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BEFORE THE WASHINGTON

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UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Joint)
Application of)Docket UG-061721
)Volume II
)Pages 18-47

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MDU RESOURCES GROUP, INC., AND)
CASCADE NATURAL GAS CORPORATION,)

6

For an Order Authorizing Proposed)
Transaction.)

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A hearing in the above-entitled matter

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was held at 2:05 p.m. on Monday, June 18, 2007, at

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1300 South Evergreen Park Drive, S.W., Olympia,

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Washington, before Administrative Law Judge DENNIS

14

MOSS, Chairman MARK SIDRAN, Commissioner PATRICK

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OSHIE and Commissioner PHILIP JONES.

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The parties present were as follows:

18

MDU RESOURCES GROUP, INC. and CASCADE

19

NATURAL GAS CORPORATION, by James M. Van Nostrand,

20

Attorney at Law, Perkins Coie, LLP, 1120 NW Couch

Street, Tenth Floor, Portland, Oregon 97209-4128.

21

PUBLIC COUNSEL, by Simon ffitch,

22

Assistant Attorney General, 800 Fifth Avenue, Suite

2000, TB-14, Seattle, Washington 98104-3188.

23

24

Barbara L. Nelson, CCR

25 Court Reporter

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1 COMMISSION STAFF, by Gregory Trautman,
Assistant Attorney General, 1400 S.W. Evergreen Park
2 Drive, S.W., P.O. Box 40128, Olympia, Washington
98504-0128.

3

BOISE CASCADE, WEYERHAEUSER, and
4 LONGVIEW FIBRE, by Matthew Perkins, Attorney at Law,
Davison Van Cleve, 333 SW Taylor, Suite 400,
5 Portland, Oregon 97204.

6 THE ENERGY PROJECT, by Ronald Roseman,
Attorney at Law, 2011 Fourteenth Avenue East,
7 Seattle, Washington 98112.

8 NORTHWEST INDUSTRIAL GAS USERS, by
Edward A. Finklea, Attorney at Law, Cable Huston,
9 1001 S.W. Fifth Avenue, Suite 2000, Portland, Oregon
97204.

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5 Statement by Bruce Imsdahl 30

6 WITNESS PANEL (Steve Johnson, John F. Renner, David

7 L. Goodin, Paula Pyron, Jon Stoltz,

8 Glenn Watkins)

9 Examination by Commissioner Jones 34

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1 P R O C E E D I N G S

2 JUDGE MOSS: Let's be on the record. Good
3 afternoon, everyone. My name is Dennis Moss. I'm an
4 Administrative Law Judge with the Washington
5 Utilities and Transportation Commission. I'm joined
6 on the bench this afternoon by Chairman Sidran,
7 Commissioner Oshie, Commissioner Jones. We'll be
8 sitting in the matter styled In the Matter of the
9 Joint Application of MDU Resources Group, Inc. and
10 Cascade Natural Gas Corporation, in which they seek
11 an order authorizing an acquisition or a merger
12 transaction, Docket Number UG-061721.

13 The parties have filed a stipulation not
14 signed by all parties, but as I understand it, not
15 opposed by any parties, either. We'll talk about
16 that in perhaps more detail momentarily.

17 I suppose I'll go ahead with our first order
18 of business, which is to take appearances from
19 Counsel. Then I understand that Mr. Van Nostrand has
20 a brief opening statement to make, that other counsel
21 will not make any preliminary statement. Counsel
22 will then retire to the seats behind them and the
23 witnesses, our witness panel will assume the seats
24 here and we will hear briefly from Mr. Imsdahl for
25 the joint applicants, and then we will have an

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1 opportunity to have questions for our panelists.

2 So if there are no further preliminary
3 matters, start with you, Mr. Van Nostrand.

4 MR. VAN NOSTRAND: Thank you, Your Honor. On
5 behalf of Joint Applicants, James M. Van Nostrand, of
6 Perkins Coie, LLP.

