MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Direct Testimony of John F. Renner

Q. Would you please state your name and business address?

A. My name is John F. Renner and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. By whom are you employed and what is your position?

A. I am the Executive Vice President, Finance and Chief Accounting Officer for Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. (MDU Resources), and Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources. I am testifying in this proceeding on behalf of MDU Resources.

Q. Would you please describe your duties?

A. Yes. I am responsible for providing the overall direction and management of the accounting, financial forecasting/planning, information systems, and regulatory functions for Montana-Dakota and Great Plains.

Q. Please outline your educational and professional background.

A. I graduated from the University of North Dakota in 1968, receiving a Bachelor of Science Degree in Business Administration with a major in Accounting. I am a Certified Public Accountant having received my certificate in 1970. I have also attended various training programs, including Stanford's Executive Financial Management Program.

During my tenure at a number of MDU Resources entities, I have held various management and executive positions within MDU Resources, its oil and natural gas production unit and Montana-Dakota. Those positions included being elected in 1982 as Assistant Vice President-Financial Planning and Control and Chief Accounting Officer of Montana-Dakota. In 1985, I was elected Controller and Chief Accounting Officer of MDU Resources. In 1992, I was appointed President of the predecessor company of MDU Resources' subsidiary Fidelity Exploration & Production. In November 2004, I was named Controller and Chief Accounting Officer for Montana-Dakota. I assumed my present position in January 2006.

Q. Have you previously testified in proceedings before regulatory agencies?

A. Yes. I have testified before the Public Service Commissions of Montana, Wyoming, Minnesota, and North Dakota regarding utility capital structure and cost of long-term debt and preferred stock. I have also submitted testimony to the South Dakota Public Utilities Commission and I have testified before the Federal Energy Regulatory Commission (FERC) on the same matters.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide details regarding MDU Resources' corporate structure, the proposed location for Cascade within the structure, MDU Resources' capital structure, the "ring fencing" protections MDU Resources employs, the financial and accounting aspects of the proposed transaction, and some of the financial and structural commitments being offered by MDU Resources. I will also testify about the provision of common services for Cascade, the methodology for allocating costs for such services, the opportunity for cost savings through the provision of common services and the coordination of activities, and the implications and benefits of the proposed acquisition for Cascade's customers.

Q. Would you please describe MDU Resources' corporate structure as it exists currently and how it will be after the proposed acquisition of Cascade?

A. MDU Resources' current corporate structure including the proposed acquisition of Cascade is shown on Exhibit No.___(BTI-2) which accompanies Mr. Imsdahl's testimony.

MDU Resources currently includes two utility operations, Montana-Dakota and Great Plains, both held as divisions within MDU Resources. In addition, Centennial Energy Holdings, Inc. (Centennial) is held organizationally as a first-tier, direct, wholly owned subsidiary. All four of MDU Resources' primary non-utility business units are held as subsidiaries of Centennial.

MDU commits that upon completion of the pending acquisition, Cascade will be held as a separate first-tier, direct, wholly owned subsidiary of MDU Resources. See Commitment No. 10 in Exhibit No.___(DRB-2) accompanying the testimony of Donald R. Ball (the commitments from Exhibit No.___(DRB-2) are hereinafter referred to by the Commitment number). From a functional and operational perspective, however, Cascade will be the equivalent of MDU Resources' existing utility divisions.

Q. Why is MDU Resources proposing to hold Cascade as a separate subsidiary rather than as another utility division?

A. The proposed acquisition of Cascade is being effected through a reverse triangular merger, as described in more detail in Section IV of the Application, thereby minimizing the likelihood of triggering any federal income tax consequences as a result of the proposed merger. Eliminating the corporate structure of Cascade and establishing it as a division could have significant federal income tax consequences by triggering deferred taxes.

Q. How does this structure establish Cascade as a "ring-fenced" entity?

A. Because Cascade will be a first-tier subsidiary of MDU Resources, just as Centennial is currently, Cascade will be protected from the financial risk exposures of Centennial. Therefore, the creditors of Centennial and its subsidiaries are not allowed recourse against MDU Resources, or its subsidiary Cascade, in the event of bankruptcy of Centennial. In addition, there are no credit facilities at either MDU Resources or Centennial which contain cross-default provisions between MDU Resources and Centennial. Holding Cascade as a separate subsidiary provides further separation and ring-fencing assurance to isolate Cascade from any risks associated with MDU Resources' other business unit activities, described by Mr. Imsdahl in his testimony, including its utility divisions. We include this commitment as Commitment No. 10 in Exhibit No.___(DRB-2).

