MDU RESOURCES
GROUP, INC.

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March 23, 2007

Ms. Carol Washburn
Executive Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Olympia, WA 98504

RE: Docket No. UG-061721

Dear Ms. Washburn:

Enclosed for filing are an original and 12 copies of the Joint Applicants' Revised Application, Testimony and Exhibits.

Should you have any questions concerning this matter, please contact me.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Donald R. Ball /RF

Donald R. Ball
Vice President - Regulatory Affairs

cc: Service List

MDU Resources Group, Inc.
Docket No. UG-061721
Service List

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Executive Secretary
Washington Utilities and Transportation Commission
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Application

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of MDU RESOURCES GROUP, INC. AND CASCADE NATURAL GAS CORPORATION For An Order Authorizing Proposed Transaction	Docket No. UG-06______ JOINT APPLICATION

MDU Resources Group, Inc. ("MDU Resources") and Cascade Natural Gas Corporation ("Cascade") (sometimes hereinafter jointly referred to as "Applicants") hereby request an order of the Washington Utilities and Transportation Commission (the "Commission") authorizing a proposed transaction whereby MDU Resources would acquire all of the outstanding common stock of Cascade and Cascade would thereafter become an indirect, wholly owned subsidiary of MDU Resources.

I. JURISDICTION

Cascade is a public service company subject to the Commission's jurisdiction. RCW 80.04.010. Commission authorization is necessary under RCW 80.12.020 for Cascade to sell, lease, assign or otherwise dispose of, or merge or consolidate, any of its franchises, properties or facilities with any other public service company. Under RCW 80.12.040, Commission authorization is necessary before another public service company can, directly or indirectly, purchase, acquire, or become the owner of any of the franchises, properties, facilities, capital stocks or bonds of Cascade. More generally, RCW 80.01.040

Agreement. Each share of common stock of Merger Sub will be converted into one share of common stock of the Surviving Corporation.

As provided in the Agreement, at the time of the closing of the acquisition transaction, MDU Resources will provide cash to a paying agent in an amount sufficient to enable the holders of Cascade's common stock to be paid the aggregate amount of approximately $305 million in cash at closing in exchange for 100 percent of the common stock of Cascade. In addition, approximately $165 million in net debt currently outstanding at Cascade will remain outstanding as liabilities of Cascade. MDU Resources may use the proceeds of short-term bridge debt financing to fund the payment by MDU Resources of some or all the cash required to be paid for the shares of Cascade's common stock in the acquisition transaction during the period between the time of the closing of the *acquisition for Cascade and the time of the closing of permanent financing for the* acquisition transaction. Substantially simultaneously with the closing of the acquisition (the merger of Merger Sub into Cascade), the stock of the surviving corporation in the merger will be contributed to a direct or indirect wholly-owned subsidiary(ies) of MDU Resources. The surviving corporation in the merger of Merger Sub and Cascade together with the direct or indirect subsidiary(ies) of MDU Resources through which the shares of the surviving corporation are held, will have consolidated equity of approximately $220 to $237.5 million generated from MDU Resources' internal funds or funds obtained by MDU Resources through the issuance of common stock on the public market as permanent equity financing for the transaction. The intermediate subsidiary(ies) will also issue approximately $67.5 to $85 million in long-term debt at the time of, or subsequent to, the closing of the acquisition transaction.

Upon completion of the transaction, Cascade will be an indirect, wholly owned subsidiary of MDU Resources, as illustrated in the organizational chart included as Exhibit No. ___ (BTI-2) accompanying the testimony of MDU Resources' witness Bruce T. Imsdahl.

The acquisition is subject to customary closing conditions, including the receipt of required state regulatory approvals. In addition to seeking approval from this Commission and the OPUC, MDU Resources will seek approval for the acquisition from the commissions in two of the states in which it already operates public utilities: the North Dakota Public Service Commission and the Minnesota Public Utilities Commission. In addition, MDU Resources and Cascade will make notification filings pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 ("HSR Act"). The proposed transaction cannot be consummated until the waiting periods prescribed in the HSR Act lapse.

