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PRESENTATION

Operator

Hello. My name is Lisa, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group Year-end 2022 Earnings Conference Call. (Operator Instructions).

The webcast can be accessed at www.mdu.com. Under the Investor Relations heading, select Events & Presentations and click Year-end 2022 Earnings Conference Call. After the conclusion of the webcast, a replay will be available at the same location. 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, Lisa, and welcome, everyone, to our year-end 2022 earnings release 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, 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 and 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 actual results to vary from any forward-looking statements, please refer to our most recent SEC filings.

We may also refer to certain non-GAAP information. For a reconciliation of any non-GAAP information to the appropriate GAAP measure, please refer to our earnings release from this morning. I will start by providing consolidated financial results for 2022 and our initial look at 2023 guidance before handing the call over to Dave Goodin for his formal comments and forward look.

This morning, we announced our 2022 earnings of \$367.5 million or \$1.81 per share on a GAAP basis compared to 2021 earnings of \$378.1 million or \$1.87 per share. On an adjusted basis, excluding costs related to our ongoing strategic initiatives, we earned \$380.2 million or \$1.87 per share in 2022. Our combined utility businesses reported earnings of \$102.3 million for 2022 compared to earnings of \$103.5 million in 2021.

The electric utility segment reported earnings of \$57.1 million compared to \$51.9 million in 2021. The increase was a result of higher retail sales revenue due to interim rate relief in North Dakota and higher net transmission revenues. In addition, retail sales volumes increased 2.2% due to colder weather in the first and fourth quarters of the year. Earnings were favorably impacted by lower operation and maintenance expense, partially associated with the Heskett Station and Lewis & Clark Station plant closures. Partially offsetting the increase were lower investment returns of \$4.6 million on nonqualified benefit plans, higher interest expense and higher planned maintenance outage costs at the [Coyote] Station.

Our natural gas utility segment reported earnings of \$45.2 million in 2022 compared to \$51.6 million in 2021. Results were impacted by higher operation and maintenance expense, primarily from higher subcontractor costs, lower investment returns of \$7 million on nonqualified benefit plans and higher interest expense, largely related to higher debt balances and higher interest rates. The decrease in earnings were partially offset by 13.7% higher natural gas retail sales volumes to all customer classes due to colder weather and improved rate relief in certain jurisdictions.

The pipeline business earned \$35.3 million in 2022 compared to \$40.9 million in 2021. Results were impacted by higher interest expense, lower investment returns of \$1.4 million on nonqualified benefit plans and lower nonregulated project margins resulting from lower revenues. The business benefited from increased transportation revenues due largely to the North Bakken expansion project, offset in part by lower allowance for funds used during construction and higher depreciation expense. For 2023, we expect earnings from our regulated energy delivery businesses to be in the range of \$140 million to \$150 million.

Construction services reported record revenues of \$2.7 billion and record earnings of \$124.8 million compared to revenues of \$2.05 billion and earnings of \$109.4 million in 2021. EBITDA increased 14.7% on a year-over-year basis to \$193.4 million for '22. This business has experienced consistent earnings growth over the past 5 years, growing 18.5% when compounded annually over that time period.

Electrical and mechanical services revenues increased 50% for the year with commercial and renewable projects largely driving the increase. Partially offsetting the higher electrical and mechanical revenues were slightly lower transmission and distribution workloads. This business saw lower margin percentages due mostly to higher operating costs related to inflation, including labor and materials and equipment costs.

Due to the continuing high demand for construction services, we are establishing the revenue guidance range for 2023 in a range of \$2.75 billion to \$2.95 billion, with higher margins when compared to 2022, and establishing an EBITDA range of \$200 million to \$225 million.

Our construction materials business also reported record annual revenues of \$2.53 billion compared to 2021 revenues of \$2.23 billion, and earnings of \$116.2 million compared to \$129.8 million in the prior year. Revenues grew 14% in 2022, primarily due to higher average material pricing across all product lines in response to recent inflationary pressures as well as increased contracting revenues of approximately 17% over the previous year. The impact of recently completed acquisitions had a positive impact on earnings.

EBITDA at this business increased 4.5% to \$306.7 million. Margins decreased as higher operating costs, mostly due to inflation, outpaced pricing increases in the first half of the year. In addition, increased interest expense and lower investment returns of \$6.1 million on nonqualified benefit plans also had a net negative impact on the year. Looking forward to 2023, given the strong backlog and continued strong demand for construction materials, we expect revenues in the range of \$2.5 billion to \$2.7 billion with margins higher when compared to 2022, and EBITDA in the range of \$300 million to \$350 million for this business.

