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MDU - Q3 2023 MDU Resources Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello. My name is Cynthia, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2023 Third Quarter Conference Call. (Operator Instructions). The webcast can be accessed at www.mdu.com under the Investor Relations heading. Select Events and Presentations and click Q3 2023 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, Chief Financial Officer and Treasurer of MDU Resources Group. Thank you. Mr. Vollmer, you may begin your conference.

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

Thank you, Cynthia, and welcome, everyone, to our Third Quarter 2023 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 Stephanie Barth, Vice President, Chief Accounting Officer and Controller of MDU Resources; Nicole Kivisto, President and CEO of our Utility Group; Rob Johnson, President of WBI Energy; and Jeff Thiede, President and CEO of MDU Construction Services Group.

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 refer to certain non-GAAP information. For a reconciliation of any non-GAAP information to the appropriate GAAP measure, please reference our earnings news release.

Along with our earnings release this morning, we announced in a separate news release that our Board of Directors approved a plan to spin off our Construction Services business to the shareholders of MDU Resources, which will result in two independent publicly traded companies. The spinoff is expected to be a tax-free spinoff to MDU Resources and its shareholders and be complete in late 2024. You can also find this release on our website at www.mdu.com. Dave will provide additional information on the spinoff during his remarks later during the call.

Prior to handing the call over to Dave for his formal comments and his forward look, I will provide consolidated financial results for the third quarter. This morning, we announced third quarter earnings of \$74.9 million or 37 cents per share on a GAAP basis compared to third quarter 2022 GAAP earnings of \$147.9 million, or 73 cents per share. Third quarter income from continuing operations was \$78.2 million, or 38 cents per share, compared to \$42.3 million, or 21 cents per share in 2022.

It's important to note that with the spinoff of Knife River being completed, Knife River's results and other related impacts are reported as discontinued operations in our GAAP-based results for the current and prior year. As such, with the completion of the Knife River spinoff and work continuing on the Construction Services spinoff, we are also reporting adjusted income from continuing operations to provide financial results that more closely correlate to, and better outline the strength of our ongoing business operations.

These adjustments reflect the May 31 spinoff of approximately 90% of the outstanding shares of Knife River Corporation including the unrealized gain on the retained shares as well as other items related to our strategic initiatives. For more information on these adjustments, please see the table provided on Page 7 of our earnings news release. We experienced very strong results from all of our businesses in the third quarter with adjusted income from continuing operations of \$58.6 million, or 29 cents per share, compared to third quarter 2022 adjusted income from continuing operations of \$42.3 million, or 21 cents per share.

Turning to our individual businesses, our combined utility business reported earnings of \$3.2 million for the quarter, compared to earnings of \$3.5 million in the third quarter of 2022. The electric utility reported third quarter earnings of \$20.9 million, compared to \$21.6 million for the same period in 2022. The decrease was largely the result of lower residential volumes due to cooler weather and higher operation and maintenance expense, primarily payroll-related costs. Partially offsetting the decrease were higher retail sales revenue due to rate relief in North Dakota and Montana, an electric service agreement to provide power to a data center near Ellendale, North Dakota, and higher transmission revenue.

Our natural gas utility reported a seasonal loss of \$17.7 million in the third quarter, compared to a loss of \$18.1 million in the third quarter of 2022. Earnings increased due to short-term debt interest recovery in Idaho, rate relief in Idaho and Washington, which were partially offset by higher operation and maintenance expense, primarily payroll-related costs. The business also experienced a 9.3% decrease in retail sales volumes to all customer classes due to seasonal weather patterns, which was partially offset by weather normalization and decoupling mechanisms.

The pipeline business earned record third quarter earnings of \$11.9 million, compared to \$9.8 million in the third quarter last year. The earnings increase was driven by higher transportation revenue, primarily the result of increased contracted volume commitments from the North Bakken Expansion project, as well as higher storage-related revenue and new transportation and storage service settlement rates that were effective August 1st. The increase was offset in part by higher operation and maintenance expense, primarily payroll-related costs. Interest expense also increased as a result of higher rates and higher debt balances.

