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**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-061721  
STIPULATION

This Stipulation is entered into for the purpose of resolving all issues in this proceeding by and among the parties as set forth below.

**I. PARTIES**

1. The initial parties to this Stipulation (the "Stipulation") are MDU Resources Group, Inc. ("MDU Resources"), Cascade Natural Gas Corporation ("Cascade") (MDU Resources and Cascade are jointly referred to as "Applicants"), Staff of the Washington Utilities and Transportation Commission ("Staff"),<sup>1</sup> the Public Counsel Section of the Office

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<sup>1</sup> In formal proceedings such as this, Staff is an independent party. The three-member panel of Commissioners is not a party to this Stipulation. The Commissioners must review, consider, and decide whether this Stipulation should be adopted by the Commission.

1 of the Attorney General ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"),  
2  
3 the Energy Project, and Boise Cascade LLC (together "the Parties" and individually  
4  
5 "Party"). This Stipulation will be made available to other parties to this docket, who may  
6  
7 participate by signing and filing a copy of this Stipulation.  
8

## 9 II. RECITALS

10  
11 2. On November 13, 2006, Applicants filed a joint application for an order  
12  
13 authorizing a proposed transaction (the "Transaction") whereby MDU Resources would  
14  
15 acquire all of the outstanding common stock of Cascade and Cascade would thereafter  
16  
17 become a wholly owned subsidiary of MDU Resources. Applicants filed a revised joint  
18  
19 application on March 23, 2007, reflecting a structural change to the Transaction pursuant to  
20  
21 which Cascade would become an indirect wholly owned subsidiary of MDU Resources (the  
22  
23 "Application").  
24

25 3. Administrative Law Judge Dennis J. Moss convened a prehearing conference  
26  
27 on December 6, 2006, and granted interventions for NWIGU, Weyerhaeuser, Boise Cascade  
28  
29 Corporation, Longview Fibre, and Cost Management Services, Inc. The Energy Project was  
30  
31 granted late intervention on March 20, 2007 in Order 03. Public Counsel also made an  
32  
33 appearance in this docket.  
34

35 4. In accordance with the procedural schedule adopted at the prehearing  
36  
37 conference (Order 01), a technical workshop was held in Olympia on February 20, 2007,  
38  
39 followed by a settlement conference on March 5, 2007. An additional settlement conference  
40  
41 was held in Olympia on April 5, and telephonic settlement conferences occurred on  
42  
43 March 16, April 12, and April 20, 2007.  
44  
45  
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1           5.       Based on these discussions and related correspondence, the Parties have  
2  
3 reached agreement on proposed commitments that would provide a basis upon which the  
4  
5 Parties could recommend approval of the Transaction in Washington.  
6

7           6.       The Parties wish to present their agreement for the Commission's  
8  
9 consideration. The Parties therefore adopt the following Stipulation, which is entered into  
10  
11 by the Parties voluntarily to resolve matters in dispute among them in the interests of  
12  
13 expediting the orderly disposition of this proceeding. The Stipulation is being filed with the  
14  
15 Commission as a "Multiparty Settlement" pursuant to WAC 480-07-730(3).  
16

### 17           **III.    THE POST-ACQUISITION ORGANIZATIONAL STRUCTURE**

18           7.       The steps by which the Transaction will be completed are described in the list  
19  
20 of commitments attached hereto as Appendix A. In addition, the corporate organizational  
21  
22 structure that MDU Resources anticipates after closing of the acquisition is set forth in the  
23  
24 Post-Acquisition Cascade Organizational Chart that is Attachment 1 to Appendix A. In  
25  
26 summary, following completion of the transaction, all of the common stock of Cascade will  
27  
28 be owned by the entity identified in Attachment 1 as "Equico," which will be a new  
29  
30 Delaware limited liability company. Equico will be a wholly-owned subsidiary of the entity  
31  
32 identified in Attachment 1 as "Debtco," which will also be a new Delaware limited liability  
33  
34 company which will be a wholly owned subsidiary of MDU Resources.  
35  
36

### 37           **IV.    TERMS OF THE STIPULATION**

38           8.       Appendix A contains the complete list of commitments that Applicants agree  
39  
40 to make in exchange for the support of the Parties in this proceeding (hereinafter referred to  
41  
42 as "Commitments"). By virtue of executing this Stipulation, the Applicants agree to perform  
43  
44 all of the Commitments set forth in Appendix A according to the provisions of each  
45  
46 Commitment as set forth therein.  
47

1           9.       In the process of obtaining approval of the Transaction in other states, the  
2  
3       Commitments may be expanded or modified as a result of regulatory decisions or  
4  
5       settlements. In developing this Stipulation, the Parties considered and agreed upon adoption  
6  
7       of various commitments from the stipulation entered into by Applicants in the approval  
8  
9       proceeding in Oregon. The Applicants agree that the Commission shall have an opportunity  
10  
11       and the authority to consider and adopt in Washington any commitments or conditions to  
12  
13       which the Applicants agree or with which the Applicants are required to comply in other  
14  
15       jurisdictions, even if such commitments and conditions are agreed to after the Commission  
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17       enters its order in this docket. To facilitate the Commission's consideration and adoption of  
18  
19       the commitments and conditions from other jurisdictions, the Parties urge the Commission  
20  
21       to issue an order accepting this Stipulation as soon as practical, but to reserve in such order  
22  
23       the explicit right to re-open Appendix A to add (without modification of the language  
24  
25       thereof except such non-substantive changes as are necessary to make the commitment or  
26  
27       condition applicable to Washington) commitments and conditions accepted or ordered in  
28  
29       another state jurisdiction. To provide input to the Commission to facilitate a prompt  
30  
31       decision regarding the desirability or lack of desirability for these out-of-state commitments  
32  
33       and conditions to be adopted in Washington, the Parties agree to and recommend the  
34  
35       following process:

