

**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 a direct, 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

establishes the Commission's general powers and duties and, among other things, empowers the Commission to regulate in the public interest "the rates, services, facilities, and practices" of all persons engaging within Washington in the business of supplying any utility service or commodity to the public for compensation and "related activities." On the basis of the preceding statutory authority, the Commission has concluded it has jurisdiction over transactions "whenever the control of a plainly jurisdictional public utility changes through a corporate transaction for the transfer of the whole or a controlling interest in the company." *Docket No. UE-981672, In the Matter of the Application of PacifiCorp and Scottish Power plc ("PacifiCorp/Scottish Power"), Second Supplemental Order at 9 (March 1999); see also, Docket No. UT-981367, In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation, Fourth Supplemental Order (December 1999).*

II. TIME FOR PROCESSING THE APPLICATION

Applicants respectfully request completion of all required state reviews of the proposed transaction by March 8, 2007, in order to complete the acquisition on or before April 8, 2007. MDU Resources' proposed acquisition of Cascade is an important transaction for Cascade's customers, employees, and communities. In order to mitigate the ill effects of uncertainty associated with the sale of Cascade, MDU Resources respectfully requests that the Commission schedule review of the Application in a manner that will facilitate issuance of an order by March 8, 2007.

The Agreement and Plan of Merger among MDU Resources, Cascade, and MDU Resources' acquisition subsidiary, a copy of which is included as Appendix 1 to this Application (the "Agreement"), permits MDU Resources or Cascade to terminate the Agreement if the merger has not been consummated

by April 8, 2007, subject to extension if the only unfulfilled conditions to closing are approval by this Commission and the Oregon Public Utility Commission ("OPUC"). When the issues in this docket are more fully identified, MDU Resources is willing to consider the need for an additional extension and to discuss that with Cascade.

III. APPLICANT INFORMATION

The exact name and address of MDU Resources' principal business office is as follows:

MDU Resources Group, Inc.
1200 West Century Avenue
Bismarck, ND 58506-5650

MDU Resources was incorporated in 1924 under the laws of the State of Delaware, and is a publicly traded company (NYSE: MDU).

Persons authorized on behalf of MDU Resources to receive notices and communications with respect to this Application are:

Daniel S. Kuntz
Assistant General Counsel
MDU Resources Group, Inc.
P.O. Box 5650
1200 West Century Avenue
Bismarck, ND 58506-5650
Tel.: (701) 530-1016
Fax: (701) 530-1731
dan.kuntz@MDUResources.com

The exact name and address of Cascade's principal business office is as follows:

Cascade Natural Gas Corporation
P.O. Box 24464
Seattle, WA 98124-0464

Cascade was incorporated in 1953 under the laws of the State of Washington, and is a publicly traded company (NYSE: CNGC).

Persons authorized on behalf of Cascade to receive notices and communications with respect to this Application are:

Jon T. Stoltz
Senior Vice President, Regulatory and Gas Supply
Cascade Natural Gas Corporation
222 Fairview Avenue North
Seattle, WA 98109
Tel.: (206) 381-6823
Fax: (503) 654-4039
jstoltz@cngc.com

Joint counsel for the Applicants should be served as follows:

James M. Van Nostrand
Lawrence Reichman
Perkins Coie LLP
1120 N.W. Couch St., 10th Floor
Portland, OR 97209-4128
Tel.: (503) 727-2000
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JVanNostrand@perkinscoie.com
LReichman@perkinscoie.com

Data Requests

Data requests for the Applicants should be addressed in the following manner with copies to Applicants' joint counsel:

To MDU Resources:

Addressed to: Donald R. Ball, Vice-President-Regulatory Affairs
By email (preferred): don.ball@mdu.com
By fax: (701) 222-7606
By regular mail: Montana-Dakota Utilities Co.
400 North 4th Street
Bismarck, ND 58501-4092

To Cascade:

Addressed to: Christine Kautzman
By email (preferred): ckautzman@cngc.com

By fax: (206) 654-4039

By regular mail: Christine Kautzman
Cascade Natural Gas Corporation
P.O. Box 24464
Seattle, WA 98124-0464