Cascade's shareholders approved the transaction on October 27, 2006.

last five years, Montana-Dakota's and Great Plains' average OSHA recordable injury frequency rate has been 3.8 while the national average for the gas and electric distribution industry has been 4.6.

g. Conditions to protect Cascade's customers

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 an indirect wholly owned subsidiary of MDU Resources (which will ring fence Cascade from the risks associated with the operations of MDU Resources' unregulated operations in Centennial Energy Holdings, Inc.), a commitment to maintain separate 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 to corporate and affiliate cost allocation methodologies reviewable by the Commission, a commitment that MDU Resources will not pledge the assets of Cascade, 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 purposes and to not request rate recovery of the transaction costs associated with the acquisition. These commitments are discussed in the testimony of MDU Resources witnesses John F. Renner and Donald R. Ball, and are included in Mr. Ball's Exhibit No. ___ (DRB-2),

VII. DESCRIPTION OF THE FILING

This Application is supported by testimony from the following witnesses:

- **Bruce T. Imsdahl**, President and CEO of Montana-Dakota and Great Plains, will describe MDU Resources and its business platforms, with a specific focus on its utility businesses; describe the transaction; explain the reasons for MDU Resources' proposed purchase of Cascade; demonstrate that the transaction will benefit Cascade's customers,

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~~between the time of closing and the issuance of common stock and long-term debt.~~ Upon completion of the transaction, Cascade will be an indirect, wholly owned subsidiary of MDU Resources, as illustrated in the organizational chart included as Exhibit No. ___ (BTI-2) accompanying the testimony of MDU Resources' witness Bruce T. Imsdahl.

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Bruce T. Imsdahl

Services Group, Inc. currently operates in many states, including Washington, Oregon, California, Colorado, Montana and Nevada.

Q. How substantial are MDU Resources' current operations in Oregon and Washington?

A. Through its various operating companies, MDU Resources employed nearly 3,000 persons in Washington and Oregon as of September 30, 2006, including over 340 persons in Washington.

Q. Please describe MDU Resources' proposed acquisition of Cascade.

A. On July 8, 2006, MDU Resources, Firemoon Acquisition, Inc. (Merger Sub), and Cascade entered into the Agreement and Plan of Merger (Agreement). A copy of the Agreement is provided as Appendix 1 to the Application. Pursuant to the Agreement, upon the closing of the transaction, Merger Sub, a Washington corporation that is a wholly owned subsidiary of MDU Resources, will merge with and into Cascade, with Cascade continuing in existence as the surviving corporation (Surviving Corporation). Each share of Cascade common stock will be canceled and converted into the right to receive $26.50, on the terms set forth in the Agreement. Each share of common stock of Merger Sub will be converted into one share of common stock of the Surviving Corporation. Upon completion of the transaction, Cascade will be an indirect, wholly owned subsidiary of MDU Resources, as illustrated in the summary organizational chart shown as Exhibit No.___(BTI-2).

A. As described above, Cascade will be held as a wholly owned, indirect subsidiary of MDU Resources. Montana-Dakota and Great Plains will continue to be held as divisions of MDU Resources. All of MDU Resources' other business units and operating companies will continue to be held as indirect subsidiaries under Centennial Energy Holdings, Inc., which is a first-tier subsidiary of MDU Resources.

Q. Please describe the reasons for MDU Resources' proposed acquisition of Cascade.

A. MDU Resources seeks to maintain an alignment between its regulated and non-regulated business units to provide a reasonable balance of business growth and risk. While MDU Resources' non-regulated business units have seen substantial growth over the past 20 years, the opportunities to expand its regulated business units in a rational manner are relatively limited. Internal growth of its utility operations is limited by the population and economic growth of its traditional service areas. In seeking growth of the utility operations through acquisition and merger, MDU Resources has required an acquisition or merger candidate that is a good fit from a strategic, size, and geographic standpoint. Cascade meets those requirements.

Q. Please explain why Cascade is a good fit with MDU Resources.

A. Cascade's natural gas distribution business is in an area of MDU Resources' core business competency, as it has successfully operated in the same business for over 80 years. MDU Resources' experience in the

A. Yes. As an example, Montana-Dakota has deployed mobile dispatching, by which Montana-Dakota customers have toll-free access to a 24 hours a day, seven days a week Customer Call and Emergency Services Center to place routine and emergency utility service requests. A Dispatch Center in turn transmits electronic service orders to the mobile terminals placed in the fleet of service and construction vehicles. This network provides rapid response to customer requests and emergency situations. The mobile services system is interfaced with the Customer Information System and, as the orders are worked and completed, they are returned electronically and customer service history data is updated daily to provide more efficient processing as well as more timely information available to customer service representatives.