Construction services reported record third quarter earnings of \$36 million, compared to earnings of \$28 million for the same period in 2022. EBITDA for the quarter increased \$14.1 million compared to 2022, to a third quarter record of \$58 million. Gross profit increased due to project mix in the commercial, renewable, institutional and utility markets, offset in part by lower industrial gross profit. This business also had higher selling, general and administrative costs, largely higher payroll-related expenses and higher interest expense from increased working capital needs and higher interest rates.

That summarizes the financial highlights for the quarter. I'll now 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. Today is an exciting day for our Company, as we announced our plan to spin off construction services business from MDU Resources.

Back on November 3rd of last year, we announced the undertaking of a strategic review of this business and completed that review with a subsequent announcement on July 10 this year that we would pursue a tax-advantaged separation of the business. At that time, we mentioned our focus was to determine the best method and timeline to effect the separation, which we are excited to announce today. We expect this spinoff to significantly

enhance the value within our businesses and achieves our stated goal of transforming MDU Resources into a pure-play regulated energy delivery business.

I'd like to start by discussing our third quarter results and outlook at each of our businesses, before providing an overview of the spinoff announcement. Our strong third quarter results continue the trend we have seen throughout 2023 of outstanding performance from all of our companies. We have had an active regulatory schedule in 2023 for our regulated energy delivery businesses and have seen the benefits of new rate implementations at our electric, natural gas and pipeline businesses. Our construction services business continues to report record results and has a strong backlog moving into the end of the year.

And all of our businesses have exciting opportunities as we look to the future. At our utility business, electric retail sales volumes for the third quarter were 36.6% higher than last year and year-to-date are 23% higher than this time in 2022. This quarterly increase is largely from serving a data center customer that was brought online here in the second quarter of '23.

We have also filed a request with the North Dakota Public Service Commission to serve another data center that is expected to come online in 2024. We expect Heskett Unit 4 to be operational before the end of this year, as construction is largely completed on the 88-megawatt natural gas-fired electric generating facility located near Mandan, North Dakota. It is currently undergoing performance and environmental testing.

We also continue to expect to grow our rate base at our electric and gas business between 6% and 7% compounded annually over the next 5 years. This is driven primarily by investments in system infrastructure upgrades and replacements to safely meet customer demand. We received approval in August on a settlement in our Montana electric rate case, and rates took effect there on October 1.

Also in August, we filed an electric rate case and a natural gas rate case, both in South Dakota. We also filed a natural gas rate case in North Dakota just earlier this week on November 1. Our Utility continues to seek timely regulatory recovery for investments associated with providing safe and reliable electric and natural gas service to our growing customer base, including a multi-year case that we expect to file in the first quarter of 2024 for the state of Washington.

At our pipeline business, we had a record quarter of earnings and year-to-date earnings, which are 19% higher than this time last year. This business also saw another record quarter of natural gas transportation volumes, largely from increased contracted volume commitments on our North Bakken Expansion project.

In August, the company settled its rate case with its customers and FERC staff. The new transportation and storage service rates, which are pending final FERC approval, took effect here on August 1 and are expected to result in a 7% revenue increase, or approximately \$10 million on an annual basis.

We began construction in the second quarter of this year on three natural gas pipeline expansion projects. Two of these projects were placed into service on November 1 and will add additional natural gas transportation capacity of 119 million cubic feet per day. The third project is expected to be completed here in early 2024 and will add an additional natural gas transportation capacity of 175 million cubic feet per day.

On October 19, WBI also received FERC approval for its Wahpeton Expansion Project slated for eastern North Dakota. This project will allow for an additional 20 million cubic feet of natural gas transportation capacity per day to the region and is supported by long-term customer commitments. Total cost for the project is approximately \$75 million and is expected to be in service in late 2024.

With the strong start to the year for our regulated energy delivery businesses, we are increasing earnings guidance for these businesses to now a range of \$155 million to \$165 million, up \$5 million from our previous range of \$150 million to \$160 million. As I mentioned previously, our construction services business continues to see record results and strong ongoing demand for its services. We saw record third quarter earnings and EBITDA, and year-to-date earnings and EBITDA are up 20% and 21%, respectively, when compared to the same time last year.

