Cascade Natural Gas Corporation
Washington Utilities and Transportation Commission
WUTC v. Cascade Natural Gas Corporation
Docket UG-190210

Bench Request No. 2

Date prepared: November 1, 2019

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BENCH REQUEST NO. 2:

A. In Exh. No. NAK-1T at page 7, lines 7-16, Nicole Kivisto testified that Fitch Ratings downgraded Cascade Natural Gas Company's Issuer Default Rating from "A-" to "BBB+" and its unsecured debt rating from "A" to "A-" on August 1, 2018. **Please provide a copy of the actual Fitch Ratings report referenced in testimony, as well as copies of all documents containing the rating information provided in the spread sheet submitted in response to Bench Request No. 1,** which contains all ratings for Cascade Natural Gas Company issued from October 1, 2014, through October 31, 2019.

Response:

CNGC Rply-to-BR2 11-4-2019.pdf
CNGC S&P Ratings Direct Research Update MDUR Dec-10-2014.pdf
CNGC S&P Research Update MDUR Nov-30-2015 - Negative Watch.pdf
CNGC S&P Rating Report Cascade Sept. 2018.pdf
CNGC S&P Research Update Cascade - Sept 20, 2016.pdf
CNGC S&P Research Update MDUR Dec-27-2017.pdf

S&P Global
Ratings

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MDU Resources Group Inc.

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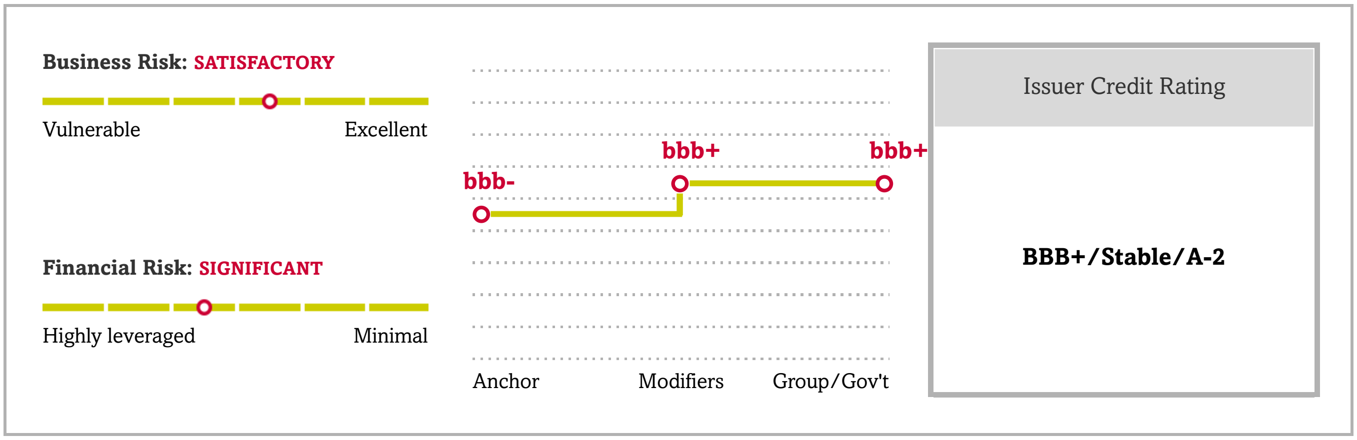
MDU Resources Group Inc.



Credit Highlights

Overview

Key Strengths	Key Risks
Lower-risk, regulated utility operations constitute the largest segment of the consolidated business.	Higher-risk construction materials and construction services operations significantly increase the company's business risk compared to that of other regulated utility holding companies.
Management of regulatory risk at the utility level is effective.	An elevated capital-spending plan leads to negative discretionary cash flow throughout our forecast, indicating the need for external financing.
Geographical and business diversity are solid, with utility operations across eight states, construction-material operations in 15 states, and construction services operations in a variety of markets across the U.S.	