- 36           •       Within five calendar days after a stipulation with new or amended  
37                        commitments is filed by the Applicants with a commission in another state  
38                        jurisdiction, Applicants will send a copy of the stipulation and commitments  
39                        to the Parties.  
40
- 41           •       Within five calendar days after a commission in another state jurisdiction  
42                        issues an order that accepts a stipulation to which Applicants are a party or  
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1 otherwise imposes new or modified commitments or conditions, that order,  
2  
3 together with all commitments and conditions of any type agreed to by  
4  
5 Applicants or ordered by the commission in such other state, will be filed  
6  
7 with the Commission and served on all Parties by the most expeditious means  
8  
9 practical.

- 10  
11 • Within ten calendar days after any such order from another state commission  
12  
13 is filed with this Commission, any Party wishing to do so shall file with the  
14  
15 Commission its response, including its position as to whether any of the  
16  
17 covenants, commitments, and conditions from the other jurisdiction (without  
18  
19 modification of the language thereof except such non-substantive changes as  
20  
21 are necessary to make the commitment or condition applicable to  
22  
23 Washington) should be adopted in Washington.
- 24  
25 • Within five calendar days after any such response filing, any Party may file a  
26  
27 reply with the Commission. The Parties agree to support in their filings (or  
28  
29 by representation of same by MDU Resources) the issuance by the  
30  
31 Commission of an order regarding the adoption of such commitments and  
32  
33 conditions as soon as practical thereafter.
- 34  
35 • If the last day of any calendar time period referenced above falls on a  
36  
37 Saturday, Sunday, or a holiday, the next business day will be considered as  
38  
39 the last day.

40  
41 10. MDU Resources and Cascade will promptly disclose to the Parties any  
42  
43 written commitments, conditions, or covenants made in another state jurisdiction (between  
44  
45 the date of the filing of the Stipulation and the receipt of the last state order in a transaction  
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47

1 docket) intended to encourage approval of the Transaction or avoidance of an objection  
2  
3 thereto.

4  
5 11. The Parties agree that with the commitments set forth in paragraphs 8  
6  
7 through 10 above, including those in Appendix A, the Transaction meets the public interest  
8  
9 standard under RCW 80.12.020 and WAC 480-143-170 for approval in Washington. The  
10  
11 Parties therefore agree to support this Stipulation as a settlement of all issues in this  
12  
13 proceeding and to recommend approval of the Transaction and the Application. The Parties  
14  
15 encourage the Commission to enter a final Washington approval order by June 5, 2007. The  
16  
17 Parties understand that this Stipulation is not binding on the Commission in ruling on the  
18  
19 Application.

20  
21 12. The Parties agree that this Stipulation represents a compromise in the  
22  
23 positions of the Parties. As such, conduct, statements, and documents disclosed in the  
24  
25 negotiation of this Stipulation shall not be admissible as evidence in this or any other  
26  
27 proceeding. By executing this Stipulation, no Party shall be deemed to have approved,  
28  
29 admitted, or consented to the facts, principles, methods, or theories employed in arriving at  
30  
31 the terms of this Stipulation, nor shall any Party be deemed to have agreed that any  
32  
33 provision of this Stipulation is appropriate for resolving issues in any other proceeding,  
34  
35 except those proceedings involving the enforcement or implementation of the terms of this  
36  
37 Stipulation.

38  
39 13. Applicants acknowledge that the Commission's approval of the Stipulation,  
40  
41 the Commitments, or the Joint Application shall not bind the Commission in other  
42  
43 proceedings with respect to the determination of prudence, just and reasonable character,  
44  
45 rate or ratemaking treatment, or public interest of services, accounts, costs, investments, any  
46  
47 particular construction project, expenditures, or actions referenced in these Commitments.

1           14.    The Parties shall cooperate in submitting this Stipulation promptly to the  
2 Commission for acceptance, and shall cooperate in developing a supporting narrative  
3 statement as required by WAC 480-07-740(2). The Parties agree to support the Stipulation  
4 throughout this proceeding, provide a panel of witnesses to sponsor such Stipulation as well  
5 as legal representatives to support the Stipulation at a Commission hearing (if necessary),  
6 and recommend that the Commission issue an order adopting the settlements contained  
7 herein. In the event the Commission rejects this Stipulation or accepts this Stipulation upon  
8 conditions not contained herein, the provisions of WAC 480-07-750(2) shall apply.  
9

10           15.    Subject to Paragraph 16 of this Stipulation, the effective date of this  
11 Stipulation shall be the date entered below.  
12

13           16.    The obligations of the Applicants under this Stipulation are subject to the  
14 Commission's approval of the Application in this docket on terms and conditions acceptable  
15 to the Applicants, in their sole discretion, and the closing of the Transaction.  
16