Gross profit was up in the quarter for both our E&M and our T&D business lines and backlog remains strong at \$1.85 billion. We are well-positioned to complete these projects safely and efficiently with our ability to attract and retain a skilled workforce of over 8,000 employees across our footprint.

We are affirming our 2023 revenue guidance to be in the range of \$2.8 billion to \$3 billion and we expect now higher margins compared to 2022. We are increasing and narrowing our EBITDA guidance to a range of \$210 million to \$230 million from our prior range of \$200 million to \$225 million.

Looking forward, our construction services business is well positioned to benefit from increased bidding opportunities. With the funding from the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, our construction services business expects to see increased demand in 2023 and beyond. Overall, as we look ahead, we are encouraged by our opportunities for ongoing customer and system growth in our electric and natural gas utilities, our robust slate of pipeline expansion projects and steady demand for its pipeline services, along with high demand for our construction services.

Now I'd like to turn back to our earlier announcement made today on our plan to spin off our wholly owned construction services business, MDU Construction Services Group, from MDU Resources to form into two independent publicly traded companies. This separation will allow each company to enhance its strategic focus to pursue individualized, industry-specific opportunities and use equity tailored to each business to enhance acquisition programs and retention and hiring.

Both companies will benefit from distinct capital structures and financial policies in-line with their business profiles and needs. Each company will have enhanced flexibility to deploy capital toward their specific growth opportunities through tailored capital allocation strategies. We believe this separation will provide investors with two compelling investment opportunities, and the investment community will be able to better assess the value of each business based on its respective operational and financial characteristics.

MDU Resources is committed to establishing strong capital allocation strategies for each business that align with each business' long-term goals. Post-spinoff, MDU Resources intends to maintain a long-term dividend payout ratio target of 60% to 70% of regulated energy delivery earnings, as we announced earlier this year. MDU Construction Services Group's dividend policy will be determined in the future, consistent with the company's stated capital allocation strategies.

Further details about capital structure, governance and other elements of the spinoff will be announced later. When the spin-off is complete, it is expected that MDU Resources shareholders will retain their current shares of MDU Resources stock and receive a pro-rata distribution of shares of MDU Construction Services Group stock. We expect the spinoff to be completed in late 2024, subject to certain conditions that are described in the news release. Further details on the transaction will be provided at a later date as we continue working diligently through the spin-off process.

In light of today's announcement and in order to provide a more fulsome update to the construction services spinoff as well as our pure-play regulated energy delivery strategy, we're also rescheduling our investor day to the first quarter of 2024. 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 products and services to our customers and our communities, while being a great and safe place to work.

One final item that I'd like to touch on is the announcement of my retirement as President and CEO noted in early January in a prior release, along with Nicole Kivisto being named my successor. First, I believe Nicole will do an excellent job in this role and have full confidence in her ability to lead MDU Resources moving forward. With our future state as a pure-play regulated entity, her strategic leadership and experience will serve the Company well.

As for myself, it has been a great honor to be part of this organization for the last 40 years and to work with so many wonderful people. I am very proud of everything that we have accomplished and I'm confident that MDU Resources is positioned well for continued success. I plan to run through the finish line of January 5, but with this being in mind in my last quarterly earnings call prior to that date, I'd just like to wrap up by saying thank you to all of you that I've had the pleasure to work with and meet over this career.

So with that, I appreciate your interest in and commitment to MDU Resources, and ask now we open the line for other questions. Operator? Cynthia?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Maybe just on the spin that was announced today. Just -- I know you guys considered a range of, I think, what you referred to as tax-advantaged strategies. Can you talk a little bit more, now that the announcement is out there, just sort of about the -- how that process went, maybe other avenues that you considered before finally landing on this one? And also to the extent that you can, are there any dissynergies that you anticipate from the spin-off, such as possibly higher public company costs for what will be a relatively small stand-alone CSG?

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

Yes, yes, certainly. So specific to the spend areas, certainly, this has been a strategic review focus of ours really for the last year, and as we updated the market back in mid-July as to our look to a tax-advantaged separation of the business, clearly, today, we're more clearly defining that as to a tax-free spin of the business we have looked to effectuate in -- by late 2024.