As mentioned in the segment discussions earlier, our companies were impacted on a noncash basis by lower returns on nonqualified benefit plan investments. In total, the impact on a year-over-year basis was approximately \$21 million or \$0.10 per share when compared to the prior year results. The company attributed the change in investment returns to significant fluctuations experienced in the financial markets in 2022.

Finally, the company continues to maintain a strong balance sheet and ample access to working capital to finance operations through our peak seasons. We continue to make great progress on our strategic initiatives that we announced during 2022. Business momentum is strong as we

head into 2023, and we continue -- we'll continue to provide updates regarding our guidance and outlook as we progress through the year. That summarizes the financial highlights for the quarter and the year, and now I'll turn the call over to Dave Goodin for his formal remarks. Dave?

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

Well, thank you, Jason, and thank you, everyone, for spending time with us today and for your continued interest in MDU Resources. Our construction businesses each reported record annual revenues and our construction services business also reported record annual earnings in 2022. As expected, we experienced inflationary pressures and also had weather impacts throughout the year. However, we finished the year very strong as pricing increases and other operational adjustments offset inflationary pressures. We are excited by our combined all-time record construction backlog now standing at over \$3.1 billion, up 46.5% from 2021, and various growth opportunities at our regulated businesses. We see this momentum continuing into 2023 as we remain focused on safely and efficiently providing essential products and services to our customers while making great progress on our strategic initiatives to create 2 pure-play publicly traded companies.

To summarize activity by business unit, I'll start off with our regulated businesses. Natural gas retail sales volumes increased 13.7%, and electric retail sales volumes increased 2.2% in 2022. In addition to volume increases, higher rate relief had a positive impact on the results. The utility saw a rate base growth of approximately 7.8%, along with customer growth of about 1.6%. 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. There are 3 rate cases pending before regulatory agencies, and we anticipate filing 4 additional rate cases in 2023.

The pipeline business had record transportation volumes now for the sixth consecutive year, largely from ongoing system growth and steady demand for its services. Higher transportation revenues were largely attributable to the North Bakken Expansion project that was placed into service early in 2022. In 2023, revenues are expected to increase from the North Bakken Expansion project by approximately \$10 million, largely due to contracted volume commitment increases of approximately 70% to now 215 million cubic feet per day.

On January 27, the company filed a rate case with the Federal Energy Regulatory Commission, seeking rate increases for its transport and storage services. The business continues to work on a number of expansion projects that are expected to add incremental natural gas transportation capacity of more than 300 million cubic feet per day as they are completed later in 2023 and into 2024, pending regulatory approvals.

Now I'd like to move on to our construction businesses. Our Construction Services Group had record revenues in 2022 with growth in nearly all of its business lines, highlighting this business' capabilities to perform a diverse range of projects. We experienced strong demand for electrical and mechanical-related work with a 50% increase in revenue for the year, specifically for commercial and renewable projects. We are also encouraged by the increasing demand for utility-related transmission and distribution work.

Construction services ended the year with an all-time record backlog of \$2.13 billion, up 54% from the prior year. And we have several large projects underway across all of our markets with our ability to successfully attract and retain a skilled workforce of over 8,900 employees across our footprint, we feel we are well positioned to complete these projects safely and efficiently. Earnings momentum is expected to continue into 2023 as sales and margin guidance are higher on a year-over-year basis.

At our construction materials business, we also had record annual revenues, largely driven by increased product pricing. However, as Jason mentioned earlier, this business experienced inflationary pressures throughout 2022. While performance improved in the second half of the year as pricing increases in response to inflationary pressures took effect, Knife River's full year margins decreased because of higher costs on asphalt oil, labor, fuel and cement along with higher interest expense. The company also experienced unfavorable weather early in the year and during the fourth quarter, effectively shortening the construction season in several Knife River's key markets. We expect to see the benefits from price increases to continue into 2023. Knife River increased backlog 32% from the prior year, standing at year-end at \$935.4 million.

Looking forward, both of our construction businesses are well positioned to benefit from increased bidding opportunities. The U.S. national infrastructure is in need of improvement as it received a C- grade from the American Society of Civil Engineers here in 2021. With the funding from the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, along with additional state-level funding, demand for our construction businesses excel in completing looks strong as we look to 2023 and beyond.

