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MDU - Q2 2021 MDU Resources Group, Inc. Earnings Call

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OVERVIEW:

Co. reported 2Q21 earnings of \$100.2m or \$0.50 per share. Expects 2Q21 EPS to be \$2.00-2.15.

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

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

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

CONFERENCE CALL PARTICIPANTS

Brian Russo Sidoti & Company, LLC - Research Analyst

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

Ryan Levine Citigroup Inc. Exchange Research - Research Analyst

PRESENTATION

Operator

Hello. My name is Catherine, and I will be your conference facilitator. At this time, I'd like to welcome everyone to the MDU Resources Group 2021 Second Quarter Conference Call. (Operator Instructions) This call will be available for replay beginning at 5:00 p.m. Eastern today to 11:59 p.m. Eastern on August 19. The conference ID number for the replay is 5527896. 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, and welcome, everyone, to our second quarter 2021 earnings conference call. You can find our earnings release and materials for this call on our website at www.mdu.com, under the Investors tab.

Leading our quarterly earnings discussion today are Dave Goodin, President and CEO of MDU Resources and myself. On the line to answer any questions you may have following our presentations 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 today's discussion, including responses to questions, some comments may contain 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 a discussion of factors that may cause actual results to differ, we direct you to our earnings release and Item 1A Risk Factors in our most recent Form 10-K and 10-Q.

For second quarter of 2021, we delivered earnings of \$100.2 million or \$0.50 per share compared to second quarter 2020 earnings of \$99.7 million or also \$0.50 per share. During the quarter, our results were impacted by higher stock-based compensation and health care costs of approximately \$4.2 million after tax. Further impacting our second quarter consolidated results was a \$5.4 million lower investment returns on certain benefit plans compared to the same quarter in 2020. While these items had an impact on the quarter's results, all of our operations performed very well throughout the first 6 months of the year, growing consolidated revenues by 3.5% and increasing earnings \$27.5 million year-to-date.

Our utility business earned \$9.6 million for the second quarter compared to earnings of \$11.2 million in the second quarter of 2020. For the Electric Utilities segment, reported earnings of \$10.3 million for the quarter compared to \$12.2 million for the same period in 2020.

Higher operation and maintenance expense, largely the result of higher labor-related costs, including the increased stock-based compensation expense and health care costs, as we previously discussed, as well as increased generating station expenses drove the decrease in earnings. Lower benefit plan investment returns also negatively impacted the results.

Partially offsetting the decrease was higher adjusted gross margin driven by a 6.9% increase in retail sales volumes. Sales volumes increased for industrial and commercial customers during the quarter and were offset in part by lower residential volumes as the impacts of the COVID-19 pandemic start to reverse and individuals are returning to work as businesses reopen.

Higher demand revenues and higher revenues associated with transmission interconnect projects also had a positive impact on the adjusted gross margin.

Our natural gas utility segment reported a seasonal loss of \$700,000, improved from a seasonal loss of \$1 million for the same period in 2020. Adjusted gross margin increased during the quarter from approved rate recovery and 2% customer growth. Transportation revenues also increased from higher volumes transported to the company's electric generation customers. Partially offsetting the decreased loss was higher operation and maintenance expense, primarily labor-related costs, as previously discussed, as well as lower returns on certain benefit plan investments.

The pipeline business had earnings of \$9.2 million in the second quarter compared to \$9 million in the second quarter of 2020. Higher nonregulated project revenues and increased allowance for funds used during construction were the primary drivers of the increase in earnings. Partially offsetting this was higher operation and maintenance expense relating to the previously measured increase in nonregulated projects as well as higher payroll.

Now turning to the construction businesses. Construction services reported record second quarter earnings of \$28.9 million compared to the prior year's record of \$27.9 million. Revenues increased 6% on a year-over-year basis to second quarter -- to a second quarter record of \$525.6 million.

Demand for construction services remains high for both the inside and outside specialty contracting. Inside specialty contracting saw strong demand for commercial and industrial work, specifically in the manufacturing industry and outside contracting workloads increased with high demand from the utility industry. Lower depreciation, depletion and amortization expense resulting from decreased intangible amortization related to prior acquisitions also contributed to the increase in earnings.