Q. Please describe MDU Resources' capital structure, including that of its utility divisions and Centennial.

A. As of September 30, 2006, MDU Resources' capital structure consisted of $1.3 billion in debt and $2.1 billion in equity, or 38 percent debt and 62 percent equity. It is MDU Resources' stated intention to maintain a debt ratio of no greater than 40 percent over the long term at the consolidated level to minimize the financial risk associated with its diverse non-regulated operations.

MDU Resources' $3.4 billion of capitalization includes the capitalization of MDU Resources' utility divisions. As of September 30, 2006, the utility divisions' capital structure consisted of $185 million of debt (including $15 million of preferred stock) and $199 million of equity, or a 48 percent debt/ 52 percent equity ratio. At its utility divisions, MDU Resources has targeted a 50/50 debt/equity ratio over the long term to provide a reasonable risk/return profile and balance for both its customers and investors.

Q. Please describe how the acquisition of Cascade will be financed.

A. As noted above, MDU Resources intends to maintain within all of its utility operations an approximate 50/50 debt/equity ratio. To achieve this ratio upon its proposed acquisition of Cascade, MDU Resources expects to provide approximately $237.5 million of equity capital from MDU Resources internal funds or funds raised by MDU Resources through the issuance of common stock to finance the purchase of a corresponding amount of stock from current Cascade stockholders. Cascade will also issue up to approximately $67.5 million of debt to finance the balance of the purchase of the Cascade stock from current stockholders, and retain its outstanding debt estimated at $165 million. The combination of these transactions, which will be accomplished after the closing of the acquisition, will result in the above mentioned 50/50 targeted capital structure at Cascade. To close the proposed acquisition after all regulatory approvals are obtained, MDU Resources expects to utilize short-term special purpose bridge financing until the permanent financing mechanisms are in place.

Q. Will the issuance of additional debt by Cascade have any impact on Cascade's rates?

A. No, it will have no effect on Cascade's rates. In a rate case, Cascade's cost of capital will be applied to its rate base in establishing its revenue requirement. The actual amount of debt is not a factor.

Q. Will the acquisition of Cascade affect either MDU Resources' or Cascade's overall debt ratings?

A. MDU Resources' acquisition of Cascade is not expected to cause any change to either company's credit ratings. MDU Resources' credit ratings are A-3; BBB+ and A- by Moody's, Standard & Poor's (S&P), and Fitch, respectively. In contemplation of the Cascade acquisition, S&P's Rating Evaluation Service Report reaffirmed MDU Resources' ratings and stated the "acquisition of Cascade would be modestly beneficial from a business risk profile perspective." Further, in that same report, S&P indicated MDU Resources' utility business risk profile would be enhanced from "strong" to "excellent." Moody's and Fitch reaffirmed their MDU Resources' ratings following the announcement of the proposed acquisition.

Cascade's ratings are Baa1 by Moody's and BBB+ by S&P. Following the announcement of the acquisition, S&P affirmed its BBB+ credit rating on Cascade and stated: "The rating action on Cascade reflects our preliminary assessment that, upon closing of the transaction, the Company's ratings will be the same as the ratings on MDU Resources." Moody's also affirmed Cascade's ratings.

Q. How will the acquisition by MDU Resources affect Cascade's access to capital?

A. Inasmuch as Cascade will become a direct wholly owned subsidiary within a $4.8 billion corporation (assets at June 30, 2006) - which is over ten times larger than Cascade - the acquisition will provide Cascade access to a much broader debt investor base. Such access should make any future required financings more competitive while Cascade's credit rating should remain unchanged or slightly strengthened. Because MDU Resources will have approximately $237.5 million of equity invested in Cascade, such a strong equity position will strengthen debt investors' perception of Cascade's financial strength as a direct wholly owned subsidiary within MDU Resources as compared to a stand-alone company.