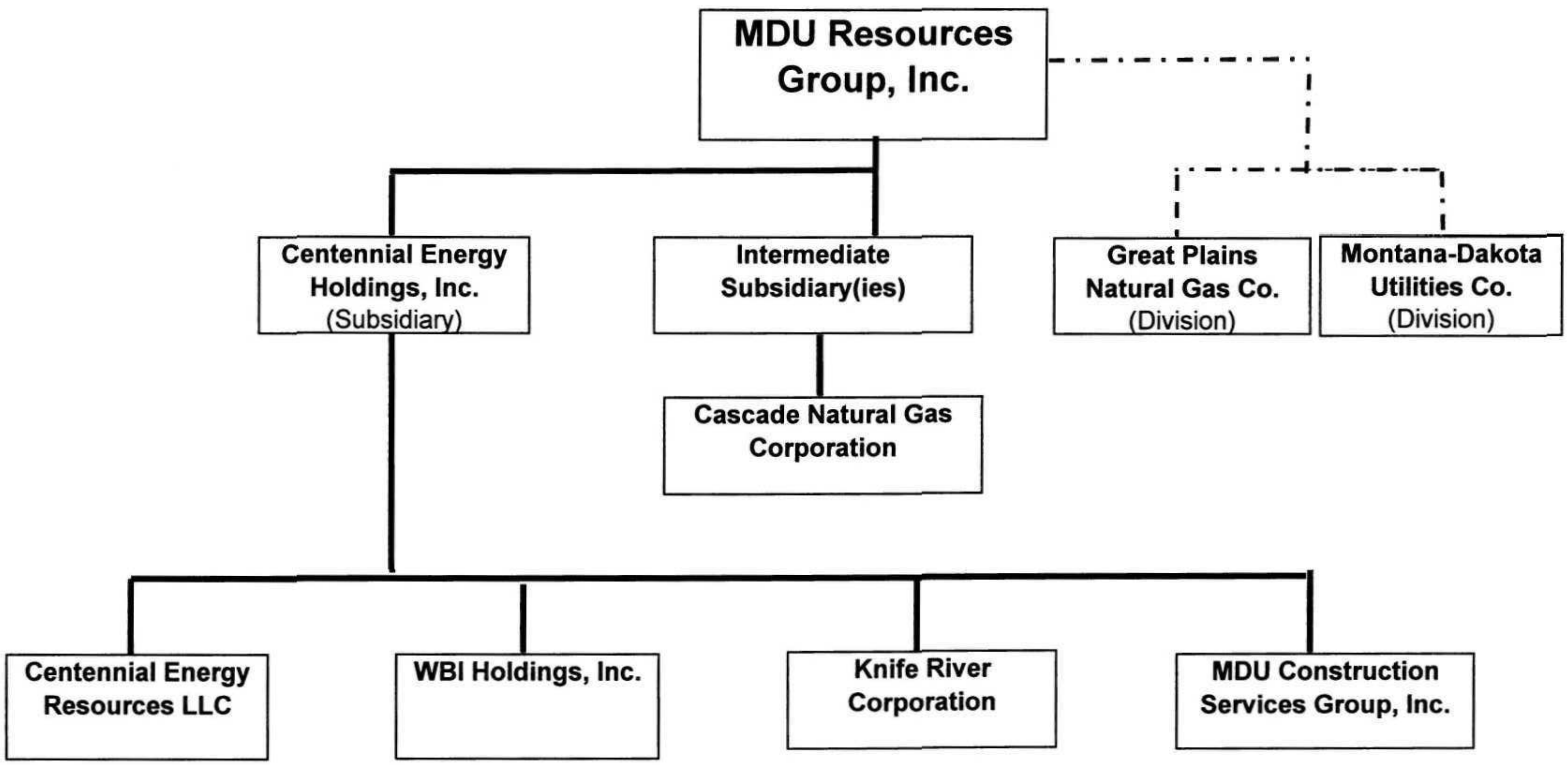
Q. How will Cascade operate after completion of the transaction?