MDU Resources Electronic Document Room

MDU Resources has created an Electronic Document Room containing the documents listed in the Index provided as Appendix 2 to this Application. These documents are intended to anticipate initial discovery needs and provide parties with a solid foundation of knowledge pertaining to MDU Resources. Provisions for access to the Electronic Document Room can be arranged by registering via the internet at <http://publicinfo.montana-dakota.com> or by contacting the following representative of MDU Resources:

Rita A. Mulkern
Regulatory Analysis Manager
Montana-Dakota Utilities Co.
400 North 4th Street
Bismarck, ND 58501-4092
Tel.: (701) 222-7854
Fax: (701) 222-7606
rita.mulkern@mdu.com

IV. DESCRIPTION OF TRANSACTION

As of July 8, 2006, MDU Resources, Firemoon Acquisition, Inc. ("Merger Sub"), and Cascade entered into the Agreement. 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 (the "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.

As provided in the Agreement, Merger Sub will cause 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. The consolidated Merger Sub and Cascade will have equity of approximately \$237.5 million received from MDU Resources' internal funds or funds raised by MDU Resources through the issuance of common stock. Cascade will also issue approximately \$67.5 million in long-term debt subsequent to the closing of the transaction. Short-term bridge debt financing is expected to be used to fund the capital infusion to Merger Sub between the time of closing and the issuance of common stock and long-term debt. Upon completion of the transaction, Cascade will be a direct, 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.

V. INFORMATION ABOUT MDU RESOURCES

A. MDU Resources' Identity, Financial Ability, and Experience in the Energy and Natural Resources Industry

1. Description of MDU Resources' Business Activities

MDU Resources, through its utility divisions Montana-Dakota Utilities Co. ("Montana-Dakota") and Great Plains Natural Gas Co. ("Great Plains"), and through its subsidiary business units, is engaged in several lines of business which focus on the energy and natural resources industries: natural gas distribution; electric generation, transmission and distribution; natural gas and oil production; construction materials and mining; domestic and international independent power production; natural gas pipeline and energy services; and construction services. Through a combination of these regulated and unregulated businesses, MDU Resources seeks to achieve reliable and growing returns for its shareholders. Through its various operating companies, MDU Resources employed nearly 3,000 persons in Washington and Oregon as of September 30, 2006, including 340 persons in Washington. MDU Resources also seeks to grow by making long-term acquisitions in the areas of its core competencies. MDU Resources' six major business units are described below.

a. Natural Gas and Electric Distribution – Montana-Dakota Utilities Co. and Great Plains Natural Gas Co.

MDU Resources has been engaged in the regulated utility business for over 80 years. MDU Resources, through its utility division Montana-Dakota, provides natural gas distribution service to approximately 228,000 customers in 144 communities in the states of North Dakota, South Dakota, Montana and Wyoming. Montana-Dakota also provides electric service to over 118,000 retail customers in 177 communities in North Dakota, South Dakota, Montana, and Wyoming. The electric operation is a vertically integrated utility which owns four

generation plants and has an ownership interest in two additional generation facilities.

In July 2000, MDU Resources acquired and has since operated Great Plains. Great Plains provides natural gas distribution service to approximately 23,000 customers in 19 communities in western Minnesota and southeastern North Dakota.

Montana-Dakota and Great Plains are discussed in more detail below in connection with addressing MDU Resources' experience in operating public utilities.

b. Pipeline and Energy Services – WBI Holdings, Inc./Williston Basin Interstate Pipeline Company and Bitter Creek Pipelines

WBI Holdings, Inc., through its various subsidiaries Williston Basin Pipeline Interstate Company and Bitter Creek Pipelines, LLC, provides natural gas transportation, underground storage, and gathering services through regulated and unregulated pipeline systems primarily in the Rocky Mountain and northern Great Plains regions of the United States. Its interstate natural gas pipeline and storage operations are regulated by the Federal Energy Regulatory Commission.

c. Natural Gas and Oil Production – WBI Holdings, Inc./Fidelity Exploration & Production Company

Fidelity Exploration & Production Company, also a subsidiary of WBI Holdings, Inc., is engaged in natural gas and oil acquisition, exploration, development, and production activities primarily in the Rocky Mountain and Mid-Continent regions of the United States and in and around the Gulf of Mexico.

d. Independent Power Production – Centennial Energy Resources

Centennial Energy Resources LLC owns, builds and operates electric generating facilities in the United States and has investments in domestic and international natural resource-based projects. Electric capacity and energy produced at its power plants are sold to nonaffiliated entities primarily under mid- and long-term contracts.

e. Construction Materials and Mining – Knife River Corporation

Knife River Corporation mines aggregates and markets crushed stone, sand, gravel, and related construction materials, including ready-mixed concrete, cement, asphalt, and other value-added products, as well as performs integrated construction services, in the central and western regions of the United States, including Washington and Oregon, and in California, Idaho, Montana, Alaska and Hawaii.

f. Construction Services – MDU Construction Services Group, Inc.