Q. Will Cascade maintain its own capital structure and, if so, how will that affect its cost of capital for ratemaking?

A. As a first-tier subsidiary under the MDU Resources corporate umbrella, Cascade will have its own capital structure. That capital structure will be targeted at 50/50 debt/equity, consistent with MDU Resources' utility divisions, but slightly stronger than Cascade's current structure. That stronger structure should provide a higher level of financial stability to Cascade in the long-term than it currently experiences. As noted in Mr. Ball's testimony and stated in Commitment No. 20, Cascade will not advocate for a higher cost of debt or equity capital as compared to what Cascade's cost of debt or equity capital would have been absent MDU Resources’ ownership.

Q. Will Cascade maintain separate debt and credit ratings?

A. Yes. MDU Resources commits that Cascade will maintain separate debt. Cascade will maintain its own corporate credit rating from Moody's and/or S&P or their successor rating agencies. See Commitment No. 15.

Q. Please describe the opportunities for MDU Resources and Cascade to combine certain corporate and administrative functions.

A. Because this merger involves two public companies, MDU Resources believes that it can reduce overall costs through the combination of certain corporate functions, such as: certain officer positions, director expenses, shareholder services and investor relations, audit fees, legal services, securities compliance and corporate governance. MDU Resources also believes there are opportunities for efficiencies through the combination of administrative and support functions with those of its existing operations, such as customer information and work management systems. MDU Resources hopes to achieve cost savings in these corporate and administrative areas where two independent companies would have overlap or duplication as stand-alone entities.

Q. Please describe other opportunities for MDU Resources and Cascade to share certain costs.

A. Certain utility costs tend to be relatively fixed without regard to size of the company; therefore, spreading those costs over 600,000 customers rather than just 235,000 customers will help minimize cost increases. As an example, both MDU Resources and Cascade are in need of upgraded customer information systems. The process of reviewing, purchasing, and installing a system can be accomplished more efficiently on a combined basis with the costs spread over a larger organization at a lower cost per customer.

Q. Would you please describe MDU Resources' method for allocating shared costs between the various business units?

A. Yes. Certain functions provided at the MDU Resources corporate level are primarily related to corporate governance and common to publicly traded companies. Such costs, along with some of the costs related to administrative and support functions noted above, are allocated or assigned to the business units, which is consistent with the proposed intercompany services agreement among MDU Resources, Cascade and the other utility companies. See Exhibit No.___(JFR-2) for the agreement. Specific costs which are directly assignable to a business unit or operating company are charged accordingly; costs that are causation driven are allocated as such; and other costs are allocated based upon the business unit's capitalization in proportion to total corporate capitalization.

In addition, the utility divisions currently allocate and assign certain costs, including those from the corporate level as described in the preceding paragraph, among their various operations and jurisdictions, (*i.e.*, utility and non-utility, gas distribution and electric operations, by jurisdiction). The utility divisions anticipate that they will continue this allocation practice across all utility operations, and incorporate Cascade into this practice over a period of up to three years as administrative and support functions for all utility operations are transitioned to the most efficient and best practices among Cascade, Great Plains, and Montana-Dakota.

Q. Does MDU Resources make any commitment with respect to how corporate costs will be allocated?

A. Yes. MDU Resources commits that the allocation of corporate and affiliate expenses will comply with the following specific principles:

a) For services rendered to Cascade or each cost category subject to allocation to Cascade by MDU Resources or any of its affiliates, MDU Resources must be able to demonstrate that such service or cost category is necessary to Cascade for the performance of its regulated operations, is not duplicative of services already being performed within Cascade, and is reasonable and prudent.

b) Cost allocations to Cascade and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to Cascade and its subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.

c) MDU Resources and its divisions will have in place an allocation or reporting system adequate to support the allocation and assignment of costs of executives and other relevant personnel to Cascade.

d) An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.

e) Costs which would have been denied recovery in rates had they been incurred by Cascade’s regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through MDU Resources.

See Commitment No. 14.

Q. Does MDU Resources make any commitment with respect to Commission auditing of such allocations?

A. Yes. MDU Resources commits that the Commission or its agents may audit the accounting records of MDU Resources and its subsidiaries or divisions that are the basis for charges to Cascade, to determine the reasonableness of factors used by MDU Resources to assign costs to Cascade and the reasonableness of the amounts subject to allocation or direct charges. MDU Resources also agrees to cooperate fully with such Commission audits. See Commitment No. 5.