A. Cascade will operate as a wholly-owned indirect subsidiary of MDU Resources but will be considered part of its utility business unit for operational purposes, similar to MDU Resources' existing utility divisions of Montana-Dakota and Great Plains. Cascade will have its own president and management who will report to me as its chief executive officer. However, certain officer positions may be shared or coordinated between the utilities to improve efficiencies. I anticipate that Cascade's field operations will remain unchanged and we believe the transaction will be imperceptible to customers from an operational standpoint.

Q. Will Cascade have control and responsibility for making decisions

MDU Resources Group, Inc.

Utility Divisions and Primary Subsidiaries
Post-Acquisition Summary Organizational Chart



Revised March 23, 2007

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Docket No. UG-06
Exhibit No. ___(BTI-2)
Page 1

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Utility Divisions and Primary Subsidiaries
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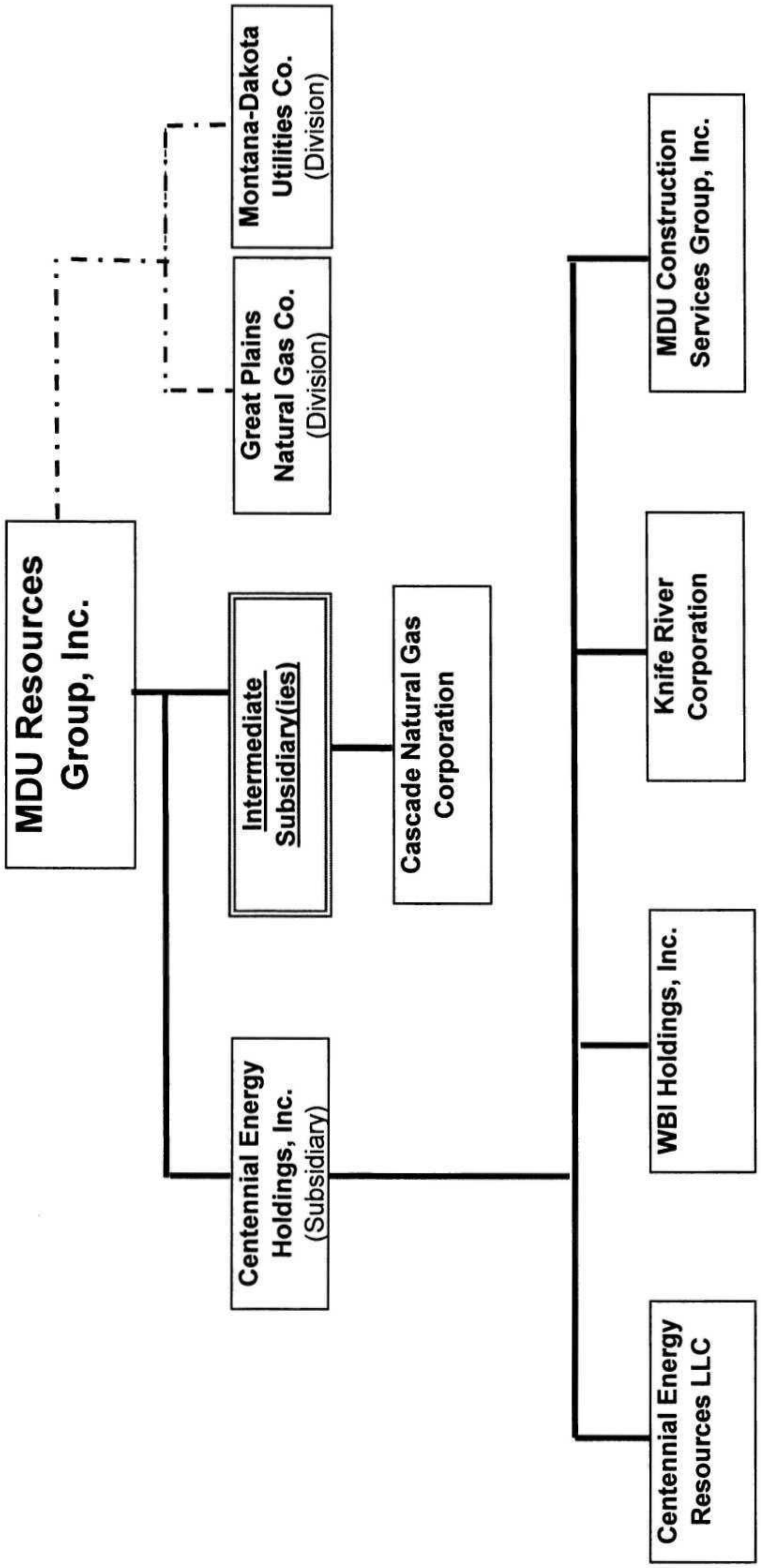