MDU Construction Services Group, Inc. offers utilities and large manufacturing, commercial, government, and institutional customers a diverse array of products and services. The construction services segment specializes in electrical line construction, pipeline construction, inside electrical wiring and cabling, mechanical services, and the manufacture and distribution of specialty equipment. MDU Construction Services Group, Inc. currently operates in many states, including Washington, Oregon, California, Montana, Colorado and Nevada.

More information regarding MDU Resources and its business units is available in the company's report on Form 10-K which is contained in the electronic document room.

2. Financial Strength

MDU Resources has the financial resources to successfully complete the proposed acquisition and operate the combined companies. MDU Resources' assets exceeded \$4.4 billion as of December 31, 2005, its operating revenues in 2005 totaled approximately \$3.5 billion, and its 2005 operating income was \$448 million. MDU Resources' financial reports are contained in the company's 10-K report, which is contained in the electronic document room.

On a consolidated basis (MDU Resources and Cascade), as of June 30, 2006, MDU Resources' pro forma combined assets would be approximately \$5.3 billion, and pro forma combined annual revenues would be approximately \$4.3 billion for the twelve months ending June 30, 2006.

MDU Resources' corporate credit is currently rated BBB+ by Standard & Poor's ("S&P"), A3 by Moody's, and A- by Fitch. Prior to announcement of this transaction, S&P advised MDU Resources that it would affirm the MDU Resources credit rating with the acquisition of Cascade. S&P's Rating Evaluation Service report stated the "acquisition of Cascade would be modestly beneficial from a business risk profile perspective." Further, in the same report, S&P indicated MDU Resources' utility business risk profile would be enhanced from "Strong" to "Excellent." Moody's and Fitch reaffirmed their ratings for MDU Resources following the announcement of the proposed acquisition.

Prior to announcement of the merger, Cascade's credit was rated BBB+ by S&P and Baa1 by Moody's. Following the announcement of the acquisition, S&P affirmed its BBB+ credit rating on Cascade stating its "preliminary assessment that upon the 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.

Under the Agreement, MDU Resources committed to complete the acquisition without any financing conditions. MDU Resources has the financial strength to complete the acquisition and provide Cascade with access to necessary capital at reasonable cost for safe, efficient, and reliable operation of its business. MDU Resources' proposed acquisition of Cascade is expected to maintain or improve Cascade's current credit rating and overall cost of capital.

These financial issues are discussed in the testimony of MDU Resources witness John F. Renner.

3. Background of Key Personnel

The principal officers of MDU Resources and Montana-Dakota are as follows:

Terry D. Hildestad, 57, is the President and Chief Executive Officer of MDU Resources. Mr. Hildestad was elected President of MDU Resources in 2005 and named Chief Executive Officer in 2006. Mr. Hildestad previously served as President and Chief Executive Officer of Knife River Corporation. He has been employed by the MDU Resources family of companies for 32 years.

Vernon A. Raile, 61, is Executive Vice President, Treasurer, and Chief Financial Officer of MDU Resources. Mr. Raile was named to these positions in 2006. He previously served as Vice President and Chief Accounting Officer. Mr. Raile has been employed by the MDU Resources family of companies for 26 years.

Paul K. Sandness, 52, is General Counsel and Secretary of MDU Resources. Mr. Sandness was named to this position in 2004 and has been employed within the MDU Resources Legal Department for 27 years.

Bruce T. Imsdahl, 58, is President and Chief Executive Officer of Montana-Dakota and Great Plains. Mr. Imsdahl has been employed by the MDU Resources family of companies for 36 years.

David L. Goodin, 45, is Vice President-Operations of Montana-Dakota and Great Plains. Mr. Goodin has been employed by the MDU Resources family of companies for 23 years.

Dennis L. Haider, 54, is Executive Vice President, Business Development and Gas Supply of Montana-Dakota and Great Plains. Mr. Haider has been employed by the MDU Resources family of companies for 27 years.