Q. Can you quantify the anticipated impact of MDU Resources' shared corporate costs as well as its allocated utility division costs?

A. The precise extent of shared or integrated services is yet to be evaluated and, thus, the costs thereof cannot be quantified at this time.

Q. Is MDU Resources able to make any commitment at this time regarding the impact of allocated corporate costs?

A. MDU Resources will commit for a three-year period that the allocated MDU Resources' shared corporate costs, as well as its allocated and assigned utility division costs, will not exceed the costs Cascade's customers would otherwise have paid absent the acquisition, as adjusted for the change in the Consumer Price Index in place at the time of approval. See Commitment No. 13.

Q. Why does MDU Resources make this commitment for only a three-year period?

A. With the passing of time, it becomes increasingly difficult and speculative to project or prove either the amount or nature of what a company's costs would have been in the absence of a transaction. We think that three years is the outside time limit for which a company or the Commission can reasonably be expected to make that determination.

Q. Will there be an intercompany service agreement that governs services to be provided to Cascade?

A. Yes. As reflected in Commitment No. 12, after the proposed acquisition is completed, there will be an inter-company agreement with Cascade, to be filed with the Commission as soon as possible after closing of the transaction. Cascade will also file amendments to that agreement. Exhibit No.___(JFR-2) is a form of the anticipated Inter-Company Administrative Services Agreement. This agreement essentially provides that intercompany services provided to Cascade will be provided at cost.

Q. Does MDU Resources anticipate any affiliated transactions, such as natural gas supply or construction services, between Cascade and MDU Resources' non-utility subsidiaries, and if so how does it intend to handle those transactions?

A. Inasmuch as MDU Resources currently has no natural gas properties within Cascade's service territory, it is not anticipated there will be any sales or transmission of gas to or for Cascade by MDU Resources' non-utility subsidiaries. It is also anticipated that other services such as construction services from affiliates will be minimal. However, if such services are utilized, they will be competitively procured and priced. MDU Resources commits to providing the Commission with access to all books and records pertaining to such transactions. See Commitment No. 3. MDU Resources also commits to complying with all Commission statutes and regulations regarding affiliate interest transactions and to file all required reports. See Commitment Nos. 6 and 7.

Q. Please describe the accounting for the proposed acquisition, including the treatment of any acquisition adjustment.

A. The accounting for the proposed acquisition will follow the FERC Uniform System of Accounts and, as specified therein, the excess of the purchase price over the historical cost reflected on Cascade's books will be recorded in Account 114, Plant Acquisition Adjustment. In addition, the transaction costs incurred by MDU Resources to accomplish this merger will also be charged to Account 114.

Q. Does MDU Resources make any commitments relating to recovery of the acquisition premium?

A. Yes. Although Account 114 will be reflected on Cascade's records, MDU Resources commits that Cascade will not request a return on or a return of such amount, subject to the following exception. If the Commission, in either the order issued pursuant to this application or a subsequent general rate proceeding, reduces Cascade's retail revenue requirements by the imputation of cost savings attributable to the acquisition, Cascade retains the right to propose upon rehearing, and in subsequent cases, to recognize all or part of the acquisition premium in the retail revenue requirement. See Commitment No. 26.

Q. Does MDU Resources make any commitment with respect to recovery of the transaction costs associated with the proposed acquisition?

A. Yes. MDU Resources commits that it and Cascade will exclude all costs of the transaction from Cascade's utility accounts for ratemaking purposes. Within 90 days following completion of the transaction, MDU Resources will provide an accounting of these costs. See Commitment No. 16.

Q. Will Cascade's books be kept separately and will the regulators have access to those records?

A. Yes, as discussed in Mr. Ball's testimony, MDU Resources commits that Cascade's records will be maintained on a subsidiary basis, meaning on a separate basis. See Commitment No. 2. Over the course of the next three years, the detailed processing of transactions will be put on a common platform with MDU Resources' other utility operations. This will enhance the efficiency of both MDU Resources and Cascade, but will not preclude access to Cascade's data. Access to that data and Cascade's financial statements will be provided for in accordance with applicable statutes and Commission rules. Additionally, MDU Resources commits that Cascade's financial data will be accessible by the Commission in Cascade's Washington office.