17           This STIPULATION is entered into by each Party as of the date entered below.  
18

19           DATED:   May 8, 2007  .  
20

21           **MDU Resources Group, Inc.**

22           **Staff of the Washington Utilities and  
23 Transportation Commission**

24           By \_\_\_\_\_  
25

26           By \_\_\_\_\_  
27

28           **Cascade Natural Gas Corporation**

29           **Northwest Industrial Gas Users**

30           By \_\_\_\_\_  
31

32           By \_\_\_\_\_  
33

34           Jon T. Stoltz  
35           Sr. Vice President- Gas Supply &  
36           Regulatory  
37

38           Paula E. Pyron  
39           Executive Director  
40

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26           This STIPULATION is entered into by each Party as of the date entered below.  
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28           DATED: \_\_\_\_\_  
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31           **MDU Resources Group, Inc.**

**Staff of the Washington Utilities and  
32           Transportation Commission**

33  
34 By \_\_\_\_\_  
35

  
36           Terry D. Hildestad  
37           President & Chief Executive  
38           Officer

By \_\_\_\_\_  
39

40           **Cascade Natural Gas Corporation**

**Northwest Industrial Gas Users**

41  
42 By \_\_\_\_\_  
43

By \_\_\_\_\_

              Paula E. Pyron  
44           Executive Director  
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46           **Public Counsel**

**The Energy Project**  
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14. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and shall cooperate in developing a supporting narrative statement as required by WAC 480-07-740(2). The Parties agree to support the Stipulation throughout this proceeding, provide a panel of witnesses to sponsor such Stipulation as well as legal representatives to support the Stipulation at a Commission hearing (if necessary), and recommend that the Commission issue an order adopting the settlements contained herein. In the event the Commission rejects this Stipulation or accepts this Stipulation upon conditions not contained herein, the provisions of WAC 480-07-750(2) shall apply.

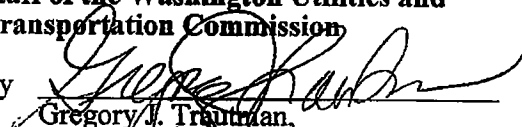
15. Subject to Paragraph 16 of this Stipulation, the effective date of this Stipulation shall be the date entered below.

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This STIPULATION is entered into by each Party as of the date entered below.

DATED: \_\_\_\_\_.

**MDU Resources Group, Inc.**  
By \_\_\_\_\_

**Staff of the Washington Utilities and Transportation Commission**  
By   
Gregory J. Trautman,  
Assistant Attorney General

**Cascade Natural Gas Corporation**  
By \_\_\_\_\_

**Northwest Industrial Gas Users**  
By \_\_\_\_\_  
Paula E. Pyron  
Executive Director

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15. Subject to Paragraph 16 of this Stipulation, the effective date of this Stipulation shall be the date entered below.

16. The obligations of the Applicants under this Stipulation are subject to the Commission's approval of the Application in this docket on terms and conditions acceptable to the Applicants, in their sole discretion, and the closing of the Transaction.

This STIPULATION is entered into by each Party as of the date entered below.

DATED: \_\_\_\_\_.

**MDU Resources Group, Inc.**

**Staff of the Washington Utilities and Transportation Commission**

By \_\_\_\_\_

By \_\_\_\_\_  
Gregory J. Trautman,  
Assistant Attorney General

**Cascade Natural Gas Corporation**

**Northwest Industrial Gas Users**

By \_\_\_\_\_

By Paula E. Pyron  
Paula E. Pyron  
Executive Director

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**Public Counsel**

By *Judith Krebs*  
Judith Krebs  
Assistant Attorney General

**The Energy Project**

By \_\_\_\_\_  
Ronald L. Roseman  
Attorney at Law

**Boise Cascade LLC**

By \_\_\_\_\_

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**Public Counsel**

By \_\_\_\_\_  
Judith Krebs  
Assistant Attorney General

**The Energy Project**

By Ronald L. Roseman  
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By \_\_\_\_\_

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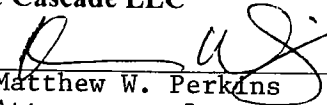
**Public Counsel**

By \_\_\_\_\_  
Judith Krebs  
Assistant Attorney General

**The Energy Project**

By \_\_\_\_\_  
Ronald L. Roseman  
Attorney at Law

**Boise Cascade LLC**

By  \_\_\_\_\_  
Matthew W. Perkins  
Attorney at Law

## **MDU Resources Acquisition of Cascade Natural Gas Corporation**

MDU Resources Group, Inc. ("MDU Resources") and Cascade Natural Gas Corporation ("Cascade") have filed a joint application with the Washington Utilities and Transportation Commission for an order authorizing a 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 (the "Transaction"). The Transaction will be completed in substantially the following manner:

The Transaction would be effected pursuant to a reverse triangular merger whereby MDU Resources will acquire all of the outstanding common stock of Cascade for a purchase price of \$26.50 per common share or approximately \$305 million in cash through Merger Sub, a subsidiary of MDU Resources formed specifically to effectuate the acquisition. At the effective time of the merger, Merger Sub will cease to exist.