7 JUDGE MOSS: Go ahead.

8 MR. PERKINS: On behalf of Boise Cascade,
9 Matt Perkins, from the Law Firm of Davison Van Cleve.

10 JUDGE MOSS: And Mr. Perkins, you continue
11 in your representative capacity for other parties, as
12 I recall; is that correct?

13 MR. PERKINS: That's correct, Your Honor,
14 for Weyerhaeuser and Longview Fibre. Neither of
15 those parties have signed the stipulation.

16 JUDGE MOSS: I understand. Go ahead, Mr.
17 Finklea.

18 MR. FINKLEA: Ed Finklea, Counsel for the
19 Northwest Industrial Gas Users, of the Law Firm Cable
20 Huston in Portland.

21 JUDGE MOSS: Okay. Thank you.

22 MR. ROSEMAN: Ronald Roseman, attorney for
23 the Energy Project.

24 MR. FFITCH: Simon ffitch, Assistant
25 Attorney General, for the Office of Public Counsel.

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1 JUDGE MOSS: Thank you.

2 MR. TRAUTMAN: Greg Trautman, Assistant
3 Attorney General, for Commission Staff.

4 JUDGE MOSS: All right. And are there any
5 parties on the conference bridge line who wish to --
6 or any representatives who wish to enter an
7 appearance? Thank you.

8 MR. FFITCH: Your Honor, Mr. Watkins is on
9 the line as a potential witness.

10 JUDGE MOSS: Potential witness, yes, I
11 understand. All right.

12 What I want to do, I think perhaps even
13 before we hear from you, Mr. Van Nostrand, I'll go
14 ahead and get this little matter of business out of
15 the way. Since we mentioned Mr. Watkins, who, not
16 being present, I may forget that he needs to be sworn
17 remotely here. So I'm going to go ahead and swear
18 all of the witnesses.

19 And Mr. Imsdahl, I indicated earlier I'd
20 like to swear you, as well, even though you'll not be
21 part of our panel today. And Mr. Watkins, while we
22 won't necessarily ask you to rise from your chair
23 wherever you're listening in, I would ask you to
24 consider the oath with the same degree of solemnity
25 as if you were present and standing, as others will

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1 be doing, raising their right hands.

2 MR. WATKINS: Okay.

3 JUDGE MOSS: Very good.

4 Whereupon,

5 ALL POTENTIAL WITNESSES,
6 having been first duly sworn, were called as

7 witnesses herein and were examined and testified as
8 follows:

9 JUDGE MOSS: Thank you all very much. All
10 right. And with that, I believe we can turn the
11 floor over to you, Mr. Van Nostrand.

12 MR. VAN NOSTRAND: Thank you, Your Honor.
13 Good afternoon, Commissioners, Judge Moss. We're
14 pleased to be able to bring to you today an
15 uncontested settlement involving pretty much most of
16 the parties to the case. We have a number of --
17 three parties who intervened in the case, but did not
18 join the stipulation, but they do not oppose or
19 object to it.

20 We filed the application in November and,
21 under the judge's procedural schedule, we launched
22 into a technical conference and some settlement
23 negotiations. It became clearer early on that the
24 parties were interested in ring-fencing provisions,
25 and so we filed an amended application on March 23rd,

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1 where we restructured the transaction somewhat to be
2 able to include a couple of intermediate holding
3 companies so that we could include the sort of
4 ring-fencing provisions that the Commission has
5 become accustomed to in some of the more recent
6 transactions, PacifiCorp, Mid-America, I think the
7 Avista Holding Company also has the non-consolidation
8 opinion on those sort of ring-fencing provisions.

9 Pretty much had settlement conferences then

10 beginning in late March, continuing through a lot of
11 April; were able to reach a settlement among all the
12 parties to the stipulation, which was filed with the
13 Commission on May 9th. We filed a narrative
14 statement in support of the stipulation on May 11th.
15 And basically, the stipulation includes 36 proposed
16 transaction commitments, and one of those is a most
17 favored states process. This being a case in both
18 Oregon and Washington, there's a commitment that
19 allows the parties in Washington to pick up anything
20 that gets adopted in Oregon and vice versa. The
21 Oregon parties in the Oregon case will have the same
22 chance to pick up anything that happens in
23 Washington.