Q. What other commitments does MDU Resources make to protect Cascade from any risk of this acquisition?

A. MDU Resources commits that Cascade and MDU Resources will not cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and will comply with the Commission's applicable orders and rules with respect to such matters. See Commitment No. 8.

MDU Resources also commits that any diversified holdings and investments (*e.g.*, non-utility related business or foreign utilities) of MDU Resources will not be held by Cascade or a subsidiary of Cascade. (This condition will not prohibit MDU Resources or its affiliates other than Cascade from holding diversified businesses.) See Commitment No. 9.

In addition, MDU commits that neither Cascade nor its subsidiaries will, without the approval of the Commission, make loans to MDU Resources or its respective subsidiaries, or assume any obligation or liability as guarantor, endorser, surety, or otherwise for MDU Resources or its respective subsidiaries; provided that this commitment will not prevent Cascade, to the extent allowed by law, from making loans or transferring funds to a subsidiary of Cascade or assuming any obligation or liability on behalf of a subsidiary of Cascade. Further, MDU Resources will not pledge any of the assets of the business of Cascade as backing for any securities which MDU Resources or its respective subsidiaries, but excluding Cascade and its subsidiaries, may issue. See Commitment No. 19.

Q. What assurances will MDU Resources give the Commission regarding future transactions that might affect Cascade?

A. Cascade or MDU Resources will notify the Commission subsequent to MDU Resources' board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of MDU Resources; or (2) the change in effective control or acquisition of any material part or all of Cascade by any other firm, whether by merger, combination, transfer of stock or assets. See Commitment No. 11.

Q. Cascade currently uses a fiscal year ending September 30 of each year, while MDU Resources' fiscal year is a calendar year. Will Cascade be switching to a calendar fiscal year?

A. Yes. To facilitate MDU Resources' financial reporting and comparability between reporting periods, as well as to accommodate its income tax filings, such a change will be made. This change will not have any tax impact or other impact on Cascade's customers and will not result in data for any twelve-month period being unavailable.

Q. Please summarize the benefits to Cascade's customers that you expect to be derived from the proposed acquisition of Cascade by MDU Resources.

A. The benefits of this transaction for Cascade's customers derive primarily from the fact that Cascade will become part of a larger and more viable entity. As a part of an organization that is more than ten times its current size, Cascade will benefit from having access to an increased number of debt capital sources, resulting in a more competitive and lower debt capital cost. Likewise, equity capital will be more accessible to Cascade through MDU Resources than what it would be through the open market as a stand-alone company.

Being part of a larger organization will also enable the sharing of costs for corporate functions. As recognized by Cascade in exploring the possibility of an acquisition, the ability to function in a cost-efficient manner as a small publicly traded company is becoming increasingly difficult in the face of regulatory requirements such as those regarding corporate governance. Cascade and MDU Resources both recognize the advantage of being part of a larger combined public utility system. Being part of a larger corporate and utility organization should provide efficiencies that will help stabilize rates over the longer term.

In order to assure reliable uninterrupted service and sound financial practices for the long term, these efficiencies will not occur immediately. In certain cases, costs will not be totally eliminated, but will be replaced by a level of cost that is anticipated to be lower over the long term than if Cascade were a stand-alone entity.

Q. Please summarize MDU Resources' commitment to protect Cascade's customers.

A. MDU Resources is committing to a number of conditions that will ensure that Cascade's customers are not exposed to the risks of MDU Resources' other businesses. These include: positioning Cascade as a first-tier subsidiary within MDU Resources; a commitment to maintain separate debt and credit ratings; guaranteeing the Commission's ability to audit accounting records; a commitment not to cross-subsidize between regulated and non-regulated businesses; a commitment that Cascade will not invest in other MDU Resources companies; a commitment to corporate and affiliate cost allocation methodologies reviewable by the Commission; a commitment that MDU Resources will not pledge the assets of Cascade in support of debt other than its own; a commitment that Cascade will not loan money to or invest in MDU Resources or its other subsidiaries; and a commitment to exclude the acquisition premium from the utility accounts of Cascade for ratemaking, subject to the conditions described earlier.

Q. Does this conclude your direct testimony?

A. Yes, it does.