Revised March 23, 2007

John F. Renner

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 indirect 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 an indirect subsidiary of MDU Resources, Cascade will be protected from the financial risk exposures of Centennial and MDU Resources. The creditors of Centennial and its subsidiaries are not allowed recourse against MDU Resources, or its indirect 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 $220 to $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. An Intermediate subsidiary of MDU Resources will issue up to approximately $67.5 to $85 million of debt to finance the balance of the purchase of the Cascade stock from current stockholders, and Cascade will retain its outstanding debt estimated at $165 million. The combination of these transactions, which will be accomplished at or 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 may utilize short-term special purpose bridge financing until the permanent financing mechanisms are in place.

Q. Will the issuance of additional debt by the intermediate subsidiary(ies) 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.

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 an indirect 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 $220 to $237.5 million of equity invested in Cascade, such a strong equity position will strengthen debt investors' perception of Cascade's financial strength as an indirect 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 an indirect 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?

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. In addition the excess of the purchase price over the historical cost will not be reflected on Cascade's books as it will be accounted for at the intermediate subsidiary level. In addition, the transaction costs incurred by MDU Resources to accomplish this merger will also be accounted for at the intermediate subsidiary level.

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

A. Yes. As the acquisition adjustment will not be reflected on Cascade's records, MDU Resources commits it 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, MDU Resources and Cascade retain 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

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 an indirect 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.

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 indirect~~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 an indirect~~a first-tier~~ subsidiary of MDU Resources~~, just as Centennial is currently~~, Cascade will be protected from the financial risk exposures of Centennial and MDU Resources. ~~Therefore,~~ ~~t~~The creditors of Centennial and its subsidiaries are not allowed recourse against MDU Resources, or its indirect 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 $220 to $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. An Intermediate subsidiary of MDU Resources will~~Cascade will also~~ issue up to approximately $67.5 to $85 million of debt to finance the balance of the purchase of the Cascade stock from current stockholders, and Cascade will retain its outstanding debt estimated at $165 million. The combination of these transactions, which will be accomplished at or 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~~may utilize short-term special purpose bridge financing until the permanent financing mechanisms are in place.

Q. Will the issuance of additional debt by the intermediate subsidiary(ies)~~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 an indirect~~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 $220 to $237.5 million of equity invested in Cascade, such a strong equity position will strengthen debt investors' perception of Cascade's financial strength as an indirect~~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 an indirect~~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

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,~~ In addition the excess of the purchase price over the historical cost will not be reflected on Cascade's books as it will be accounted for at the intermediate subsidiary level. ~~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 accounted for at the intermediate subsidiary level.~~charged to Account 114.~~

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

A. Yes. As the acquisition adjustment will not~~Although Account 114 will~~ be reflected on Cascade's records, MDU Resources commits~~ that~~ it~~ 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, MDU Resources and 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.

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.

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Committments

subsidiary of Cascade. This condition will not prohibit MDU Resources or its affiliates other than Cascade from holding diversified businesses.

10) Cascade will operate as an indirect, wholly owned subsidiary of MDU Resources. As an indirect subsidiary of MDU Resources, Cascade will be protected from any financial risk exposures of Centennial Energy Holdings, Inc. (Centennial). No credit facilities at either MDU Resources or Centennial will contain cross-default provisions between MDU Resources and Centennial, or allow any creditor of Centennial or its subsidiaries to have recourse against MDU Resources or its subsidiary, Cascade, in the event of bankruptcy of Centennial.

11) 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.

12) An Inter-company Administrative Services Agreement (IASA) will include corporate and affiliate cost allocation methodologies. The IASA will be filed with the Commission as soon as practicable after the closing of the transaction. Approval of the IASA will be requested if required by law or rule, but approval for ratemaking purposes will not be requested in such filing. Amendments to the IASA will also be filed with the Commission.

13) MDU Resources commits, 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 the Cascade 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.

14) Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads, required by law or rule to be submitted to the Commission for approval, will comply with the following 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.

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