24 Included in these transaction commitments
25 are some of the sort of conditions the Commission's

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1 used to seeing with respect to access to relevant
2 information. A lot of time was spent on certain rate
3 issues. Included in the stipulation are rate credits
4 of \$672,000 annually through the end of 2012.
5 There's also an A&G benchmark, sort of cap
6 administrative and general expenses through the same
7 period. There's also a number of conditions which
8 relate to Cascade's financial stability, and so the
9 preservation insulating the customers from any
10 possible adverse impact from ownership of MDU
11 Resources, including limitations on the ability to
12 make dividends based on interest, coverage ratios,

13 debt standards and the capital structure.

14 Then there's a number of ring-fencing
15 provisions, including having to file a
16 non-consolidation opinion, where an outside law firm
17 will verify that the ring-fencing provisions are
18 adequate to hopefully keep Cascade out of any
19 bankruptcy proceeding that MDU Resources might be
20 involved in.

21 Then there's a number of cost allocation and
22 cross-subsidization issues addressed in the
23 stipulation. We also have a couple conditions on
24 low-income programs, quality of service measures, and
25 then a couple of conditions addressing sort of what I

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1 would call the commitment implementation issues.

2 And with that, I guess I wanted to express
3 appreciation to the parties for -- and the
4 cooperation. It was -- we had a number of settlement
5 discussions. We're also running the same transaction
6 in Oregon, so there was a little bit of
7 cross-pollenization, so to speak, but I think we
8 achieved a settlement that all the parties would
9 stipulate is in the public interest and satisfies the
10 applicable statutory standard and the Commission's
11 rule.

12 With that, I'd like to introduce Mr. Bruce
13 Imsdahl, who's the President and CEO of
14 Montana-Dakota Utilities, who'd like to make brief
15 remarks to the Commission.

16 JUDGE MOSS: And before we release Counsel,
17 I want to go ahead and take care of the matter of the
18 record, in terms of our paper record. You have
19 mentioned the various documents, Mr. Van Nostrand,
20 including the stipulation itself, which I have
21 pre-marked as Exhibit Number 1; the narrative
22 statement in support of the stipulation, which I have
23 pre-marked as Number 2. There was a notice of filing
24 the order of the Public Utility Commission of Oregon
25 approving the stipulation there and granting the

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1 amended application. And the fourth exhibit you see
2 there is the amended application itself that you
3 referred to.

4 The remaining exhibits, numbers 5 through
5 12, include all -- I believe all of the pre-filed
6 direct testimony and exhibits filed by the joint
7 applicants, and it's my understanding that you would
8 wish all of that to be made of record.

9 MR. VAN NOSTRAND: Yes, Your Honor.

10 JUDGE MOSS: Okay. Is there any objection
11 to any of that? All right. Hearing none, then those
12 matters will be made exhibits in the record, as
13 indicated on the exhibit list, which I will provide
14 to the court reporter at the end of the proceeding,
15 and that will be made part of the transcript today.

16 (The following exhibits were marked in
17 conjunction with the hearing.)

18 E X H I B I T L I S T

19 BENCH EXHIBITS AND EXHIBITS NOT SPONSORED BY

20 INDIVIDUAL WITNESSES

21 1 (Joint Parties) Stipulation

22 2 (Joint Parties) Narrative Statement in

23 Support of Stipulation

24 3 (Joint Applicants) Notice of Filing: Order

25 of Public Utility Commission of Oregon

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1 Approving Stipulation and Granting Amended

2 Application

3 4 (Joint Applicants) Amended Application

4 5 (Bruce T. Imsdahl) Pre-filed Direct Testimony

5 (as revised March 23, 2007)