And so I would say we looked at the broad range of possibilities there. Ultimately, along with our Board, we decided that we believe for the -- optimize the value, likely create the most value for this business, we look to do what we just really did with Knife River, essentially. We've created some institutional knowledge there as well. But ultimately, we do believe a tax-free separation via spin is look to optimize the value of the business.

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

And I can jump in on the dissynergies question, Dariusz. This is Jason. As we look at this, you're correct. As we think about separating and standing up a separate public company here, there would be some additional public company costs. CSG pays a portion of those today as a segment of the MDU Resources companies here, but I have a full load of that, you could say, on a stand-alone basis.

What I would say is that we will provide more updates on that as we put together our Form-10 and get ready to show the pro forma financial information. But in addition, I think that was a piece of the decision-making process that we look through here as well. And we really feel the benefits of a stand-alone business here and separating these businesses by far outweigh any dissynergy type expenses that we would see in the valuation of the business.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Maybe just one more around that transaction. As far as RemainCo, MDU, I know you guys will give more fulsome updates in the future. But I mean it'll probably look, in terms of business mix, risk profile, probably similar to some publicly-traded peers. Do you anticipate a similar capital structure and financing mix as some of your publicly-traded, mostly regulated, peers?

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

Yes, Dariusz, this is Jason again. I think you're correct. We're looking at a pure-play regulated entity on a go-forward basis. And I think the capital structure and the financing, and as Dave mentioned, one of the benefits of these separations as we look at separating that services business via spin off is to really give each of these companies a distinct capital structure that really makes them competitive within the industries that they participate.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

If I could sneak in one more. And this is just -- yes, this is on the CSG results that were reported. It seems like a bit of a tick down in the revenue and gross margin contribution from your industrial customers. I was wondering if that's maybe a timing or just a quirk of the backlog, or if there's anything -- any kind of trend that you're recognizing there?

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

Thanks for that question, Dariusz. Jeff's on the line. I'll have him dig into that in detail.

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

You hit it right on the head, Dariusz with the semiconductor work that we have completed is going to be followed by additional work in this area. We've got great people and historical success with the relationship from a number of our customers.

We are in more geographic locations, not just in the Pacific Northwest, but also in the Southwest, and also in the Ohio area, where we expect continued workloads and available work packages, and we do have the resources to be able to accomplish that work and we'll look forward to rebuilding that. But yes, that was just a point in time.

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

Dariusz, if I could maybe just add a little bit. I think your point about one segment having a certain type of quarter are certainly offset by other segments in that business as we think kind of top line in that business at CSG, again, the record quarter, the record EBITDA and the year-to-date results, we feel very confident in that as we think about the rest of the year.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

I'll just say congratulations to Dave and also to Nicole on the appointment. Thank you very much.

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

Thank you, Dariusz.

Operator

Your next question comes from the line of Chris Elinghaus with Seibert Williams Shank.

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

Congratulations to Nicole and to Dave, and thanks so much for all the good conversations over the years, Dave. I appreciate it. Can you talk about -- you had an Analyst Day scheduled. What's changed in terms of your thought process that made you want to change when you give your update?

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

Chris, appreciate the commentary earlier. I appreciate working with you over the years here as well. So we just felt given today's announcement and the timing of this clarity, if you will, on how we're looking to separate the construction services business and the timing of that slated for late

2024 that we just felt probably first quarter '24 would just be a more appropriate timing to give a more fulsome update into the marketplace, more -- kind of what the RemainCo story looks like and how that can kind of build on itself along with greater clarity on construction services.

And there's a number of end markets there to be describing. And I think in our opinion, there'd be enhanced investor interest as knowing the separation being a separate publicly-traded company, which is our target. We just thought that was probably a more appropriate timing.

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

When you get to that late first quarter meeting, do you anticipate having greater clarity on the form that the transaction might take?

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

That's certainly part of this as we work through this, and we would expect to have participants -- all the principles of those business units, certainly Nicole leading the group, but the electric and gas business, the pipeline business is the RemainCo story. And then obviously, Jeff, as part of the -- and his team as part of the CSG SpinCo story.

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

And one last question for Jeff. Jeff, has the sort of improvement in your outlook for margins this year throughout the year given you any insights into what your outlook for next year might look like?