Our construction materials business reported second quarter earnings of \$51.4 million compared to the prior year's \$53 million in the second quarter. Revenues increased 2% to \$633.8 million. The decrease in earnings was primarily the result of higher selling, general and administrative expenses from increased labor-related costs as we had previously discussed. Lower returns on certain benefit plans also impacted the quarter. Partially offsetting these items was lower interest expense due to lower average interest rates.

That summarizes the 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

Great. And thank you, Jason, and thanks to those of you listening in and spending some time with us today and for your continued interest in MDU Resources. Today, I'll walk through each of our business lines to highlight some notable drivers in the quarter and go into greater detail about some of the organic growth items covered in yesterday's news release.

Starting with our regulated energy delivery platform. We now have approximately 1.15 million customers across our electric and natural gas utility businesses. And our utility employees remain focused on organic growth and infrastructure improvements that help to safely and efficiently serve our customers. We continue to expect strong customer growth across our service territory, outpacing the national average and in the range between 1% and 2% compounded annually.

The electric utility finished the pre-commissioning -- decommissioning activities on the coal-fired Unit I at the Lewis & Clark generating station here in the second quarter and commenced decommissioning here in July. We expect to retire Units I and II at Heskett Station near Mandan, North Dakota early next year, which are the last of the company's wholly owned coal-fired facilities. Our generation portfolio in regards to nameplate capacity prior to the commencement of the retirements -- these retirements was 48% coal and will decrease to 31% in 2023 upon completion of the proposed Heskett IV natural gas-fired peaking unit.

Our natural gas utility, along with our pipeline business, WBI Energy, recently announced a project that will increase natural gas service to Wahpeton, North Dakota, while also being able to offer natural gas service for the first time to Kindred, North Dakota. This project is driven by customer contracts requiring more firm natural gas supply that our current infrastructure can provide to Eastern North Dakota. The project involves constructing approximately 60 miles of 12-inch pipeline from our existing facilities at Mapleton, North Dakota to Wahpeton. 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 year.

Speaking of our pipeline business, we're excited that in early July, WBI Energy received final FERC approval, allowing construction to begin on the North Bakken expansion project in Western North Dakota. This \$260 million project will add 250 million cubic feet of daily natural gas transportation capacity to our system, bringing WBI's total pipeline capacity to more than 2.4 Bcf per day, while helping to reduce natural gas flaring in the region and allowing Bakken producers to move natural gas to market. Construction began here in mid-July and with favorable weather during the construction season, we expect the project to be in service by end of this year.

Now moving on to Construction. Our Construction Services Group had an outstanding second quarter as demand for both inside and outside specialty contracting remains very strong. CSG reported record second quarter revenues and earnings and an all-time record backlog now standing at \$1.32 billion as of the end of June. Bidding remains highly competitive in all areas, but we are confident that our relationships with existing customers, our skilled workforce and our high quality of service will aid in securing and executing on profitable projects. As a reminder, revenue guidance at this business for 2021 continues to be in the range of \$2.1 billion to \$2.3 billion, with margins comparable to or slightly higher than 2020 levels.

And finally, at our construction materials business, while earnings were down slightly year-over-year, Knife River is operating at near-record levels, falling just short of the prior year's record second quarter earnings while continuing to produce record revenues. Demand and pricing for aggregates and ready-mix concrete is strong across a number of markets. Construction materials reported backlog at the end of the quarter at \$912 million, an increase of over 4% from the prior year.

Revenue guidance for this business is also in the range of \$2.1 billion to \$2.3 billion, with margins comparable to our 2020 levels. We remain optimistic about our construction businesses and continue to evaluate strategic acquisition opportunities that will enhance our existing footprint and appropriately expand our business, all while earning attractive returns on invested capital.

As mentioned in our news release yesterday, we feel very positive about the conversation surrounding infrastructure funding packages at the federal level as well as at various state levels across our footprint. With combined construction backlog at an all-time record at \$2.23 billion as of June 30, we believe we are well positioned to take advantage of these multiyear growth opportunities. While we believe these infrastructure proposals will provide additional opportunities to some of our core areas of business, such as surface transportation improvements, renewable energy, power grid modernization, broadband and much more, these infrastructure proposals are not included in our earnings per share guidance of \$2 to \$2.15 for this year of 2021 or in our 5-year capital investment plan for that matter as well.