This completes our individual business unit discussion. Looking ahead, we are pleased with the substantial progress we have made towards our strategic initiatives of creating 2 pure-play publicly traded companies. The tax free spin-off of Knife River is expected to be completed in the second quarter here in 2023, and in addition, we are well underway with the strategic review of our construction services business, which we also expect to complete in the second quarter. We expect to grow our rate base between 6% and 7% compounded annually over the next 5 years, driven primarily by investments in system infrastructure upgrades and replacements to safely meet growing customer demand.

We are encouraged by the robust set of projects at our pipeline business as well, including ongoing system growth and steady demand for pipeline services. Overall, we have \$2.5 billion in capital investments planned within our regulated energy delivery business over the next 5 years. 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 those essential services our customers need while being both 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) Our first question comes from the line of Dariusz Lozny with Bank of America

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

So maybe just starting on your 2023 guidance. For the energy delivery segment, the range of \$140 million to \$150 million in earnings, it implies a fairly wide year-over-year rate of change of -- could be plus 2% or up to plus 9%. And just given that you've got the rate base growth that you cited from the higher capital plan that you released last year, absence of drag presumably from the nonqualified plan, some new rates in place that you alluded to. Can you maybe talk about some of the offsets there that might potentially put you at the lower end of that range? And then alternatively, what are the factors that could take you to that upper range -- upper end of that range, if you could?

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

Sure. Yes, yes. No, I understand the question. I'll ask Jason to maybe start and I can add to it.

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

Yes, certainly. Thanks, Dariusz. Thanks for the question. There is a little bit of a wide range. So to your point, as you've looked at there, I think the low end of that would include a small amount of growth, but you kind of take the midpoint there, I think it's kind of in line with historically what we've guided to for the most part. So items that could push us above or below, I guess, kind of towards the outlying ends of that range. I think when you think about -- as we go through the year and some of the strategic initiatives that we have underway, we've quantified a little bit of some potential dis-synergy costs were part of the year that we've built into our forecast as we think through the year, we've also built in some higher than what we've typically seen probably interest costs built into some of those numbers as well. So there are some impacts that we're seeing there. To the extent that those costs may come in a bit different than what we've built into our assumptions, I think it could push you to the lower or higher end of that range depending on the directionality of that.

So that's just a couple of variables that are there. I mean, obviously, you have timing impacts as you think about rate cases we have underway and when those could get resolved and some of the items that maybe aren't certain as far as when the impacts would hit during the year. But as we go throughout the year, we'll continue to narrow that up and give a better view of things as we see more clarity later in the year.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Great. That's very helpful. If I could ask another one, now looking at the Knife River results from Q4, you delivered higher margins, but some of the volumes looked like they ticked a little bit lower. Can you maybe discuss that a little bit? Was there any kind of weather impact? Are you perhaps seeing different bidding activity from customers? And maybe talk a little bit about how you're seeing volumetric trends potentially trend into next year?

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

Yes. I'll maybe just start, Dariusz, but then I'll look for Dave Barney, if he'd like to add to it. In my more formal comments earlier, I talked about the shortened construction season. We saw that really early on in the year with the April and May kind of northern tier blizzards that really kind of limited construction activity until well into June. And then we really saw some kind of early winter set in on the northern tier as well. So that certainly was one of the factors. Dave Barney, would you like to add to that? Or do you think that really -- that was kind of the bulk of it, but Dave, anything to add?

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Dave, you covered most of it. I mean our record backlog, we got a good bid schedule. Volumes look good for next year. Our volumes are down, but when you look at our pricing, it's quite a bit up over the beginning of the year. So it looks good for us for 2023 for volumes. We're a little low on ready-mix volumes, so that's probably due more to the slowdown in the housing market, but everything else looks strong.

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

Dariusz?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Great. Really helpful. If I could sneak in one more here. This is just on some of the language that you used in your 2023 guidance. I know in the past, when you guys have adjusted guidance midyear, you've used the terminology slightly higher or slightly lower with respect to margins. And this time around, you're saying, you're expecting higher margins both at Knife River and Services Group. Is there any possibility to quantify that? Does higher imply 1% or more and slightly higher would be perhaps 0% to 1%? Or any possibility to give a range around what that language entails?