6 6 (Bruce T. Imsdahl) Organization Chart MDU

7 Resources Group, Inc.

8 7 (David W. Stevens) Pre-filed Direct Testimony

9 8 (David W. Stevens) Cascade Proxy Statement,

10 September 20, 2006

11 9 (John F. Renner) Pre-filed Direct Testimony

12 (as revised March 23, 2007)

13 10 (John F. Renner) Inter-company Administrative

14 Services Agreement

15 11 (Donald R. Ball) Pre-filed Direct Testimony

16 12 (Donald R. Ball) List of Commitments MDU

17 Resources Acquisition of Cascade (as revised

18 March 24, 2007)

19 (Conclusion of Exhibit Identification.)

20 JUDGE MOSS: In addition to that, I do note

21 that we had a letter from Weyerhaeuser Company,

22 indicating that they -- and I won't make it an
23 exhibit, but indicating that they would not be
24 signing the stipulation, but did not object to it,
25 and I think that's all I received. I don't think I
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1 got anything from CMS. And then Boise I excused. We
2 had some conversation about that, and I excused Boise
3 from producing a witness given their posture in the
4 case.

5 Okay. So with that, we can turn the floor
6 over to Mr. Imsdahl.

7 MR. VAN NOSTRAND: Thank you, Your Honor.

8 JUDGE MOSS: And the other witnesses should
9 come forward and take their seats, as well. Everyone
10 appears to be settled in, buttoned up. You may
11 proceed.

12 MR. IMSDAHL: Thank you, Your Honor,
13 Commissioners, Policy Staff, and others who are a
14 party to the stipulation agreement. My name is Bruce
15 Imsdahl. I'm President and CEO of Montana-Dakota
16 Utilities and Cascade Natural Gas Company, which are
17 the utility divisions of MDU Resources Group. I have
18 submitted written testimony for the joint application
19 that you have before you today, and I'd like to take
20 this opportunity to further explain one of the
21 statements in my testimony.

22 In my testimony, I stated that after
23 completion of the transaction, Cascade would have its
24 own president, who would report to me as the chief

25 executive officer. I'd like to introduce to you

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1 David Goodin to my immediate left, who is currently
2 executive vice president of operations and
3 acquisitions for Montana-Dakota.

4 If you approve the proposed transaction,
5 Dave will be appointed president of Cascade Natural
6 Gas Corporation. Dave's career with Montana-Dakota
7 started 24 years ago, shortly after his graduation
8 with a electrical and electronic degree from the
9 North Dakota State University in 1983. He holds a
10 master's degree in business administration from the
11 University of North Dakota, and he also graduated
12 from the Harvard Advanced Management Program.

13 He began his career with our company as a
14 division electrical engineer in Dickinson, North
15 Dakota, and transferred into Glendive, Montana, in
16 that same role, and later transferred to Williston,
17 North Dakota, as an electric superintendent. He was
18 then promoted to our electric systems supervisor at
19 our general office in Bismarck, and was later
20 promoted to electric system manager. He was then
21 appointed to vice president of operations for
22 Montana-Dakota Utilities and Great Plains Natural
23 Gas. And in January of this year, he was promoted to
24 executive vice president, operations and
25 acquisitions.

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1 In the latter two positions, his management

2 responsibilities have included operational oversight
3 for the natural gas distribution systems for our --
4 for Montana-Dakota Utilities and Great Plains Natural
5 Gas Company in the five states that we serve. In
6 those positions, Dave reports directly to me and has
7 been a very, very valuable member of my management
8 team. If the merger is approved, Dave will resign
9 his position at Montana-Dakota Utilities and focus
10 exclusively in his new position at Cascade.

11 Dave's a member of the management committee
12 for the American Natural Gas Association and
13 executive committee for the North Central Electric
14 Association and has been a registered professional
15 engineer in North Dakota since 1986.

16 He also gives his time to numerous community
17 organizations and presently is the chairman of the
18 Bismarck-Mandan Chamber of Commerce. If you approve
19 this transaction, the vice chairman of Bismarck
20 chamber is going to realize how much time and effort
21 Dave really does put into that organization.