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

I'm really confident in our ability to continue to perform at a high level, a record level, with our company. Part of our margin improvement has been due to getting our MSAs and also our jobs that we are in preconstruction in, getting pricing updates to be able to update the labor increases, fuel increases, equipment costs that we've had.

In addition to that, the ability to execute in the field, that's crucial to our business. And we've gotten better through our prefabrication initiatives, we've got better through our planning, and of course, our field personnel and the management staff that supports them have all stepped up. And that's put us in a good platform and a good position to be able to spin, go forward and continue to provide exceptional shareholder value.

Operator

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

Ryan Michael Levine - Citigroup Inc. Exchange Research - Research Analyst

Congratulations to Dave on his -- on the retirement.

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

Thank you, Ryan.

Ryan Michael Levine - Citigroup Inc. Exchange Research - Research Analyst

I guess to start off, in terms of the timeline, so you highlighted that the intention's to do the spin by the end of next year. What are the key milestones that really need to be achieved to hit that deadline?

And in the disclosed material, there was reference to private letter rulings and other contingent items. What's the challenge there? What's the confidence level that you're going to be able to achieve the targeted time line?

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

Ryan, I'm going to ask Jason Vollmer to lead off there. Jason really led, from an internal perspective, our Knife River spin and all the activities associated with that. And coincidentally, I've asked him to lead this effort. So I'll ask Jason, because he can talk with detail there, but I think you're looking kind of for the high-level work streams here.

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

Yes, absolutely. I can dive into a few of those. So you're right, there are some major items that we see, whether it's a potential for a private letter ruling, looking at the Form-10 process, getting through the SEC comment process, we look to stand this up, carving out financial statements and making sure we have everything audited and separated at the right level and developing that investor story and forecasting here.

Those are all things that I think -- the nice thing is we've got a lot of experience with this. We just came out of a Knife River transaction, where we were able to get this done in what we thought was a pretty timely manner and certainly work through that and set up a successful stand-alone company there. We've used a lot of lessons learned, I think, throughout that process to look at the CSG process here and set what we think is a aggressive but achievable time goal to be able to get this where we need to be.

So we've got a high level of confidence in the team's ability to be able to move through this and get this done in a timely manner, and we really feel like that time frame gives us a great opportunity to be able to do the diligence we need on this project and get this stood up as a very successful public company.

Ryan Michael Levine - Citigroup Inc. Exchange Research - Research Analyst

And I guess recognizing that some of the final capital structure is to be determined, but maybe moving to the fundamental business for CSG on a go-forward basis, can you speak to where you think the backlog mix will be within the next year in terms of different customer types or industries that you're targeting?

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

Yes, Ryan, I'll ask Jeff Thiede to comment on kind of a future look at backlog and certainly split between T&D and E&M as we think about the major segments to that business. Jeff?

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

Thanks, Dave. And thanks, Ryan, for your question. Our backlog has always been broad-based. You're currently building some of the most innovative and largest projects in multiple geographic regions and in the markets that we serve, and these projects include but really aren't limited to mission-critical data center work, semiconductor manufacturing, health care, renewables, and of course, hospitality gaming projects in the entertainment sector. And there are more of these type of projects on our radar in the future.

In our T&D sector, transmission and distribution work, including wildfire mitigation, traffic signal work, are on our top 10 backlog list. And we are currently underway on 2 significant transportation projects in the Kansas City area in addition to our MSA and substation work for our utility customers. Again, this illustrates our diversification as a company and how we have the ability to capitalize on the current markets and then, of course, pivot to expanding markets for continued success.

I see more of the same type of work, but as markets adjust, we will allocate those resources and that will include, of course, capturing some more of the Infrastructure Investment and Jobs Act and Inflation Reduction Act work. We have the experience in these areas, and we'll continue to position for those to be -- adding those projects and those opportunities in our backlog and executing successfully.

Ryan Michael Levine - Citigroup Inc. Exchange Research - Research Analyst

And then one follow-up. In terms of that mix, particularly on the renewable and utility work. Are you seeing any slippage in time line or delay in projects as you're looking out over the next 12 months?