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

Yes. Yes. No. I understand the question, Dariusz. And I think noteworthy for us as the language was different. When we said higher year-over-year, both at services and at materials, noting that other years we've said, comparable to slightly increasing or -- so in short, I'm not going to define what higher means. It's just obviously something that's incremental to what we've said in the past. And so I think that also gives us some confidence as we look into 2023. And then you combine that with over \$3.1 billion in backlog between the 2 businesses, it kind of gives us some visibility into 2023 and then the margins being higher on a year-over-year.

Operator

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

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

Just some follow-ups on the prior questions. The 2023 guidance and energy delivery, you noted the range. You have 3 rate cases ongoing, one in North Dakota, Montana and Idaho. Any idea when new rates will be effective in those 3 jurisdictions? And then secondly, what jurisdictions are the 4 rate cases you alluded to going to be filed in 2023, and when? Trying to get a sense of where we could see a full year of rate relief, which seems to be nearly all of your jurisdictions by 2024?

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

Right. Right. I'll ask Nicole to go through that because she's really front and center on each of those cases to talk about the 3 that are currently and then the 4 that we have planned in addition to that here in '23. Nicole?

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

Yes. Thanks for the question. So essentially, you alluded to the North Dakota and Montana electric cases and then Idaho gas. So those are the ones we currently have filed. We do have hearing dates for 2 of those in May and June. So depending on the outcomes there, we would hope for final rates following those dates. We do have interim in place in both North Dakota and Montana currently.

And then I think your second question was, as it relates to what we are pursuing in 2023 for filings, we are pursuing rate cases in 4 of our jurisdictions, basically in line with the rate base growth that you heard Dave comment on. We've had a historic track record of about 7% growth on a year-over-year basis. And in 2022 alone, 7.8%. So good rate base growth as we look at serving our customers' needs and that would require then a rate case in South Dakota on the electric and gas side of the business, a North Dakota gas case and then in Washington, we intend to file a case next year as well.

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

Okay. Great. So given that the active regulatory calendar, it's safe to -- is it fair to say that your guidance for 2023 assumes meaningful regulatory lag? And once you -- once those new rates go into effect, you should see improving earned returns on a higher rate base?

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

I think the short answer there is, Brian, I would agree with that. I would also point you to the comments that Jason provided earlier is that we do have -- as we go through our strategic initiatives this year, we've tried to forecast what we believe might be some modest dis-synergies and also increased interest expense as well. So there's moving parts in both directions, but I'd like to believe the takeaway here should be is, our utility management team is very focused on timely rate recovery given the kind of the frequency and the number of general rate cases being filed.

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

Okay. Great. And then quickly on the pipeline, the \$10 million of revenue increase related to the North Bakken Expansion project, that is separate from revenue and/or margin you expect from the FERC rate case.

Trevor J. Hastings - MDU Resources Group, Inc. - President & CEO of WBI Energy, Inc.

Yes. Brian, this is Trevor. That's correct.

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

Those are based on those contracted volumes of increasing our capacity about 70% on that pipe from '22 levels to '23.

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

Okay. Got it. And then switching to the construction materials. You mentioned the unfavorable weather in the early winter. Are you referring to winter storm Elliott in the mid and upper Midwest? And/or -- and then what was the impact of the well above-average precipitation in California during the month of December, where you have a pretty big vertically integrated footprint?

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

Yes. Both of those were key. I'll ask Dave Barney because he actually resides in the Pacific Northwest and experienced those kind of historic rains that we saw, too. Dave?

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Yes, we definitely saw weather impact just not in December and October and November, in spite of the poor weather we experienced in most of our markets. We did have higher -- we're able to continue to increase our prices in our product line. And we also have that record backlog, but the weather really affected almost all of our regions for Knife River in the fourth quarter.

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

Okay. Great. And then a lot of news out of California in early January 2023 with the flooding and a lot of infrastructure restoration efforts that will be needed to the roads, bridges, ports, et cetera. And I'm just wondering, is Knife River and/or CSG seeing incremental activity because of that kind of weather impact, specifically in California?

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

Dave, maybe let's start with you. Go ahead.

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Yes. In California, we're definitely starting to see some of this work bid out, and we've already started doing some of the emergency work. And there'll be a lot more work to come out in the future, but it's still pretty wet out here and hard to get to some of these spots, but there's definitely going to be some work from the winter storms. We got 20 inches of rain, which was record rain in California for any month in the history of California.

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

Okay. Do you see that...

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

Jeff, could you respond to Brian's question, but then maybe even more broadly, other storm response work that we've been doing?