John F. Renner, 60, is Executive Vice President Finance and Chief Accounting Officer of Montana-Dakota and Great Plains. Mr. Renner has been employed by the MDU Resources family of companies for 22 years.

Donald R. Ball, 59, is Vice President – Regulatory Affairs of Montana-Dakota and Great Plains. Mr. Ball has been employed by the MDU Resources family of companies for 37 years.

Richard D. Spratt, 58, is Vice-President-Human Resources of Montana-Dakota and Great Plains. Mr. Spratt has been employed by the MDU family of companies for 5 years.

Andrea L. Stomberg, 53, is Vice-President-Electric Supply of Montana-Dakota. Ms. Stomberg has been employed by the MDU family of companies for 16 years.

The business address for Messrs. Hildestad, Raile, and Sandness is:

MDU Resources Group, Inc.
1200 West Century Avenue
P.O. Box 5650
Bismarck, ND 58506-5650

The business address for Messrs. Imsdahl, Goodin, Haider, Renner, Ball, and Spratt, and for Ms. Stomberg is:

Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501-4092

4. MDU Resources' Experience Operating Public Utilities

Montana-Dakota got its start in 1924 when a group of investors purchased the electric systems in a handful of farming communities along the North Dakota-Montana state line. By building a central power plant in Glendive, Montana, and stringing power lines to surrounding towns, the company was able to provide all-day electrical service to communities in eastern Montana and western North Dakota.

In 1926, Montana-Dakota discovered natural gas in the Baker, Montana area, which provided a boiler fuel for its Glendive power plant. The company built a natural gas transmission line to Glendive and entered the natural gas distribution business by providing natural gas service to homes and businesses as well. This pattern of electric and natural gas expansion repeated itself over the next few decades. Montana-Dakota purchased and interconnected small electric companies and expanded the provision of natural gas service to other Montana, South Dakota and North Dakota communities and to the flanks of the Big Horn Mountains in northern Wyoming. Acquisition of gas supplies in newly discovered fields in Montana, North Dakota, and Wyoming enabled the company to expand natural gas distribution service around the region. In 1968, the company moved its headquarters from Minneapolis, Minnesota to Bismarck, North Dakota to be closer to its customer base.

In 1985, Montana-Dakota's corporate name was changed to MDU Resources Group, Inc. and Montana-Dakota Utilities Co. was created as a division of the corporation for operation of its natural gas and electric distribution utility business. At the same time, the company's interstate natural gas pipeline

and storage facilities and natural gas production properties were transferred to wholly owned subsidiaries. Today, Williston Basin Interstate Pipeline Company operates over 3,350 miles of interstate natural gas pipeline and 340 miles of natural gas field and gathering lines within various production areas in North Dakota, South Dakota, Montana, and Wyoming. Its storage fields have a working capacity of approximately 193 billion cubic feet of natural gas. Its system is interconnected with nine other natural gas pipeline systems. Another operating company, Bitter Creek Pipelines, LLC operates 1,600 miles of natural gas gathering lines in Montana, Wyoming, and Colorado.

In 2000, MDU Resources acquired Great Plains Natural Gas which serves approximately 23,000 customers in 19 communities in southwestern North Dakota and western Minnesota. Like Montana-Dakota, Great Plains is operated as a division of MDU Resources, with its headquarters in operational Fergus Falls, Minnesota. Senior management for Great Plains is provided by Montana-Dakota, and certain services, such as legal and tax services, are provided by MDU Resources while other services, such as accounting and human resources, are provided by or shared with Montana-Dakota.

MDU Resources was named "2005 Utility of the Year" by Electric Light & Power magazine ("EL&P") in its November/December 2005 issue. According to EL&P, MDU Resources was chosen because it was built on an electric and natural gas utility foundation, and it follows a corporate strategy based on integrity and solid, conservative growth. MDU Resources was also ranked No. 18 on Public Utility Fortnightly's 2005 "Fortnightly 40" and No. 16 on its 2006 "Fortnightly 40," the magazine's Top 40 list of the best energy companies in America. The "Fortnightly 40" is a financial ranking of electric and gas utilities, pipeline and distribution companies that appears in the annual September issue of the magazine. The publication describes its list as "a benchmark that

highlights the industry's leading companies – its brightest stars proven in performance and exceptional corporate management." For the sixth straight year, MDU Resources was also included in Forbes magazine's "Platinum 400 Best Big Companies" in America list. Criteria used were corporate governance and accounting practices, as well as financial performance. In 2004, Forbes named MDU Resources as the Best Managed Company within the utilities industry in America.