The corporate organizational structure that MDU Resources anticipates after closing of the acquisition is set forth in the attached Post Acquisition Cascade Organizational Chart ("Attachment 1"). Without regard to the possible use of short term bridge financing (which if used would be repaid at the time permanent financing is put into place), the following steps describe the sequence of events MDU Resources anticipates in establishing Cascade as ring fenced in the support of the Non-Consolidation Opinion addressed in commitment 30.

1. MDU Resources will either issue new common equity or utilize other available capital resources to fund approximately \$220 million for the purchase of the existing Cascade stock.
2. Debtco, as identified in Attachment 1 and the Stipulation, will obtain approximately \$85 million of additional funds through debt financing to complete the funding for the purchase of the Cascade stock. Approximately \$165 million of existing debt at Cascade will remain at Cascade and be unaffected by the merger.
3. Approximately \$305 million will be transferred to a paying agent who will pay Cascade's existing shareholders. MDU Resources will make capital contributions to Debtco. Debtco will make capital contributions to Equico, as identified in Attachment 1 and the Stipulation, such that, upon the completion of the Transaction, Equico will then own 100% of the stock of Cascade and Debtco will own 100% of the stock of Equico.
4. The stock of Equico will be the asset supporting Debtco's loan of approximately \$85 million. Equico is expected to be established as a bankruptcy-remote special purpose entity, and is not expected to have debt.
5. At least one director of Equico will be an Independent Director as described in commitment 7.

In summary, MDU Resources plans to cause all of the common stock of Cascade to be owned by Equico, a new Delaware limited liability company and wholly-owned subsidiary of Debtco, also a Delaware limited liability company whose stock will be owned by MDU. This structure and transactional flow results in the assets, liabilities and equity of Cascade remaining as presently recorded.

In support of the application, MDU Resources and Cascade make the following commitments:

1. Cascade will maintain its own accounting documentation, and financial data will be accessible in Cascade's Washington office. Cascade's financial books and records and state and federal utility regulatory filings and documents will continue to be maintained in Cascade's Washington office consistent with current practice and be available to the Commission, upon request.
2. Financial statements and other financial books and records for Cascade shall be maintained separate from the books and records of MDU Resources. The assets of Cascade and its subsidiaries will be accounted for separately from the assets of MDU Resources and its other subsidiaries, divisions and affiliates in accordance with the Commission's rules governing the System of Accounts. This condition shall not prevent the maintenance of books and records for Cascade, MDU Resources or their affiliates on or through a common computer accounting platform. This condition shall also not prevent, for non-Washington regulatory purposes, the consolidated treatment or reporting of financial statements, financial results, and other financial books and records of Cascade, MDU Resources or their subsidiaries and affiliates for financial reporting, tax or other purposes.
3. MDU Resources and Cascade will provide the Commission and Commission Staff access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between Cascade and its affiliated interests or which are otherwise reasonably calculated to lead to discoverable information regarding Cascade. Upon request and subject to execution of a confidentiality agreement that incorporates the terms of the Commission's standard protective order, MDU and Cascade will provide copies of relevant documents subject to this commitment to Public Counsel and other consumer parties to this docket.
4. In accordance with Washington law or regulation, 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. MDU Resources agrees to cooperate fully with such Commission audits.
5. 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.

6. Cascade will operate as an indirect wholly owned subsidiary of MDU Resources. Cascade agrees to hold its customers harmless from any business and financial risk exposures of MDU Resources or its other affiliates including Centennial Energy Holdings, Inc. (Centennial). The business and financial risk exposure to Cascade shall be that of a stand-alone regulated utility. Cascade will not issue debt for the acquisition of Cascade's stock by MDU Resources. No credit facilities at Cascade will contain cross-default provisions with respect to credit facilities at MDU Resources or Centennial or their respective subsidiaries. No credit facility signed by Cascade will allow any creditor of MDU Resources, Centennial or their subsidiaries (other than Cascade and its subsidiaries) to have recourse against Cascade or its subsidiaries, in the event of bankruptcy of MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries). No credit facilities at MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries) will contain cross-default provisions with respect to credit facilities at Cascade. No credit facility signed by MDU Resources or Centennial or their respective subsidiaries will allow any creditor of Cascade or its subsidiaries to have recourse against MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries).
7. At least one director of Equico will be an Independent Director who is not a member, stockholder, director (except as such Independent Director of Equico), officer, employee, partner, attorney, creditor, supplier, or customer, other than an individual consumer, of MDU Resources or its affiliates. The organizational documents for Equico will not permit Equico, without the unanimous consent of all its directors including the Independent Director, to merge, liquidate or sell substantially all of Equico's assets or to consent to the institution of bankruptcy proceedings or the inclusion of Equico in bankruptcy proceedings.
8. 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; or (3) any acquisition of a business with a substantial business presence in Cascade's service area that has a value in excess of \$100 million or requires notification of the United States Securities and Exchange Commission.
9. MDU Resources and Cascade shall comply with all Commission statutes, rules, and ordering conditions concerning affiliated interests filings. This shall include the Inter-company Administrative Services Agreement (IASA). The IASA will include the corporate and affiliate cost allocation methodologies described in



condition 12. The IASA will be filed with the Commission as soon as practicable after the closing of the transaction by which Cascade becomes an indirect subsidiary of MDU Resources (the "Transaction"). Amendments to the IASA will also be filed with the Commission. MDU Resources and Cascade agree not to contest, for ratemaking purposes, the Commission's application of an asymmetrical pricing standard (reflecting the Commission's choice in setting rates between the more advantageous (1) of cost, including a reasonable return, or (2) of market pricing) for affiliate charges or costs if a readily identifiable market for the goods, services or assets exists, and if the transaction involves a cost of more than \$100,000. Filings by Cascade with the Commission regarding transactions with MDU Resources affiliates that involve a cost of more than \$100,000 will include an explanation and a rationale for the purchase method used if other than a competitive bid process.