22 Dave is married and he and his wife Pat have
23 three lovely daughters. His youngest will be a
24 senior in high school in Bismarck this fall. I know
25 Dave is excited about his new position and I also

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1 know that part of Dave is not looking forward to his
2 new responsibilities of maintaining an apartment by
3 himself in Seattle for a few months.

4 Dave has been involved in all the settlement

5 conferences that led to the stipulation that you have
6 before you today, and therefore, I ask that you
7 permit him to be one of our two prime witnesses for
8 Montana-Dakota -- for Montana-Dakota and MDU
9 Resources.

10 The second prime witness will be John
11 Renner, executive vice president, finance and chief
12 accounting officer for Montana-Dakota and Great
13 Plains Natural Gas, who has submitted written
14 testimony in these proceedings.

15 Thank you.

16 JUDGE MOSS: Thank you very much. And
17 welcome to you, Mr. Goodin. And why don't we have
18 our remaining witnesses introduce themselves, since
19 we don't have counsel present. So let's start with
20 you, Mr. Elgin.

21 MR. ELGIN: Yes, I'm Kenneth Elgin, with the
22 Regulatory Services Division for Commission Staff.

23 MR. JOHNSON: I'm Steve Johnson, with Public
24 Counsel of the Washington State Attorney General's
25 Office.

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1 MS. PYRON: Paula Pyron, on behalf of the
2 Northwest Industrial Gas Users.

3 JUDGE MOSS: All right. Around to you.

4 MR. STOLTZ: And I'm Jon Stoltz, senior vice
5 president for Cascade Natural Gas.

6 JUDGE MOSS: Thank you, Mr. Stoltz. With
7 that, let me turn to the Commissioners and see if we

8 have questions of the panelists from the Bench.
9 Commissioner Jones, why don't we start with you.

10

11 E X A M I N A T I O N

12 BY COMMISSIONER JONES:

13 COMMISSIONER JONES: Good afternoon,
14 gentlemen. Welcome to -- if this transaction is
15 approved, welcome to the state of Washington.

16 Mr. Imsdahl, I would ask if you would
17 consider renaming the corporation MDW, instead of
18 MDU, to reflect the state of Washington. I noticed
19 from your august history that you started out with
20 Montana and Dakota, and now you're picking up a
21 substantial asset in the state of Washington, so
22 please, please consider that.

23 CHAIRMAN SIDRAN: Bear in mind he would have
24 to add the letter O under the terms of the
25 stipulation.

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1 COMMISSIONER JONES: I have a few questions.
2 One relates to the utility capital structure, and I
3 think this is perhaps for Mr. Renner or Mr. Imsdahl,
4 and Ken Elgin, jump in on this, too.

5 I notice in the testimony that the targeted
6 capital structure is 50/50, and you state that
7 several times in your testimony. I'm a little -- and
8 I think I understand the injection of common equity
9 of about 237 million and some debt that Cascade is
10 going to issue supposedly to fund this all-cash -- I

11 understand this is an all-cash offer. There's no
12 stock involved; is that correct?

13 MR. RENNER: That's correct.

14 COMMISSIONER JONES: So it's an all-cash
15 offer of approximately 305 million?

16 MR. RENNER: That is correct, sir.

17 COMMISSIONER JONES: So my question is, on
18 cap structure, when will the 50 percent equity and 50
19 percent debt structure be achieved? Will it be
20 achieved immediately upon the -- after the
21 transaction is consummated or would it be achieved
22 over a period of several years?

23 MR. RENNER: The capital structure of
24 Cascade at March 31st consists of approximately 45
25 percent equity and 55 percent debt. When we infuse

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1 the equity component into the indirect holding
2 companies, that -- the combined equity component will
3 be a little bit stronger than the 45 percent, but
4 it's our intent to get to the 50/50 capital structure
5 at both the operating company and at the holding
6 company level as quickly as possible. We will do
7 that through a combination of retaining as many
8 dollars of earnings within Cascade as possible. In
9 other words, minimizing dividends downstream. I
10 would say that the effort will take us approximately
11 two to three years to get to the 50/50.