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

Yes. Thank you, Dave. Thanks for the question, Brian. We did redeploy crews that were working on -- for our normal work assignments in California and helped out with the restoration of some of the power losses within that state. And of course, we've also deployed in other parts of the country, most notably the Eastern part of the United States for other storm work in the past.

Our crews in California continue to be really busy, and we work mostly in this Tier 2 elevated or Tier 3 extreme fire threat districts. We've got equipment, the people and of course, the experience to take on the work that we have and of course, the upcoming undergrounding work, which is I'd like to give you an update on that. We're continuing to see packages come out in engineering and right of way, planning and permitting continues to develop. We are pricing a package now, and we've got a great track record with our utility customer in the northern part of the state, and we're going to get some of that work, and hopefully, it will align up with our resources and our available crews. And it will contribute to our record backlog in the future. We currently don't have any of the undergrounding work in our backlog today.

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

Okay. Great. And then lastly, just on the margins in the commentary earlier, both on Knife River and CSG. Would you characterize the 2023 margins as kind of normalized margins? Or do you sense there's still margin improvement to be captured above and beyond what your -- qualitative direction on those margins.

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

Sure. Sure. Yes. No, margins are always a key focus in those businesses, and we obviously are very focused on how we can enhance those margins going forward. And so what you're seeing as in our guidance, just increasing margin in both businesses. Dave Barney touched upon pricing increases in virtually all product lines within the aggregates business and the services and the asphalt and et cetera -- ready-mix, et cetera, there.

And obviously, given Jeff's backlog, strong workforce, our ability to bid projects, again, margins being increasing year-over-year is, I think, also a function of demand that we're seeing out there. So it's really a combination of factors.

Operator

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

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

I was just wondering if Jeff could maybe elaborate on what the T&D weakness last year was from.

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

T&D weakness, Jeff?

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

Yes. We have a project that for the last couple of years has been a struggle. So we've got it captured accurately for GAAP standards, and we're working through completing that job. And we've got our good documentation and hopeful recovery on that side. In addition, we didn't have as much storm work last year as we did in prior years. So those are the 2 biggest factors on the T&D side.

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

Okay. Great. Going into '23, I'm just kind of thinking about hedging for petroleum-related products. I wondered if Dave could maybe address where you stand for '23 hedging.

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

Yes. Dave, do you want to touch on our diesel and our fuel procurement for the fleet there?

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Yes, we've been purchasing in advance, fixed forward fuel contracts and asphalt oil -- winter asphalt oil by a lot more this year than we did last year to protect ourselves from that inflation. So we've been doing a better job on that. And there's been other products whether it's cement or even on the supply chain, buying parts ahead of the problems we saw last year and have bigger inventory on supply.

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

Okay. Lastly, Jason, this is a little different sort of guidance format. Are you thinking that post separation of Knife River, you'll revert back to EPS guidance? Or is this the new normal?

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

Yes. Thanks, Chris. I would say, our long-term goal will still be to give really kind of similar guidance to what we have previously and really what carries in the industry. And again, as we talk about our future state of being 2 pure-play public entities, I think each one of those businesses will provide guidance that's in line with what you would see in the industry.

So from MDU Resources standpoint, as you think about the forward look, we'll get back to an EPS guidance range at some point. I think that's where investors value regulated businesses at, is based off the earnings side of things. With all the moving parts this year with unknown exact timing of the spin and impacts of what will happen with the strategic review of the services business and timing of all those things, we just didn't really feel like it was a good year to give consolidated guidance to the top level, but we'll definitely get back to that in the future.

Operator

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

Ryan Michael Levine - Citigroup Inc., Research Division - VP

In terms of ability to transact on the M&A front, historically, you've made a number of acquisitions on both the materials and service side. Are those -- that deal pipeline continuing in light of the potential strategic transactions? Or is there more of a pause for 2023 there?

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

Yes, Ryan, good question. I would say, we continue to have active business development teams, but at the same time, we're very conscious of the strategic review at CSG along with our work streams associated with the Knife River spin activity. So while we've not stop those activities, I would say, it's maybe taking a little bit of a backseat given the other activity is going on. Clearly, both of those businesses are a product of ongoing M&A over the years, and so it's part of the DNA at both organizations.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Okay. And then within construction service, what's included in the backlog from a T&D perspective? And how are you seeing a meaningful uplift in either of those 2 areas, recognizing the Northern California undergrounding work outside of backlog?

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

Sure. Jeff?