The natural gas distribution operations of Montana-Dakota and Great Plains resemble those of Cascade in many respects, which strengthens MDU Resources' assurances that Cascade will continue to operate in relatively the same manner as it does today. Montana-Dakota, Great Plains, and Cascade serve a mixture of residential, commercial, and industrial service customers in primarily mid- and small-size communities in multiple states in areas of relatively low population density. Despite the relatively low density of their service areas, the companies have a history of being safe and reliable service providers at reasonable and stable prices. The combination of these utility operations and personnel provide the opportunity for benefits to each utility system.

VI. PUBLIC INTEREST CONSIDERATIONS

A. Standard for Approval of the Transaction

WAC 480-143-170 establishes the standard by which the Commission reviews applications filed pursuant to Chapter 80.12 RCW. The rule states:

If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds the proposed transaction is not consistent with the public interest, it shall deny the application.

The Commission has found that this standard does not require a showing of positive benefits to the public in order to approve the transaction.

The standard in our rule does not require the Applicants to show that customers, or the public generally, will be made better off if the transaction is approved and goes forward. In our view, Applicants' initial burden is satisfied if they at least demonstrate no harm to the public interest.

Generally, then, we need consider only whether Applicants are qualified to take over management of a jurisdictional public utility in Washington.

Docket No. UE-981627, PacifiCorp/Scottish Power, Third Supplemental Order at 2, 3.

B. How the Public Interest Is Served by the Proposed Transaction

1. MDU Resources' Plans for Operating Cascade

Like its other acquisitions, MDU Resources plans to own Cascade for the long term. MDU Resources believes that Cascade is currently providing very good customer service in a cost-effective manner. MDU Resources plans to maintain continuity in the operations of Cascade, while looking for opportunities to improve customer service and to increase efficiencies through the sharing of "best practices" and the consolidation of certain corporate functions.

MDU Resources plans to maintain the operational headquarters of Cascade in Washington. Except for some shared corporate functions and administrative functions, the management of Cascade will remain located in Washington, and Washington personnel will be authorized to represent and bind Cascade in its dealings with its customers, regulators and suppliers. Cascade will also maintain a strong operational presence in the communities it serves in Washington and Oregon.

MDU Resources is committed to Cascade's focus on its core operations. MDU Resources does not anticipate the sale of any operational assets currently used in Cascade's regulated utility business.

MDU Resources, through its divisions Montana-Dakota and Great Plains, has extensive experience operating both natural gas and electric utilities. Moreover, like Cascade, MDU Resources has experience with operations that serve relatively low-density populations that are distributed over a wide geographic area in multiple states. MDU Resources intends to seek opportunities to share its best practices to Cascade to improve customer service and the efficiency of Cascade's operations.

2. Commitments Offered by MDU Resources to Avoid Harm to Customers and to Provide Benefits to Washington Customers

MDU Resources believes that its proposed acquisition of Cascade will not expose Cascade's customers to any risk of harm. As discussed in more detail in the testimony of MDU Resources witness Donald R. Ball, MDU Resources makes a number of commitments to formalize this assurance, as set forth in Mr. Ball's Exhibit No. ____ (DRB-2). The proposed acquisition will not harm Cascade's customers, and MDU Resources submits that the proposed acquisition will bring benefits to Cascade's customers. The proposed transaction will produce the following benefits for Cascade's customers:

- Cascade will benefit from the financial strength of MDU Resources;
- MDU Resources will consolidate corporate and administrative functions, achieve operational efficiencies, and improve purchasing power which should lead to prices that are lower than they otherwise would have been without the merger;
- MDU Resources commits to the continuation of specific customer benefits, including conservation benefits and assistance to low-income customers, as well as the investigation and implementation of other cost effective conservation, demand-side management and low income assistance programs;
- MDU Resources will introduce its best utility practices to Cascade;

- Apart from the improvements identified above, Cascade will continue to operate in much the same way as it does today;
- MDU Resources will maintain and enhance Cascade's commitment to its employees and the communities it serves; and
- MDU Resources has committed to a number of conditions that will protect Cascade's customers from the risks of MDU Resources' other businesses.