12 COMMISSIONER JONES: Any comments, Ken, on
13 this?

14 MR. ELGIN: Well, that's -- excuse me. I
15 wouldn't have any information about that. That's the
16 company's plans and that's how they would propose to
17 get there. We have no -- Staff can't really comment
18 on that. It's up to -- it's management's prerogative
19 to manage its capital structure, and what would be
20 appropriate for rate making would be a determination
21 by the Commission in a future rate case.

22 COMMISSIONER JONES: And Mr. Renner, this
23 has already been -- this is all public information,
24 so I assume the ratings agencies are aware of the
25 intent of the company to issue more common equity and

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1 the possible effect of dilution of existing
2 shareholders and have taken that into account when
3 they reviewed your credit ratings and those of
4 Cascade?

5 MR. RENNER: We feel this pending
6 transaction has been reflected in the market value of
7 the MDU Resources stock. You need to be aware, Mr.
8 Commissioner, that as we have this transaction going
9 on, MDU Resources also has another transaction going
10 on whereby it is divesting its independent power
11 production operations. That will raise a
12 considerable level of equity, which will be
13 redeployed into this transaction, so essentially
14 there will be no incremental common shares issued to
15 accomplish this transaction. So the dilution becomes
16 moot.

17 COMMISSIONER JONES: My second question
18 relates to Commitment Number Six, and that regards
19 the issues of Cascade operating as a completely
20 independent subsidiary of MDU Resources.

21 As I understand this, what are the -- could
22 you describe for me the existing credit facilities of
23 MDU Resources? What is your primary banking
24 relationship and what is the primary banking
25 relationship for line of credits for Cascade Natural,

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1 for CNG?

2 MR. RENNER: MDU Resources currently has two
3 primary credit areas. First is MDU Resources. MDU
4 Resources itself is an investment grade, it's a
5 triple-B--rated company, okay. In addition to the
6 MDU credit facilities, MDU Resources credit
7 facilities, there's also a credit facility that is
8 maintained by a subsidiary of MDU Resources called
9 Centennial Energy Holding Company. That credit
10 facility is separate and distinct from the MDU
11 Resources credit facilities. There are no
12 cross-defaults and there are no guarantees between
13 these two entities.

14 Cascade will become an indirect wholly-owned
15 subsidiary of MDU Resources. Between MDU Resources,
16 so as to accomplish the requirements of the
17 ring-fencing, there will be a subsidiary, which I
18 will refer to as Debtco, which will -- whose stock
19 will be owned by MDU Resources. In turn, the stock

20 of Debtco will be owned by another subsidiary called
21 -- which I will refer to as Equico, and Equico will
22 own the stock of Cascade Natural Gas Company.

23 Cascade Natural Gas Company currently has
24 and will maintain its stand-alone credit ratings.
25 Those credit ratings are triple-B-plus at -- they

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1 were at that level when the transaction was
2 announced. They are still at that level. And by
3 maintaining the separate credit ratings and by
4 maintaining this indirect subsidiary structure, we
5 feel that we will accomplish the ring-fencing
6 provisions that the Commission requires in this kind
7 of a transaction and that -- as we negotiated with
8 Staff as a part of the stipulations.

9 COMMISSIONER JONES: My question was not --
10 and I understand both Cascade Natural Gas and MDU
11 Resources both have triple-B-plus credit ratings from
12 S&P; correct?

13 MR. RENNER: Yes, sir.

14 COMMISSIONER JONES: So my question was not
15 directed at that. It was more in the line of credit
16 facilities, credit facilities that Cascade currently
17 has. Will Cascade continue to have a credit facility
18 with another bank, other than the credit facility of
19 MDU Resources?

20 MR. RENNER: Yes, sir. Cascade currently
21 has a line of credit facility with U.S. Bank, I
22 believe. It is in the amount of \$60 million, and

23 that facility will be maintained.