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

Yes. Our backlog in the T&D space is a lot lower than it is in the E&M, of course. And what we're seeing is still strong opportunities. We're in negotiations on updating our MSAs with several of the utilities. And in that, we upgrade our pricing -- increase our pricing based upon fuel, labor. So we still see a line of sight of strong work opportunities and growth. Our transportation backlog is about the same as it was 12 months prior. And then our utility backlog itself is a little bit down, but the work outlook is strong. We expect growth in that area and that's reflected in the contribution that we have in the forecast in our overall revenue and earnings guidance.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Is that growth more geared towards transmission or distribution? And is there a regional focus in terms of where you're seeing the opportunity?

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

We're seeing not just the strength in the distribution market, but transmission is starting to increase in the Midwest, and also in the West, we also see a strong market for communications in Montana, the Rocky Mountain region, we're doing quite a bit of communication work in addition to the distribution work. And we also have underground gas services that is still strong, despite the challenges and the pressures on gas. We still have a lot of change -- upgrades and change outs and services to a number of our customers. So we are positioned for the undergrounding work, as I mentioned earlier, and we're doing some undergrounding work in Southern California right now. And we'll look to see if we can add that to our backlog in the future.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

And then you highlighted the Northern California undergrounding work. Do some of the forecast there have come in a little bit in terms of what their planning for from a 5-year planning per mileage plans? Does that have any implications for MDU? And does that change your bidding strategy as the near-term line of sight may be less than what was anticipated a few months ago?

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

There's still a tremendous amount of work with that customer, and the undergrounding will be part of our work going forward, but we're diversified in not just that market with that utility, but up and down the West Coast. So those changes and updates of work packages coming out is not a concern of ours. We're positioned well to do that work and as well as the other work that we're exceptional at doing. And we'll continue to put forward the crews to be able to work safely and productively and with the quality that exceeds our customers' expectations.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

And then regarding the diesel comments made earlier, more broadly for margin expectations for 2023, is that a meaningful driver of the improved margin expectations for any of the segments? Or how should we be thinking about that as a driver for the outlook?

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

Yes. Well, I would say, Ryan, it's a component of, but it's not the only part of as we think about our margins on a year-over-year basis. So it'd be part of, but again, it kind of goes into our overall bidding strategy that we have put in place as well.

Operator

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

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

Just on CSG, I was wondering if you could talk about what bottlenecks you may be seeing or maybe seeing abate just related to supply chain? Is it tough to procure what you need? Is any of that contributing to delays or pushouts? Or do you feel like the industry is sort of beyond that? Because it seems like there's sort of an incredible amount of demand out there, but still some hiccups in the supply chain. So just curious if you could comment on that.

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

Sure. Jeff?

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

We're seeing some improvements on supply chain, and of course, on the utility side where our customers provide most of the materials. We've seen some improvement there, but still impacts with delays or crews being canceled or repositioned to other parts of our areas. On the E&M side, it has gotten better, but we still have issues, and that does and can impact our schedules with delays and could add to trade stacking. And sometimes, it's not the materials that we are procuring, it could be another trade on a job site, which could impact the labor productivity on a job. So it is improving. Overall, it's gotten better. Yes, it's still not where it was prepandemic.

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

Yes. Okay. Appreciate that, Jeff. And then just a question on Knife. I know the housing market isn't an especially big market for the business, but just as we think about the guidance for the business for the year, I mean any kind of feel for how you're building that into the -- to your expectations this year?

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

Yes. Dave?

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Well, Brent, about 9% of our backlog is residential. So we have a slowdown in house in which we expect, we've seen a little bit of that. But most of our markets, the housing market is staying strong. If it's slow, it's slowing down a little bit in Oregon and Idaho, but we don't expect that to be a big pack of our next year's earnings. And when you look at our large backlog, our record backlog and 90% or 80% of it is public works, and we continue to pick up work in that sector. I feel good about 2023.

Operator

And that marks the last call for questions. As a reminder, the webcast can be accessed at www.mdu.com under the Investor Relations heading. Select Events & Presentations and click Year-end 2022 Earnings Conference Call. After the conclusion of the webcast, a replay will be available at the same location. At this time, there are no further questions. I would like to turn the conference back over to management for closing remarks.

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

Perfect, and thank you. Thank you for taking the time to join us on our year-end 2022 earnings call. We are optimistic about our growth opportunities and future regulated energy delivering projects. We also look forward to connecting with you as we progress through 2023. So again, I'd like to thank you and appreciate your continued interest and support of MDU Resources. And with that, we'll turn the call back to the operator.

Operator

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

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