10. Cascade commits for Washington regulatory purposes, that commencing with closing of the Transaction and through December 31, 2012, the allocated 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 changes in the Consumer Price Index. Application of the Consumer Price Index is limited to the instant commitment. Compliance with this condition shall be determined as follows:
  - a. For purposes of this condition, Cascade's Washington-direct plus allocated A&G costs will be based on the A&G categories, assumptions, and values contained in Attachment 2 titled, "900 Accounts Stretch– Washington-allocated" using the proforma adjusted 2005 Accounts 901 through 935 labor and non-labor costs, as reflected in Cascade's general rate case Docket UG-060256, but excluding Account 904 (uncollectible accounts) costs and excluding the \$800,000 of low-income assistance that Cascade provides pursuant to the final order in Docket UG-060256 (the "2006 Benchmark"). The pro forma adjusted 2006 Benchmark will be set at \$21,642,845 as of December 31, 2006. The benchmark for each subsequent year shall equal the prior year's benchmark multiplied by the increase in the Consumer Price Index for All Urban Consumers: All Items: Index 1982-84=100 (Series CUUR0000SA) in the previous twelve months. Except as provided in Condition 11, Cascade commits that during the period of this condition, Cascade's A&G costs, excluding Account 904 costs and the low-income assistance that Cascade provides pursuant to the final order in Docket UG-060256, for rate making and regulatory reporting purposes shall be the lesser of its actual 900 Accounts costs, excluding Account 904 costs and the low-income assistance that Cascade provides pursuant to the final order in Docket UG-060256 and including Commission Basis adjustments as provided in WAC 480-90-257, or the benchmark for the applicable year. Cascade will not shift A&G costs to operational and maintenance accounts (FERC accounts 700-894), capital

accounts, deferred debit accounts, deferred credit accounts, or other regulatory accounts that are a basis for ratemaking.

- b. Cascade may request that the Commission include in the benchmark A&G costs that are incurred or increased as a direct consequence of a change in a statute or rule, or as a result of an order or directive of the Commission, effective after the date of this condition. The intent of this condition is to protect Cascade from unforeseen mandated circumstances that could increase A&G costs.
11. MDU Resources and Cascade further commit that beginning November 1, 2008 and continuing through December 31, 2012, Cascade will provide annual rate credits of \$672,000 to Washington customers distributed on an equal margin basis unless otherwise ordered by the Commission. The rate credits in this paragraph will not be off-settable for the first three years, and thereafter will be fully off-settable, on a prospective basis, by the amount that Cascade demonstrates to the Commission's satisfaction in any general rate case that the Washington-allocated A&G expenses included in Cascade's rates are lower than the benchmark set in condition 10 and have not been shifted to operational and maintenance accounts (FERC accounts 700-894), capital accounts, deferred debit accounts, deferred credit accounts, or other regulatory accounts that are a basis for ratemaking. The rate credits shall be provided as bill credits for each month that this condition is in effect, pro-rated based upon estimated volumes and subject to true-up on an annual basis in a manner to be approved by the Commission. Rate credits shall be excluded from Cascade's regulatory accounts and shall be paid for out of shareholder funds.
12. Any corporate cost allocation used for rate setting, and subsequent changes thereto, will be submitted to the Commission for review. 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 review or 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, Cascade 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 regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through MDU Resources. Cascade shall include in any rate case filing a determination confirming this provision or a proposed implementing ratemaking adjustment, if necessary.
13. Cascade's debt and preferred equity will be maintained separate from the financial securities of MDU Resources and its affiliates. Cascade will maintain its own corporate credit rating separate from that of MDU Resources and its affiliates.
14. Cascade will exclude all costs of the Transaction, including the acquisition premium (goodwill) and integration costs, from Cascade's utility accounts for ratemaking purposes (e.g., general rate cases, earnings reviews, PGA filings, etc.) Within 90 days following completion of the Transaction, Cascade will provide a preliminary accounting of transaction costs. Further, Cascade will provide the Commission with a final accounting of these costs within 60 days of the close of accounting for the Transaction. For purposes of this condition, "integration costs" include costs associated with determining how Cascade will operate effectively as an indirect subsidiary of MDU Resources after the Transaction closes. Integration costs include but are not limited to senior executive officers costs as a result of employment agreement change of control provisions. Integration costs will not include any costs that Cascade would have reasonably incurred absent the Transaction or costs incurred to combine Cascade's operating systems with those of MDU Resources for improved efficiencies or for other beneficial purposes. Transition costs are costs that are neither transaction nor integration costs and are incurred to improve efficiencies. For purposes of this condition, transition costs may include by example, but are not limited to, combined platform and joint software licensing for applications such as customer information and work management systems. If Cascade proposes any transition costs for rate case purposes, it must provide to the Commission's satisfaction a demonstration of the net benefit for customers. This condition is without effect as to any future determination of whether these costs

have been prudently incurred. Cascade commits that it will not seek to defer any transition costs.