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

We're not seeing any project delays over the next 12 months. So that's all positive. We are in preconstruction on more than several projects that are going to add to our backlog going forward. So looking forward to continuing that momentum and building upon our Q3 record performance.

Operator

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

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

Just a follow-up on the renewables. Just looking at the third quarter revenue, looks like renewables were down -- on CSG, of course, was down quite significantly. And again, it was down for the 9 months ended September, while I see margins up, I just thought if you could just comment on the revenue trends there, if you're seeing any near-term slowdown or projects being pushed to the right.

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

Jeff?

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

We had a large project complete in Las Vegas. We've also picked up additional work in the renewable solar area in Ohio and in the Midwest. We do have several projects on our radar screen in the Midwest and are currently also looking for an increase of our backlog in the renewable solar market in the Las Vegas area going forward. We did have a completion of 2 very significant projects in the Pacific Northwest.

And those projects are completed, and I think that's what is affecting the numbers that we've reported out here. So we have the capabilities on the solar work in force, and also the EVs, electrical vehicle. We've worked in manufacturing facilities. We've done quite a view of the charging stations. So we've got the experience. We see that this is a good opportunity going forward. We're positioned well for it, and we'll be able to build upon that as those opportunities come forward.

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

And then switching gears to the utility side. It looks like you're probably -- with what's filed in terms of rate cases and what's already completed, the only thing left, right, is the Washington gas case? And given that, correct me if I'm wrong, but that's about 20% to 25% of your overall utility operations. Could you just add more color? What maybe the accumulating rate base looks like or remind us when the test year of the last rate case that concluded was?

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

I can go ahead and take that. Thanks for the question, Brian. So yes, I'm really proud of the team's work as we think about the overall regulatory activity that we have undertaken, obviously. A lot of that was highlighted in the news release. So you have seen what we've done historically, and certainly, that has added to our ability to improve our ROE over the last trailing 12 months.

So really proud of the team's work there. In terms of your question on go ahead, what we're doing in the ensuing year, yes, the one we've highlighted in the remarks is the Washington multiyear case. So this will be the first year that we'd be using the multiyear case in that state. We recently implemented rates in the state here last year and we'll be filing for the multiyear case here next year.

In addition to Washington, though, I would comment that we are looking at 3 other states for filings later in the year next year. So most likely, we would be filing in addition to Washington and 3 other gas jurisdictions. With respect to the overall percentage, you've got that approximately right, but keep in mind that we've got Washington and Oregon that operate under the Cascade brand. So Washington would be the larger state of those 2. Did that answer your question?

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

Yes, it did. And just one quick follow-up. I think in Washington state, is it 11-month statutory period to conclude rate cases, so if you file in early '24, we can assume that you'll have full rates in effect in 2025?

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

You are correct. It's an 11-month statutory, yes. So if we file in the first quarter, whatever date we filed, 11 months from there would be the assumed implementation date.

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

And just switching to the transmission. MISO Tranche 1 projects that you're working on, any updates on the development there? Is everything on time and on schedule and aligned with your capital forecast?

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

We have been working with our partner and have hosted several open houses in some of the communities that would be in the line of sight in terms of that project. Everything right now -- it's obviously early stages, but everything right now is on time, and we have not changed the overall budget.

So as a reminder, we're a partner on that project. Total project costs are estimated at \$440 million, our share of which would be \$220 million, and that is included in our forecast and will continue to be included at that rate as we think about a new updated forecast that we would be bringing to the market here later in November.

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

Dave, good luck in your future. Appreciate working with you.

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

Thank you very much, Brian.

Operator

(Operator Instructions) The webcast can be accessed at www.mdu.com under the Investor Relations heading. Select Events & Presentations and click Q3 2023 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 now like to turn the conference back over to management for closing remarks.

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

Well, thank you all for taking the time to join us here on this third quarter earnings call. We are excited about today's announcement of the planned spinoff of MDU Construction Services Group and look forward to keeping you updated as we progress through the separation process.

We are optimistic about our growth opportunities and future regulated energy delivery projects, and excited about the strong demand and performance of our construction services business. We thank you again and appreciate your continued interest in and support of MDU Resources.

And with that, I'll turn it back to you, the operator, Cynthia. Thanks again.

Operator

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

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