S&P Global Ratings expects MDU Resources Group Inc.'s (MDUR's) operations to remain mostly regulated. We expect that the company's regulated utility and pipeline operations will continue to account for a little over 50% of the company's consolidated EBITDA, with the remainder derived from the higher-risk construction materials and construction services businesses, which dims our view of the company's business risk. Yet, other mitigating factors--including the company's effective regulatory risk management across multiple states--support a higher assessment of MDUR's business risk within the satisfactory business risk profile category.

We expect MDUR's forecasted credit metrics to remain at the higher end of the financial risk profile category. We forecast funds from operations (FFO) to debt to remain at 20%-23% throughout the outlook period.

Outlook

The stable outlook reflects our expectation that MDUR's regulated businesses will remain above 50% of the consolidated company. Our base-case forecast assumes that MDUR's FFO to debt will be about 20%-23%.

Downside scenario

We could lower the ratings if the relative size of the regulated businesses drops to below 50% of consolidated MDUR or if MDUR's FFO to debt weakens to the lower end of the range for the significant financial risk profile category, reflecting FFO to debt consistently below 15%.

Upside scenario

We could upgrade MDUR if its consolidated FFO to debt consistently improved to above 23% and the company were to maintain the size of its regulated businesses at more than 50% of consolidated MDUR. This could occur if the company further improves the gross margins at its regulated businesses through better rate-case outcomes and simultaneously has higher-than-expected growth at its construction materials business, while the regulated businesses remain greater than 50% of the company.

Our Base-Case Scenario

Assumptions

- Rate-case filings and continued use of existing regulatory mechanisms;
- Capital spending averaging about $500 million-$550 million annually;
- Most capital spending is at the regulated utilities;
- Stable utility customer growth of about 1% annually;
- Dividend payments of more than $150 million annually; and
- Negative discretionary cash flow.

Key Metrics

	2018A	2019E	2020E
Adjusted FFO to debt (%)	22.9	20.0-23.0	20.0-23.0
Adjusted debt to EBITDA (x)	3.7	3.5-3.7	3.5-3.7

A--Actual E--Estimate

Company Description

MDUR is a holding company with operations that fit into four primary business segments: regulated utilities (about 40% of operations), natural gas pipelines and midstream (about 10%), construction materials (about 35%), and construction services (about 15%). MDUR's utilities segment serves about 960,000 natural gas customers and 140,000 electric customers throughout eight states. The pipeline and midstream segment provides natural gas transportation, gathering, and storage operations throughout Minnesota, Montana, North Dakota, South Dakota, and Wyoming. The construction materials segment has operations across 15 states and mines, processes, and sells construction aggregates; produces and sells asphalt mix; and supplies ready-mixed concrete. These products are then used in many types of construction, which is performed either by MDUR or other companies. The construction services segment provides specialty contracting services to utilities and large manufacturing, commercial, industrial, and government customers.

Business Risk: Satisfactory

Our assessment of MDUR's business risk incorporates our combined view of its various businesses. Although the company has significant contributions from the cyclical construction materials and construction services segments, the largest segment of the company is its regulated utility business, which supports a higher view of the company's business risk relative to peers within the same business risk profile category.

MDUR's regulated utilities span across North Dakota, Idaho, Montana, South Dakota, Minnesota, Oregon, Washington, and Wyoming. The company effectively manages regulatory risk comparable to its peers. It also uses numerous tariff-setting mechanisms that reduce regulatory lag, such as fuel and purchased-power adjustments, various riders, rate cases, and decoupling. In 2018, the company purchased a 48-megawatt expansion of the Thunder Spirit Wind Farm in North Dakota for about $85 million after receiving a determination of prudence from the North Dakota Public Service Commission. This purchase supports the company's rate-base growth and increases the proportion of its renewables generation to about 27% of total nameplate capacity. The company also has recently received a number of regulatory orders surrounding its rates that included the effects of tax reform, such as the following:

- A rate decrease for its natural gas operations of $400,000, as well as a one-time refund of $400,000 in Minnesota;
- A one-time bill credit in Montana of about $1.5 million;
- Orders for its natural gas and electric operations in North Dakota for a $2.5 million increase and an $8.4 million decrease, respectively;
- A rate reduction of $1.1 million for the company's electric operations in Wyoming;
- Approval of the company's general rate case settlement in Oregon of a $1.2 million rate increase for its natural gas operations;
- Annual rate reductions for its natural gas and electric operations in South Dakota of $300,000 and $100,000, respectively, as well as one-time refunds totaling $1.9 million in the state; and
- An annual increase via its pipeline cost-recovery mechanism in Washington for $2.1 million.

In addition, the company is in the middle of rate cases in Montana (for its electric operations) and Washington (for its natural gas operations), in which it has requested rate increases of $11.9 million and $12.7 million, respectively. More specifically, for the rate case in Montana, the company submitted a settlement agreement to regulators reflecting a $9.0 million rate increase that would start immediately from the effective date, with an additional $300,000 increase that would start twelve months after the effective date.

Following the sale of the Pronghorn natural gas processing plant at the end of 2016, the company's pipelines and midstream segment operations consist almost entirely of lower-risk, regulated pipelines in the Bakken region, which modestly supports the company's business risk. However, increasing the business risk at the company are its construction materials (Knife River) and construction services business segments. We view the passage of various infrastructure-spending bills across the U.S., as well as the need for infrastructure spending in the U.S., as potentially beneficial for the growth of Knife River's business. However, we view these businesses as higher risk than pure-play regulated utility operations because they are more susceptible to competition, pricing, and business cycles. Despite these factors, we assess the company's business risk profile at the very high end of the range for its category compared to that of its peers, reflecting the high percentage of MDUR's cash flows that are derived from its lower-risk regulated utility businesses.

Peer comparison

Table 1

MDU Resources Group Inc.--Peer Comparison

	MDU Resources Group Inc.	Black Hills Corp.	Otter Tail Corp.	Martin Marietta Materials Inc.	Vulcan Materials Co.
Rating as of May 14, 2019	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Positive/--	BBB+/Stable/A-2	BBB/Stable/--
(Mil. $)					
Revenues	4,531.6	1,754.3	916.4	4,244.3	4,382.9
EBITDA	691.9	622.4	215.0	1,165.8	1,157.3
FFO	580.8	464.5	177.8	963.3	944.3
Interest expense	114.8	149.0	33.8	179.7	167.5
Cash interest paid	95.0	143.2	31.1	174.8	147.0
Cash flow from operations	538.5	500.4	146.6	781.2	858.2
Capital expenditures	565.9	461.1	104.2	372.9	465.4
Free operating cash flow	(27.5)	39.3	42.3	408.3	392.8
Dividends paid	154.6	126.2	53.2	116.4	148.1
Discretionary cash flow	(189.4)	(86.9)	(13.9)	179.6	78.9
Cash and short-term investments	53.9	20.8	0.9	44.9	40.0
Gross available cash	53.9	20.8	0.9	44.9	40.0
Debt	2,531.4	3,336.1	774.5	3,810.0	3,484.1
Equity	2,566.8	2,287.4	728.9	4,949.4	5,202.9
Adjusted ratios					
EBITDA margin (%)	15.3	35.5	23.5	27.5	26.4
Return on capital (%)	8.8	7.5	9.1	9.5	8.9
EBITDA interest coverage (x)	6.0	4.2	6.4	6.5	6.9
FFO cash interest coverage (x)	7.1	4.2	6.7	6.5	7.4
Debt/EBITDA (x)	3.7	5.4	3.6	3.3	3.0
FFO/debt (%)	22.9	13.9	23.0	25.3	27.1