15. MDU Resources and Cascade will provide the Commission and Commission Staff, upon request, with unrestricted access to all written information provided by and to credit rating agencies that pertains to Cascade. Upon request and subject to execution of a confidentiality agreement that incorporates the terms of the Commission's standard protective order, MDU Resources and Cascade will provide Public Counsel and other consumer parties to this docket with access to written information provided by and to credit rating agencies that pertains to Cascade.
16. MDU Resources and Cascade commit 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 condition 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. MDU Resources and Cascade 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.
17. 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.
18. Nothing in these acquisition conditions shall be interpreted as a waiver of Cascade's or MDU Resources' rights to request confidential treatment for information that is the subject of any conditions.
19. Nothing in these acquisition conditions shall be interpreted to limit the Commission's authority under its statutes and rules.
20. The parties urge the following process for administering and enforcing the commitments, unless another process is provided by statute, Commission regulations or an approved Cascade tariff. The Commission should give Cascade and MDU Resources written notification of any violation by either company of the commitments made in this application. If such failure is corrected within ten (10) business days for failure to file a report, or five (5) business days for other violations, the Commission should take no action. The Commission shall have the authority to determine if the corrective action has satisfied or corrected the violation. Cascade or MDU Resources may request, for cause, an extension of these time periods. If Cascade or MDU Resources fails to correct such violations within the specified time frames, as modified by any

Commission-approved extensions, the Commission may seek to compel compliance with the commitment and assess penalties for violation of a Commission order, against either Cascade or MDU Resources, as allowed under state laws and regulations. The Commission may seek penalties only against MDU Resources for violations by only MDU Resources and only against Cascade for violations by only Cascade, but may seek penalties against both MDU Resources and Cascade when both have violated a commitment or condition.

21. MDU Resources and Cascade commit to maintaining Cascade's provision of sales and distribution services to all classes of customers in a safe, reliable and prudent manner in conformity with its tariffs and obligations as a natural gas utility under state laws including but not limited to maintaining sufficient physical plant, gas supply and staffing levels to meet the needs of customers in its service territory in each state in which it operates.
22. To ensure service quality, Cascade commits to measuring and reporting certain information regarding customer service quality for calendar years 2008 and 2009. The reports shall include the following information, which will be provided to the Commission within 90 days following the end of the calendar year, provided to the parties to this docket, and made available for public inspection on Cascade's website. The calculations for reporting will be based on calendar year.
  - a. Cascade will separately report the number of customer complaints (i) received by Cascade and (ii) filed with the Commission.
  - b. Cascade will report the average time from a customer call to the arrival of field technicians in response to a gas emergency.
  - c. Cascade will report the number of missed customer appointments. A customer appointment is defined as a mutually agreed appointment time between a customer and Cascade for service to be provided either when the customer needs to be present or when the customer need not be present. A missed customer appointment occurs when Cascade fails to keep a customer appointment.
  - d. Cascade will separately report the percentage of customer disconnects due to non-payment for (i) residential customers (schedule 503) and (ii) commercial customers (schedule 504).
  - e. For calendar year 2007, Cascade will report the percentage of calls answered live within sixty (60) seconds by its customer call center. For calendar year 2008, Cascade will report the percentage of calls answered live within fifty (50) seconds by its customer call center. For calendar year 2009, Cascade will

report the percentage of calls answered live within forty (40) seconds by its customer call center.

Following December 31, 2009, Cascade will meet with Commission Staff, Public Counsel and other interested parties in a collaborative process to recommend to the Commission whether Cascade should continue to report this information, whether Cascade should report other information, and whether any further action is required to ensure Cascade's customer service quality.

23. Within twelve months of the closing of the Transaction and annually thereafter through December 31, 2012, Cascade will file a report with the Commission and Commission Staff regarding the implementation of the Conditions. The report will, at a minimum, provide a description of the performance of each of the Conditions that have quantifiable results. If any Condition is not being met, relative to the specific terms of the Condition, the report shall provide proposed corrective measures and target dates for completion of such measures. From the report filed with the Commission and Commission Staff, Cascade will make publicly available at the Commission, as well as provide to parties to this proceeding, non-confidential portions of the report. Upon request and subject to execution of a confidentiality agreement that incorporates the terms of the Commission's standard protective order, MDU and Cascade will provide confidential portions of the report to Public Counsel and other consumer parties to this docket.
24. The premium paid by MDU Resources for Cascade (Goodwill or Acquisition Premium) will be excluded from the utility accounts of Cascade. Further, MDU Resources and Cascade commit that they will not propose rate recovery of the Acquisition Premium in Washington rates or include the Acquisition Premium in Cascade's Washington results of operations unless this condition is modified by the Commission to allow for the recovery of the Acquisition Premium for reasons based on proposals by parties other than Cascade or MDU Resources.
25. Cascade and/or the MDU Resources Foundation will maintain at least Cascade's current level of charitable contributions in Oregon and Washington. Some of those contributions may be made directly by Cascade in support of local organizations. In addition, qualified tax-exempt 501(c)(3) entities will be eligible to apply for grants from MDU Resources Foundation.
26. MDU Resources and Cascade will provide the Commission and Commission Staff access to those portions of corporate minutes including Board of Directors' minutes, all committee and subcommittee minutes, along with any related reports and source documents that may lead to relevant information regarding Cascade's business and associated risk analysis. Upon request and subject to execution of a confidentiality agreement that incorporates the terms of the Commission's standard protective order, MDU and Cascade will provide copies

of relevant documents subject to this commitment that pertain to Cascade to Public Counsel and other consumer parties to this docket.