24 COMMISSIONER JONES: And it's my
25 understanding that there is no -- as Commitment

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1 Number Six states, there's no cross-default
2 provisions in the event of bankruptcy of MDU
3 Resources in any of those loan covenants?

4 MR. RENNER: There are no cross-default
5 provisions.

6 COMMISSIONER JONES: Mr. Elgin, have you had
7 a chance to look at the loan covenants and the line
8 of credit facilities to confirm that point?

9 MR. ELGIN: No, sir, I have not looked at
10 those specific documents. The ring-fencing
11 provisions that we have agreed to are basically --
12 the essence are to have Cascade be an independent
13 entity with its own credit rating and its own credit
14 facilities, and the inherent nature of the
15 ring-fencing provisions would be that Cascade would
16 operate it no differently under MDU ownership as it
17 does as an independently-traded company in the
18 market.

19 So that was the whole purpose of those
20 ring-fencing provisions, is to keep Cascade
21 stand-alone and its own credit and its own business
22 entity and would maintain the existing relationships,
23 or it's possible that MDU may change those banking
24 relationships, but, again, the nature of the
25 ring-fencing provisions are to keep Cascade separate

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1 and independent from MDU and all the business
2 interests of MDU Resources, Incorporated.

3 COMMISSIONER JONES: Another question, Mr.
4 Renner, concerned why you are setting up the
5 structure as a first-tier subsidiary, rather than a
6 utility division. I think I understand why. In your
7 statement, you said the deferral of -- the
8 possibility of deferred federal income taxes as a
9 primary driver, why we structured it this way. And I
10 understand Staff and this Commission's concern about
11 ring-fencing, as well, but how large a criterion was
12 the deferred federal income taxes as a criterion
13 structuring this acquisition?

14 MR. RENNER: Mr. Commissioner, when we
15 initially put this transaction together, we had
16 initially proposed that Cascade be a direct
17 subsidiary and then, in the course of the technical
18 conference and the settlement conferences, we arrived
19 at having it set up as an indirect subsidiary.

20 If we were to set up Cascade as a division,
21 essentially liquidating the existing corporate
22 structure of Cascade, that would trigger the deferred
23 taxes, we think, and by doing a -- by setting up
24 Cascade as a subsidiary through a reverse triangular
25 merger, we avoid that potential of having to pay

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1 those deferred taxes.

2 Now, if the deferred taxes were -- as you're

3 well aware, deferred taxes are a rate-based
4 deduction, so neither the corporation nor its
5 customers would be well-served by having to pay a
6 bunch of deferred taxes to the federal government, so
7 it was a significant consideration, sir.

8 COMMISSIONER JONES: I understand. I think
9 it's Commitment ---- what number is the commitment on
10 dividend increases?

11 MR. RENNER: Twenty-seven, I believe.

12 COMMISSIONER JONES: Twenty-seven. As I
13 understand -- no, Commitment Number 29, if you would
14 refer to that. Mr. Elgin, correct me if I'm wrong
15 here. Was there any provision of a notification of a
16 dividend increase over 10 percent in any of the
17 previous acquisitions with ring-fencing that we have
18 approved? Is this the first time that we've had a
19 notification procedure?

20 MR. ELGIN: My mind's drawing a blank right
21 now. There were -- in the MEHC case, there was a
22 notice requirement of a change in the dividend, but I
23 don't recall the specific magnitude of that increase,
24 and it would be just a notice requirement, so -- but
25 I don't recall the specific figure. I did not study

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1 those documents before this.

2 COMMISSIONER JONES: Okay. It seems like a
3 new requirement in an acquisition to me, but that's
4 -- I didn't review them prior to this proceeding, as
5 well.

6 In the other structure, Mr. Elgin, of the
7 dividend limitations, it's basically similar to
8 what this Commission approved in the PacificCorp-MEHC?