Overall, we are very pleased with our performance throughout the first half of the year. Our focus at MDU Resources has been and continues to be to produce significant long-term value as we execute on our business plans, our organic growth projects and our targeted acquisitions. We continue to maintain a strong balance sheet, solid credit ratings and a good liquidity position. For the last 83 consecutive years, we provided a competitive dividend for our shareholders and have been increasing it for the last 30 years. As always, MDU Resources is committed to operating with integrity and a focus on safety while creating superior shareholder value, and we continue to act along our tagline of Building a Strong America.

And with that, operator, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Chris Eltinghaus with Sebert Williams Shank.

Christopher Eltinghaus - Sebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

Can the guys sort of just talk about what the construction season in the second quarter looked like and how is it shaping up in July, so far?

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

Sure, Chris. Maybe we'll start with Jeff Thiede at Construction Services, coming off the record second quarter that they just posted.

Go ahead. Go ahead, Jeff.

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

All right. Thanks for the question, Chris. Our bidding opportunities are strong in all of our markets, and there continues to be demand for services that we provide that's demonstrated, of course, by our Q2 record backlog that Dave had mentioned. And we always operate in these competitive markets, and we secure many of our project awards based upon price and nonprice criteria or best value. And that helps us continue to perform at good margins. Some of our markets have experienced some increased competition. However, the strength of people and attention to meeting or exceeding our expectations in safety and production and quality that resulted in strong backlog and performance through Q2 this year. And we are seeing some projects, large projects get completed. We were still seeing good bidding opportunities going forward.

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

Thank you -- oh, go ahead.

Christopher Eltinghaus - Sebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

I just wanted to ask...

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

Go ahead, Chris.

Christopher Eltinghaus - Sebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

Weather was for the construction season, was it favorable?

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

I think it's favorable.

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

Jeff.

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

Yes.

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

Okay.

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

Absolutely. Yes.

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

Chris, should we turn to Dave Barney?

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

Sure.

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

Yes. So Dave, you want to talk about the second quarter just a bit and certainly highlight the \$912 million you have in backlog here at the end of the second quarter?

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

Well, I think you did that, Dave. But yes, our backlog is strong. Going into the next 2 quarters, we're happy where we're at with our backlog. Margins are very strong for us and continue to grow. We've had some definitely increases in products. We've been able to pass along -- the second quarter was a great quarter. Year-over-year, our margins on all materials are up. We expect that to continue throughout the year. July, we did have some hot weather some days out there that were over 100 degrees. It slowed us down a little bit, but we believe July and the rest of the year is still going to be strong for us.

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

Okay. For the 2 construction businesses, have you guys evaluated where the infrastructure bill stands today and have you got any thoughts on how that might impact you? And services as a side question, you're already pretty well strained in terms of construction capacity. How do you envision an influx of infrastructure projects over the next couple of years, fluent margins and labor capacity and things like that?

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

Chris, I'll start, and then both Dave and Jeff can give a little maybe detail with their respective businesses. But as we've reviewed the current infrastructure package that's under debate in the Senate, on the incremental new dollars associated with that and if you look at the large buckets, whether it be transportation, roads, bridges, kind of traditional transportation, highway infrastructure, broadband -- there's some EV dollars in there for EV network. You've also got, I'll say, power delivery, energy delivery, upgrades, some renewables. You take those buckets and of the total roughly 2/3 of the dollars within that infrastructure plan fit right in the wheelhouse of what we do between our materials and services business.

And so again, that's broad-based. But when we look at the big buckets, we get quite excited in the fact that those are new dollars flowing into industries that we perform, and I think we perform very well. Now obviously, the devil is in the details on what the final bill is produced and back over in the House and through a conference committee, et cetera. But certainly, what indicates today is it's a lot of what we do today.