27. Cascade will not declare or make any dividend to MDU Resources or any other entity that owns or holds an equity interest in Cascade, unless, on the date of such dividend, either:
- a. at the time and as a result of such dividend, Cascade's Interest Coverage Ratio is equal to or greater than 3:1; or
  - b. at such time, Cascade's unsecured debt rating is at least investment grade (BBB- or its then equivalent with Standard & Poor's Ratings Group and Baa3 or its then equivalent with Moody's Investors Service, Inc).

"Interest Coverage Ratio" means, with respect to Cascade on any Measurement Date, the ratio of (i) the aggregate amount of EBITDA of Cascade for the four fiscal quarters for which financial information in respect thereof is available immediately prior to such Measurement Date to (ii) the aggregate Interest Expense during such four fiscal quarters.

28. a. Cascade will not make any dividends that will reduce Cascade's common equity capital below 38% of Cascade's Total Adjusted Capital without Commission approval, subject to the exception stated herein. For the purposes of calculating a common equity capital for this commitment, Cascade's Total Adjusted Capital is defined as common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations. If Cascade's common equity capital is below 38%, but above 35% of Cascade's Total Adjusted Capital, Cascade may make a dividend upon notice to the Commission. Cascade may use this exception only once each calendar year. If Cascade uses this exception, it shall make a presentation to the Commission regarding the financial health of Cascade including Cascade's plans to increase the percentage of common equity capital. Cascade shall also provide written reports to the Commission regarding the financial health of Cascade and progress on Cascade's plans to increase the percentage of common equity capital for four quarters following Cascade's use of this exception, unless this requirement is waived by the Commission.
- b. Cascade will not make any dividends that will reduce Cascade's common equity capital below 35% of Cascade's Total Adjusted Consolidated Capital (using a purchased accounting approach) without Commission approval. Cascade's Total Adjusted Consolidated Capital is defined as the common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations of both Cascade and Cascade's intermediate holding companies viewed on a consolidated basis. The use of a consolidated basis of both

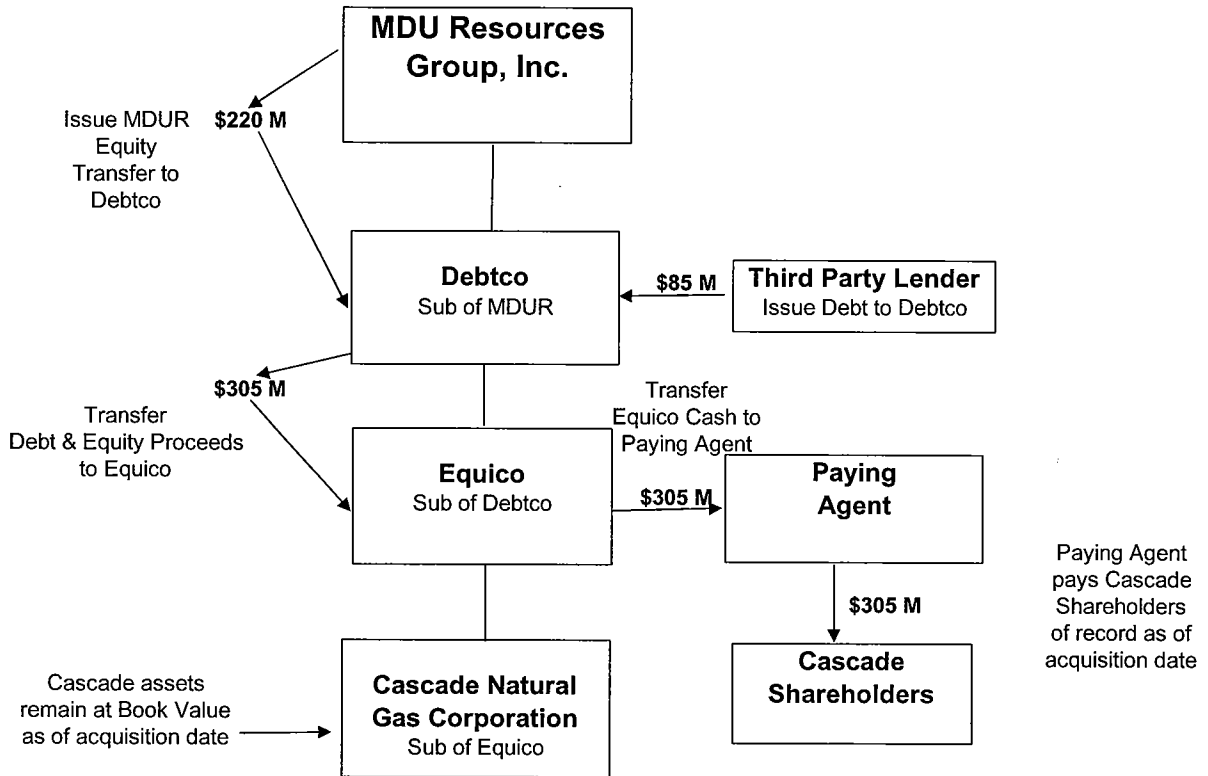
Cascade and Cascade's intermediate holding companies for the determination of Cascade's Total Adjusted Consolidated Capital is for the purposes of this commitment only.