Table 1

MDU Resources Group Inc.--Peer Comparison (cont.)					
	MDU Resources Group Inc.	**Black Hills Corp.**	**Otter Tail Corp.**	**Martin Marietta Materials Inc.**	**Vulcan Materials Co.**
Cash flow from operations/debt (%)	21.3	15.0	18.9	20.5	24.6
Free operating cash flow/debt (%)	(1.1)	1.2	5.5	10.7	11.3
Discretionary cash flow/debt (%)	(7.5)	(2.6)	(1.8)	4.7	2.3
Debt/debt and equity (%)	49.7	59.3	51.5	43.5	40.1

Financial Risk: Significant

We assess MDUR's financial measures using our medial volatility table, reflecting our forward-looking view that lower-risk regulated utility and pipeline operations will consistently account for a little more than 50% of the consolidated company. Under our base-case scenario, we expect financial measures to remain at the higher end of the range for the significant financial risk profile category. Specifically, we expect FFO to debt to average about 20%-23%. Our base case assumes capital spending averages about $500 million-$550 million annually, recent rate orders, dividends of more than $150 million annually, and equity issuances as necessary to maintain the company's capital structure. Our base case also assumes the company's continued use of existing regulatory mechanisms and future rate-case increases.

Financial summary

Table 2

MDU Resources Group Inc.--Yearly Data					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2
(Mil. $)					
Revenues	4,531.6	4,443.4	4,128.8	4,191.5	4,670.6
EBITDA	691.9	710.2	699.8	538.5	940.4
FFO	580.8	506.1	492.7	391.4	767.4
Interest expense	114.8	111.9	115.1	117.6	114.2
Cash interest paid	95.0	91.9	101.2	113.7	104.0
Cash flow from operations	538.5	390.6	461.7	467.9	633.5
Capital expenditures	565.9	340.4	387.3	615.6	960.5
Free operating cash flow	(27.5)	50.1	74.4	(147.6)	(327.0)
Dividends paid	154.6	150.7	147.2	142.8	136.7
Discretionary cash flow	(189.4)	(117.9)	(72.8)	(290.5)	(463.7)
Cash and short-term investments	53.9	34.6	46.1	84.6	81.9
Gross available cash	53.9	34.6	46.1	84.6	81.9
Debt	2,531.4	2,186.3	2,226.8	2,345.6	2,435.1
Equity	2,566.8	2,429.0	2,316.2	2,520.5	3,249.8

Table 2

MDU Resources Group Inc.--Yearly Data (cont.)					
	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
Adjusted ratios					
EBITDA margin (%)	15.3	16.0	16.9	12.8	20.1
Return on capital (%)	8.8	10.1	9.4	5.5	9.7
EBITDA interest coverage (x)	6.0	6.3	6.1	4.6	8.2
FFO cash interest coverage (x)	7.1	6.5	5.9	4.4	8.4
Debt/EBITDA (x)	3.7	3.1	3.2	4.4	2.6
FFO/debt (%)	22.9	23.1	22.1	16.7	31.5
Cash flow from operations/debt (%)	21.3	17.9	20.7	20.0	26.0
Free operating cash flow/debt (%)	(1.1)	2.3	3.3	(6.3)	(13.4)
Discretionary cash flow/debt (%)	(7.5)	(5.4)	(3.3)	(12.4)	(19.0)
Debt/debt and equity (%)	49.7	47.4	49.0	48.2	42.8

FFO--Funds from operations.

Liquidity: Adequate

MDUR has adequate liquidity, reflecting our expectation that the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months, even if EBITDA declines by 10%. Under our stress scenario, we do not expect that MDUR would require access to the capital markets during that period to meet its liquidity needs. MDUR likely has the ability to absorb a high-impact, low-probability event with limited need for refinancing, sound relationships with banks, and a generally satisfactory standing in the credit markets, and it maintains generally prudent risk-management practices.