a. Financial strength

MDU Resources believes that Cascade will benefit from its acquisition by MDU Resources in that it will have greater access to capital on more competitive terms than Cascade would as a stand-alone company. These benefits flow from both the increased security resulting from being part of a large, financially stable enterprise as well as from having a single shareholder that can invest in the business when needed. This issue is discussed in the testimony of MDU Resources witness John F. Renner.

b. Combination of corporate functions

Given that the service territories of MDU Resources' current utility businesses and Cascade are not in contiguous states, MDU Resources does not believe that there are many operational synergies that would lead to a reduction in Cascade's operating expenses. There are two areas, however, that MDU Resources has identified for potential cost savings. 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, administrative and support areas where two independent companies would have overlap or duplication as stand-alone entities.

Given the early stage of this transaction and the limited access that MDU Resources will have to Cascade's business prior to the closing and the fact that many of the consolidations will occur over a period of time, MDU Resources is unable to determine or quantify the amount of potential cost savings that may reasonably be achieved. In addition, MDU Resources will allocate a portion of its expenses to Cascade for the provision of these services, pursuant to an inter-company services agreement, which will offset some of these cost savings. Nevertheless, it is MDU Resources' expectation that the combination of certain corporate functions will lead to expenses for Cascade that are lower than they otherwise would be if Cascade remained as a stand-alone company. This issue is discussed in the testimony of MDU Resources witness John F. Renner.

c. Customer service benefits

MDU Resources stands behind Cascade's commitments and is itself committed to providing excellent customer service and cost-effective assistance to all customers, including low-income customers that may require additional assistance. MDU Resources is committed to investigating and implementing additional conservation and demand-side management programs that can be delivered in a cost-effective manner. MDU Resources is also willing to explore additional programs to assist low-income customers, to establish beyond doubt that the proposed transaction will benefit Cascade's customers. This issue is discussed in the testimony of MDU Resources witness Donald R. Ball.

d. Introduction of best utility practices

The natural gas distribution operations of Montana-Dakota and Great Plains resemble those of Cascade in many respects in that they all serve a mixture of residential, commercial, and industrial service customers in primarily mid- and small-size communities in multiple states in areas of relatively low population density. Through its many years of operating Montana-Dakota and, more recently, Great Plains, MDU Resources has developed practices that may, in some circumstances, be more advanced or efficient than Cascade's and especially suited to Cascade's service territory. MDU Resources is committed to sharing such best practices with Cascade to enhance customer service and to enhance the efficiency of Cascade's operations, thereby potentially lowering operating and administrative expenses and mitigating future cost increases.

For example, MDU Resources has deployed mobile dispatching, by which Montana-Dakota customers have toll-free access to a 24 hour per day, 7 days per 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 MDU Resources' 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.

Also, 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. MDU Resources also anticipates that Cascade employees will be given the option to participate in MDU Resources' health care program – which currently has 6,000 participants – which may also provide opportunities for lower costs for Cascade's operation through participation in a larger organization.

MDU Resources also offers a number of non-utility services, including an appliance repair and protection program, home and health security monitoring, pipeline installation, and gas management services. MDU Resources will explore the introduction and enhancement of such services to Cascade's service area, to bring the benefit of additional services or additional competitive providers and to help allocate certain costs away from the regulated operations, while being sensitive to the concerns of cross-subsidization and competitive issues that may arise in this context. This issue is discussed in the testimony of MDU Resources witness Bruce T. Imsdahl.

e. Continuity of business

MDU Resources intends to operate Cascade in much the same way as it is currently being operated. MDU Resources is committed to maintaining adequate staffing and presence in Washington and Oregon. The Commission will continue to exercise the same degree of regulatory oversight over Cascade as it does today, and will continue to have access to Cascade's books, records, and employees. MDU Resources recognizes and values the positive relationships that Cascade has built with its regulators and is committed to maintaining them. The Commission's continued regulatory oversight over Cascade, and its ability to regulate transactions between Cascade and its affiliates, ensures that customers will suffer no harm from the merger. This issue

is discussed in the testimony of MDU Resources witness Donald R. Ball, and is further addressed by the commitments included in his Exhibit No. ____ (DRB-2).