29. Through December 31, 2016, Cascade will provide notice to the Commission, and to other parties to this Docket upon request, when the dividend payment increases by 10% or more than Cascade's paid dividends for the previous quarter.
30. Within three months of closing of the transaction, Cascade commits to obtain a non-consolidation opinion, subject to customary limitations and qualifications, concluding that if the ring-fencing around Cascade is maintained, a bankruptcy court, on its own or upon proper request of a party in interest, in a case under the United States Bankruptcy Code commenced against MDU Resources, would not order the substantive consolidation of the assets and liabilities of Cascade with those of MDU Resources. Cascade commits to promptly file such opinion with the Commission. If the ring-fencing provisions of this agreement are insufficient to obtain a non-consolidation opinion, MDU Resources and Cascade agree to promptly undertake the following actions:
  - a. Notify the Commission of this inability to obtain a non-consolidation opinion.
  - b. Propose and implement, upon consultation with Commission Staff and parties to this stipulation and Commission approval, such ring-fencing provisions that are sufficient to obtain such a non-consolidation opinion.
  - c. Obtain a non-consolidation opinion.
31. The Applicants agree that the Commission shall have an opportunity and the authority to consider and adopt in Washington any commitments or conditions to which the Applicants agree or with which the Applicants are required to comply in other jurisdictions, even if such commitments and conditions are agreed to after the Commission enters its order in this docket provided, however, that any financial commitments, or commitments having a financial impact, shall be proportionate to Cascade's corresponding business function in Washington in relation to its corresponding total company business function. To facilitate the Commission's consideration and adoption of the commitments and conditions from other jurisdictions, the Parties urge the Commission to issue an order accepting this Stipulation as soon as practical, but to reserve in such order the explicit right to re-open to add commitments and conditions accepted or ordered in another state jurisdiction.



32. Cascade commits that Cascade will continue its current gas procurement practices except to the extent Cascade notifies and justifies to the Commission in writing of any proposed change in gas procurement practices.
33. Cascade will continue to fund the Washington Energy Assistance Fund as per paragraph 14 of the Settlement Agreement approved by the Commission's Final Order 05 in Docket UG-060256 and will explore with the implementing agencies methods to improve the program effectiveness and funding level as is shown to be justified.
34. Cascade will pay the low income agencies for the installation of the approved energy efficiency measures in their low-income conservation program up to the full avoided cost provided that Cascade is authorized to defer the program costs associated with its low-income weatherization program to a sub-account of Account 186 and to amortize the costs through a temporary technical adjustment at the time of the Company's applicable Purchase Gas Adjustment filings. Any such measures shall be consistent with any Conservation and Low-Income Weatherization Plan approved by the Commission.
35. Cascade will meet annually with the community action agencies implementing the energy efficiency program to review program accomplishments, measure funding levels, and explore ways to improve program effectiveness. The meeting(s) will be held so that program adjustments can be filed with the utility's conservation program filing.
36. In the event that any regulatory body undertakes an audit or review of cost allocations and affiliated transactions involving Cascade and MDU Resources regulated operations, Cascade or MDU Resources will provide to the Commission and Commission Staff a copy of any report available to MDU Resources or Cascade resulting from such audit or review. Upon request and subject to execution of a confidentiality agreement that incorporates the terms of the Commission's standard protective order, MDU and Cascade will provide copies of relevant documents subject to this commitment to Public Counsel and other consumer parties to this docket.

## MDU Resources Group, Inc. Post-Acquisition Cascade Organizational Chart



Note: Merger Sub is only a temporary subsidiary created solely to effect the reverse triangular merger and as such is not reflected on the organizational chart,

**CASCADE NATURAL GAS**  
**900 ACCOUNTS STRETCH**  
**Washington - Allocated**

**WASHINGTON A&G EXPENSE BENCHMARK**  
**2006 CALENDAR YEAR**

	<u>Washington 1/</u>
Customer Accounting	\$ 3,874,200.00
Remove Acct. 904 from Customer Accounting	(775,414.00)
Customer Service	1,189,336.00
Sales	441,711.00
A&G	17,713,012.00
Total Proforma Results	<u>\$22,442,845</u>
Less Low-Income Assistance	<u>(800,000.00)</u>
Baseline @ 12-31-06	<u><u>\$21,642,845</u></u>

<u>Limit</u>	<u>Baseline</u>	<u>CPI</u>	<u>A&amp;G</u>
2007 CPI Est. =	\$21,642,845	3.50%	\$22,400,345
2008 CPI Est. =	\$22,400,345	3.50%	\$23,184,357

1/ From settlement in Docket No.UG-060256, general rate case, including proforma adjustments.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served this **STIPULATION**, in Docket UG-061721, by causing a copy to be sent by electronic mail and U.S. mail to:

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Dated this 9th day of May, 2007.

**PERKINS COIE LLP**

By   
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Lawrence H. Reichman, OSB #86083  
Attorneys for MDU Resources Group, Inc. and  
Cascade Natural Gas Corporation