And so that might be a suffice answer for you at the moment, but I think you also wondered about how we would handle the additional work and workload opportunities at each of services and materials and maybe for that, I'll kick it over to Jeff.

Jeff, can you kind of touch on that in light of -- again, we see this beyond '21. This is '22 and beyond, I mean, from a timing perspective, but just maybe help Chris out with some of your thinking.

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

Okay. We've been able to retain our workforce during the second quarter, and we've been doing that by focusing on retaining training and attracting industry top talent. Our commitment to safety and treating people with respect and working together as a team, especially during the last 1.5 years through COVID. Given our backlog, we're seeing some challenges with available qualified labor, mostly in our outside transmission and distribution work, which we think will be benefiting from the infrastructure bill. Our inside group has some similar challenges with qualified labor, but our recruitment and training efforts continue, and we're very proactive in our respective markets and also industry on recruiting in high schools and STEM programs, women and trades, minority and college groups. So we've been able to recruit the workforce needed to keep up with the demand and to build out our backlog safely, productively and timely and, of course, always with quality.

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

And maybe following on Dave Barney in the materials area.

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

Yes, Chris, our employee count is about where it was last year, so we are definitely focused on retaining and recruiting employees. We're in the process of building a world-class training center right now in Oregon for all of our companies and not just Knife River for the industry. We think that will definitely help us going forward in the future. But it's something we're focused on, and we'll continue to focus on. But we definitely think if this infrastructure bill gets passed, we will see increase in bidding opportunities and with that, we expect our margins to continue to go up also.

Operator

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

Brian Russo - Sdoti & Company, LLC - Research Analyst

I know you touched upon possibly labor issues as an industry as a whole and raw material inflation. There was a large construction material peer the other day that reported, and they noted that higher prices for diesel and liquid asphalt were impacting their margins and I'm wondering, how are you countering that, generally speaking? And/or could you just maybe get a little bit more granular on your cost inputs and how you're managing what seems to be an industry-wide issue, impacting some companies more or less than others?

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

Yes. Sure. And the question, Brian, is more in particular on the material side and you said, for example, others have noted diesel and liquid asphalt as two of the drivers. I'll ask Dave Barney to address what he's seeing in his business so far as inflationary pressures and commodity price, like the items that you noted.

Dave?

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

Yes, Brian. We definitely are seeing diesel prices continue to increase. It is a concern going forward. But like I said before, we continue to push our margins up on our aggregates, the ready mix, even on our construction side. We have seen our [AC] oil pricing come down from last year, so we've been able to pretty much hold our margins on that. We've lost a little bit on margins and some of our jobs. But most of our jobs, we continue to increase those prices.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And I think maybe it's on the services side, you mentioned strength in manufacturing. Could you just be more specific, what submarkets of manufacturing you're seeing that strength?

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

Certainly.

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

Sure. Jeff?

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

Okay.

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

Go ahead, Jeff.

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

Okay. Sorry about that. Manufacturing encompasses the productions of goods and services with confidential clients. And that really sounds like an unanswer, however, we're bound by our confidentiality agreements with these clients. What I can share is that we've been asked to enter a new geographic market with a satellite office for a couple of our clients to serve them for another large build that's just getting started. And we're expanding this part of the country, leveraging our performance on large, medium and small projects that we successfully completed and are completing for nearly three decades of this client that we've had.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And is your construction services business and/or the materials side involved in undergrounding of transmission and distribution?

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

We are.

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

Yes. Jeff?

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

Yes. If you're talking about what's been published by Pacific Gas and Electric, that's one of our largest customers, and that is an area of work that is right in our wheelhouse. We're doing distribution and transmission for this client, and we also do underground work. So combined with our expertise in the market that we're serving for PG&E plus adding to that with some of our sister companies, we see that as a great opportunity to serve our client in this area.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And just on the pipeline side, the \$75 million expansion project. I'm just curious why is construction not until 2024.

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

Yes, Brian, I'll just touch on that. Trevor is here to give you more details. But really, that's the timing to go through the full regulatory process, the full citing. And just -- we just kind of went through this process preceding our North Bakken expansion projects. So we've got a pretty good feel for that.

Anything, Trevor, to add to that?

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

Nothing.