f. Commitment to communities and employees

MDU Resources will continue, and will enhance, Cascade's contributions and commitment to the communities and states it serves. MDU Resources will maintain Cascade's operational headquarters in Washington. MDU Resources also commits to maintain at least Cascade's current level of charitable contributions in Washington and Oregon. Some of these contributions may be made directly by Cascade. In addition, qualified entities in Washington and Oregon will be eligible to apply for grants from the MDU Resources Foundation, which made \$1.2 million in donations and contributions in 2005 to qualified charities and organizations located within the communities that MDU Resources' businesses serve. The Foundation's level of grants is expected to total nearly \$1.8 million in 2006. The Foundation also provides scholarships to deserving students of employees of MDU Resources' business units, and the utility divisions annually make grants to qualified 501(c)(3) organizations for environmental improvement projects in the service areas of the utility divisions.

MDU Resources' commitment extends to Cascade's employees. MDU Resources intends to honor all existing agreements with Cascade employees and to work to maintain and expand constructive relationships with labor unions representing Cascade's employees, including safety and training initiatives. MDU Resources contracts with the Great Place to Work[®] Institute and surveys the employees of each of its business units every other year to measure and work to improve its employees' experience in the workplace. MDU Resources has not experienced a union work stoppage in over thirty years, since 1975. MDU Resources places a particular emphasis on employee safety. During the

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 a first-tier 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,

employees, and communities; and describe Cascade's operations once the transaction is completed.

- **David W. Stevens**, President and CEO of Cascade, will testify about the events leading up to the transaction, and will describe why the transaction is in the best interests of Cascade's customers, employees and other stakeholders.
- **John F. Renner**, Chief Financial Officer of Montana-Dakota and Great Plains, will provide details regarding MDU Resources' corporate structure, Cascade's place within that structure, MDU Resources' capital structure, the financial and accounting aspects of the transaction, some of the financial and structural commitments being offered by MDU Resources, and the "ring fencing" protections MDU Resources will employ. Mr. Renner will also testify about the provision of common services for Cascade, the methodology for allocating costs for such services, and the implications and benefits for Cascade's customers.
- **Donald R. Ball**, Vice President – Regulatory Affairs of Montana-Dakota and Great Plains, will provide evidence that the transaction is in the public interest and will sponsor commitments to ensure there will be no harm to customers or the public generally. He will also provide testimony regarding the similarities between Cascade and MDU Resources' existing utility operations at Montana-Dakota and Great Plains, and the experience of Montana-Dakota and Great Plains as regulated utilities operated as divisions of MDU Resources. He will also sponsor some of the regulatory commitments being offered by MDU Resources.

Also included with this Application, as required by WAC 480-143-120, are Cascade's most recent financial statements, dated as of June 30, 2006, as filed with the Securities and Exchange Commission. See Appendix 3.

VIII. CONCLUSION

MDU Resources looks forward to being a responsible and committed owner of Cascade for many years to come. MDU Resources believes that its acquisition of Cascade will bring benefits to Cascade's Washington customers and the public generally. MDU Resources has made 27 commitments designed

to ensure that Cascade's customers are not harmed by, and will benefit from, this acquisition. MDU Resources looks forward to bringing its knowledge and experience in operating similar utilities to bear upon Cascade's operations to enhance the quality and efficiency of the service provided to Cascade's customers. Cascade and its customers will benefit from being a part of a larger, financially secure enterprise. Cascade's customers will also benefit from the acquisition through enhanced service, and through rates, over the long term, being lower than they otherwise would be if Cascade remains a stand-alone entity.

For these reasons, MDU Resources Group, Inc. and Cascade Natural Gas Corporation respectfully request that the Commission issue an order pursuant to WAC 480-143-120 approving the proposed transaction.

DATED: November 9, 2006.

PERKINS COIE LLP

By 

James M. Van Nostrand, WSBA 15897

Lawrence H. Reichman

Attorneys for MDU Resources Group, Inc.
and Cascade Natural Gas Corporation

CERTIFICATION

In accordance with WAC 480-143-140, I hereby certify that the information included in the Application is true and correct to the best of my information and belief, under penalty of perjury as set forth in RCW 9A.72.085.

By 

James M. Van Nostrand

LIST OF APPENDICES

- 1 Agreement and Plan of Merger
- 2 Index to Electronic Document Room
3. Cascade's Most Recent Financial Statements (September 30, 2006), from SEC Filing