll turn it back to the operator.

Operator

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

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