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

Okay.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Understood. So it sounds like that, that's kind of an organic growth opportunity for the pipeline segment. Can you quantify or put some numbers behind kind of the size of that opportunity for expansion?

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

Sure. This is Trevor. At this point, we haven't disclosed any of the financial numbers around it. We're in the front-end work, getting ready for the prefiling process that Dave referenced later this fall. Generally, if you take the \$75 million capital budget, our FERC cap structure is 60% equity and apply a FERC return, you get in the wheelhouse of kind of what the earnings impact of the project could be.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Right. Okay. Got it. And when can we expect the IRP to be filed at the electric utility?

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

Oh, certainly, Nicole can touch on that. That was actually filed here just recently midyear.

But Nicole, any more details on the IRP?

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

No. You hit it, Dave. Yes, we filed that in the state of North Dakota here in July.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. And then just lastly, both electric and gas utility, could you just update us on your regulatory strategy? Do you have any plans to file any rate cases in any of your jurisdictions?

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

Yes. Certainly. As you're most likely aware, we monitor this on a very regular basis. And what we're looking at right now as we look ahead is just probably some evaluation around our electric segment in terms of timing of those rate cases. So again, we haven't made any final decisions there, but are evaluating timing on a few states for -- on the electric side of our business.

We just recently implemented final rates for several jurisdictions on the gas side of the business, North Dakota, Montana and Minnesota. And then the last one that I would touch on is in the state of Washington. Following the outcome we just had, we are currently contemplating a limited issue case to recover some of the 2020 plant additions as well as 2021 wage increases. So that would be top of the wave, some of the key activities we're focused on right now.

Operator

(Operator Instructions) This call will be available for replay beginning at 5:00 p.m. Eastern today through 11:59 p.m. Eastern on August 19. The conference ID number for the replay is 5527896.

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

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Dave, what's the status of the North Bakken expansion conversations for additional customers? And what's the capacity with compression that's still available for sale?

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

Ryan, this is Trevor. We -- as we always do, we're in kind of constant contact with customers out in the Bakken. Gas production in the Bakken is really almost back near to its peak. I think it's 95% of its peak production, even though oil is only at 74% of its peak. So we're seeing gas oil ratios in the field continue to increase. I think they're up 80% over the last 5 years.

And the North Dakota Pipeline Authority, Justin Kringstad has a new slide deck out where he talks to this and in his outlook, continues to stress the need for -- or the expectation for needing additional gas processing, NGL takeaway as well as natural gas pipeline capacity takeaway.

So with that, our North Bakken pipe is strategically located right through the heart of the Bakken, kind of north to south of Lake Sakakawea, interconnecting with Northern Border. So we think we're well situated as the Bakken continues to regain its footing in terms of drilling and production, and we'll be able to really be a good opportunity for our customers in that area.

In terms of expansion, the project is readily expandable with compression. It -- there's a lot of variables that go into how far -- how much additional, but it could be in the range of 600,000 Mcf a day of potential total capacity. And right now, we're contracted. When we get to full year volumes, it will be 245,000.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

And then one for, probably, Nicole. It seems like the electric load was pretty strong this quarter. Wondering how much of that was weather related and first, more organic volume growth. And then as you look at your planning forecast through 2030, what's embedded in that from an EV or transportation demand for electricity? And how does that compare with some of the federal announcements this morning for 50% new vehicle electric sales by 2030?

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

Okay. Let me start with the -- thanks for the question. I'll start with the volumes. Really, when you look at the quarter, what we saw, I would characterize more as getting back to post-pandemic levels. So what we saw really was, as was mentioned, an increase on our commercial industrial side, and that was offset by actually lower volumes on the residential side for the quarter. I will acknowledge as most people are aware, with the heat waves we've seen in our territory in June, we did see higher residential. But when you look at the quarter in total, really, it was driven by higher volumes, industrial, commercial, and we feel that was largely driven by kind of, again, the post-pandemic in terms of businesses reopening and getting back to full volume there.

As we look ahead here in July, obviously, we've -- on the residential side, we have continued to see pretty good volumes relative to what I would characterize as weather now. So back to the is it weather, is it post-pandemic, I would say, as we look to July, we haven't finalized all this, but we are seeing probably some increased volumes due to weather in that month.