9 MR. ELGIN: Yes, sir.

10 COMMISSIONER JONES: And as I understand
11 this, this provision is just a notification
12 procedure, and it only triggers if it's -- if it's
13 9.5 or 9.9 percent, it won't trigger, but if it's
14 over ten percent, the only obligation the company has
15 is to notify the Commission?

16 MR. ELGIN: That's correct.

17 COMMISSIONER JONES: My last question is on
18 the non-consolidation opinion. This is for the
19 company. Has the company identified a law firm and
20 are you in the process of developing a
21 non-consolidated opinion? This has to come from an
22 independent law firm, independent from the law firm
23 that represents you currently; correct?

24 MR. GOODIN: That's correct, Commissioner.

25 We have, throughout this process, been in contact

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1 with one particular law firm, Thelen Reid Priest, to
2 get some advice so far as structuring these
3 commitments so that they would allow for a clean
4 opinion when everything is said and done.

5 Now, is that the only law firm that we
6 routinely deal with? Well, they're one of several,
7 so to say they would be the ultimate one might be
8 premature at this point given we do have 90 days

9 post-transaction, but part of our contact, again, has
10 been throughout the process so that our commitments
11 here can be consistent with a clean opinion.

12 COMMISSIONER JONES: And we are the last
13 state to --

14 MR. GOODIN: That is correct, that is
15 correct.

16 COMMISSIONER JONES: Okay. That's all I
17 have. Thank you.

18 JUDGE MOSS: Thank you. Commissioner Oshie.

19

20 E X A M I N A T I O N

21 BY COMMISSIONER OSHIE:

22 COMMISSIONER OSHIE: Thank you, Judge. I
23 just have one question, and that has to do with
24 Commitment Number 34, dealing with the low-income
25 programs. When I read the paragraphs in the

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1 document, it seemed to me that it really captured
2 what the existing obligations of Cascade, at least
3 with regard to Paragraph 33 to the low-income
4 program.

5 And so my question with regard to 34 is that
6 the creation or the recognition of the deferred
7 accounting treatment for the low-income
8 weatherization program, is that something different
9 than what we do right now, or is that, again, as
10 Paragraph 33, just a recognition of the status quo
11 and how those costs are treated on an annual basis,

12 the annual true-up?

13 MR. STOLTZ: It's more an affirmation of the
14 current process.

15 COMMISSIONER OSHIE: And that really is my
16 only question. I just wanted to make sure -- that's
17 how I understood it, Mr. Stoltz, and I appreciate
18 your clarification of that. So thank you.

19 CHAIRMAN SIDRAN: Well, good afternoon. I
20 don't have any questions. I just want to make a
21 couple of comments. One is, first, to commend the
22 parties. Under Washington State law, settlements are
23 favored and, from the Commission's perspective,
24 global settlements are particularly favored, so we
25 are pleased that we are having a hearing on an

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1 uncontested settlement.

2 Second, thank you for your explanation and
3 education regarding the gymnastics of a reverse
4 triangular merger, which was news to me.

5 And lastly, the primary interest that I had
6 in having this hearing is because I view the
7 acquisition of a major utility subject to our
8 jurisdiction as being if not the most, certainly one
9 of the most important decisions that this Commission
10 can undertake. And because it is such an important
11 decision, it seems to me both appropriate and prudent
12 to provide the maximum opportunity with respect to
13 public process so that everyone has an opportunity to
14 fully understand the nature of the acquisition in a

15 process that meets what I think is the public
16 interest standard under our state's law.

17 So I thank you for taking the time to come
18 out here from Bismarck or from wherever you have come
19 to appear for this hearing, and we look forward to
20 rendering a timely decision. Thank you.

21 JUDGE MOSS: All right. If there's nothing
22 further -- any further business, Counsel? All right.
23 We won't need to have any post-hearing briefing in
24 this. I think we have all the information in the
25 record that we need in order to make a decision, so

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1 with that, we'll call the record closed, and thank
2 you all very much for your assistance today.

3 (Proceedings adjourned at 2:37 p.m.)

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