Your next question relates to, as we look at our forecasting for our electric demand going forward. We have not, really, at this point, baked in any significant EV transition. We haven't seen the same level of penetration in our electric markets that has been happening in other areas of the country. So as of this point in time, I would say that it's really not a significant piece of the overall increasing -- or increase in our demand that we're disclosing in the 10-K as an example.

And I believe I've covered your questions, but any follow-up?

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Yes. In terms of larger transmission projects in the out-years, is there any projects that could potentially be advanced due to the broader mandates or federal policy discussions that are being had?

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

Yes. So you bring up a very good point. We are currently -- and I was just, last week, in a meeting with our regional transmission organization, which is MISO, as you know, and they have done several modeling efforts on what the future looks like in terms of scenario planning around individual companies' goals on the renewable focus and decarbonization as well as what could happen as we think about this more broadly federally.

And certainly, transmission is a significant investment as we look forward. In fact, one of their planning scenarios would have called for and again, this is just within the MISO market. So again, this isn't covering the U.S., but additional build-out of \$100 billion. And so again, there's multiple scenarios here, but just to level set, that's one example of the amount of transmission that's needed to meet some of these proposed goals out there.

So first, the question is, can all that be done within the time frame? And then secondly, the question is what happens with affordability and that sort of thing. So as we look ahead, transmission upgrades, there certainly will be a lot of opportunity there. And what we're looking ahead to is get -- how do you get those permitted, constructed and operating. So again, these are, again, within the MISO footprint, this is not necessarily our company specifically here. So it's more of a broader look. But to get to the question of is there opportunity in transmission going forward, there certainly is.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

And then last on the utilities front, do you have any ROFOs or ROFRs related to the -- any of the builds that's incorporated in MISO? And then I guess one on construction service. Can you speak to some of the cost pressures you're seeing?

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

Okay. So can you repeat the question on the...

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Do you have any right of first offer or right of first refusal on developing any of the transmission that may be developed in MISO within the broader -- within your footprint?

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

I guess how I'd respond to that is it kind of depends on how they decide to move forward. So as an example, we had -- we were involved in a multi-value project previously. It was the Big Stone South to Ellendale project where we then have a FERC transmission facility that's not directly allocated to our customers through state regulations. So that would be one example of an opportunity that came out of a multi-value project within the MISO market.

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

Yes. Ryan was -- then your second part of that was relative to services, but maybe you could repeat the question, so I make sure Jeff gets it. Ryan, are you still there?

Okay. Very good. Maybe we got Ryan's question answered. Back to you, operator. Oh, here comes, Ryan.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Yes, I think I got disconnected. In terms of the margin pressure you're seeing in construction service, was hoping you could elaborate on some of the drivers of the cost pressures.

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

Jeff, could you take that one?

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

Yes. So we think about steel and copper and aluminum and PVC and fuel, and those have risen sharply over the past 6 to 9 months. But we've also had some impacts with electronic components that are part of most of the materials we supply. And of course, our vehicles, which have had some availability delays. So our teams have been proactive in notifying our customers, are also working with our suppliers to mitigate the impact and mitigating our impact to backlog margins. We've had success in anticipating these increases and availability issues. We've also used our purchasing power and our financial strength to both purchase some commodities in some of our markets where it makes sense, where we can collaborate, get our customers involved, they take the risk off the table and procuring in advance.

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

Yes. Ryan, just as a kind of a top level there, again, we reiterated on our guidance, margins comparable to actually slightly increasing in services. So I think that gives you kind of an overall direction with regards to margins.

So very good. Back to you, operator.

Operator

And 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

Great. Well, thank you all for taking the time to join us here on our second quarter earnings call. Again, we're certainly pleased with the results of the first half of the year, and we look forward to a continued strong performance throughout the remainder of 2021. And as such, we are affirming our earnings per share guidance in the range of \$2 to \$2.15 for 2021. And again, we appreciate your continued interest in and strong support of MDU Resources as we continue to Building a Strong America.

And so 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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