Principal Liquidity Sources	Principal Liquidity Uses
• Credit facility availability of about $200 million; • FFO of about $550 million; and • Cash on hand of about $50 million.	• Debt maturities other than commercial paper of about $200 million over the next 12 months; • Maintenance capital spending of about $300 million over the next 12 months; and • Dividend payments of about $160 million over the next 12 months.

Debt maturities

- 2019: $251.9 million (inclusive of commercial paper)
- 2020: $125.9 million
- 2021: $290.4 million

- 2022: $147.3 million
- 2023: $125.7 million

Other Credit Considerations

Our issuer credit rating (ICR) on MDUR benefits from its business-line diversification compared to that of its peers because it operates four different business segments that are not highly correlated with each other, and each contributes at least 10% and not more than 50% of MDUR's EBITDA. The ICR further benefits from our view that MDUR's business risk profile is at the very high end of the category, due to the large proportion of lower-risk regulated utility operations at the company.

Environmental, Social, And Governance

Through its operations in electric generation, natural gas transportation, and mining, MDUR's environmental footprint is a significant risk factor. In 2018, the company relied on coal-fired facilities for approximately 80% of its electric generation. However, it is taking steps to lessen its reliance on coal-fired generation through its purchase of Thunder Spirit and its plan to replace three coal units, which made up about 25% of its generation in 2018, with a lower CO_2 emitting combined cycle plant. However, although the company is reducing its reliance on coal, its exposure to coal and other fossil-fuel emitting forms of generation is still considerable. This exposes it to heightened risks, including the ongoing cost of operating older units in the face of disruptive technology advances and the potential for changing environmental regulations that could require significant capital investments. Furthermore, although the company spends significant capital to replace aging natural gas lines that are prone to leaks, its gas operations are subject to environmental risks through their potential to emit greenhouse gases during the normal course of business. The company also uses fossil fuels to operate equipment at its quarries and must properly manage any water discharges, further highlighting the environmental risks it faces.

MDUR's internal safety and health management systems processes support its ability to provide safe and reliable service for its customers. The company must also maintain good relations and communications with residents and officials in the areas in which it operates plants, pipelines, and quarries, as these operations are subject to strict regulation.

We view governance factors as neutral for MDUR. The company has an independent board of directors that, in our view, is capably engaged in risk oversight on behalf of all stakeholders.

Reconciliation

Table 3

Reconciliation Of MDU Resources Group Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2018--						
MDU Resources Group Inc.'s reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,108.7	621.9	401.7	84.6	691.9	503.8	568.2
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(16.0)	--	--
Cash taxes paid - Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(83.0)	--	--
Operating leases	114.8	46.6	9.7	9.7	(9.7)	36.9	--
Postretirement benefit obligations/deferred compensation	65.2	--	--	--	--	--	--
Accessible cash and liquid investments	(53.9)	--	--	--	--	--	--
Capitalized interest	--	--	--	2.3	(2.3)	(2.3)	(2.3)
Share-based compensation expense	--	5.1	--	--	--	--	--
Asset retirement obligations	296.7	18.2	18.2	18.2	--	--	--
Nonoperating income (expense)	--	--	(2.1)	--	--	--	--
Total adjustments	422.7	69.9	25.8	30.2	(111.0)	34.7	(2.3)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
	2,531.4	691.9	427.5	114.8	580.8	538.5	565.9

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb-

Modifiers

- **Diversification/Portfolio effect:** Moderate (+1 notch)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Building Materials Industry, Dec. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 21, 2019)*

MDU Resources Group Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Issuer Credit Ratings History	
21-Nov-2016	BBB+/Stable/A-2
30-Nov-2015	BBB+/Negative/A-2
11-Dec-2013	BBB+/Stable/A-2
Related Entities	
Cascade Natural Gas Corp.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Centennial Energy Holdings Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Montana-Dakota Utilities Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

FITCH AFFIRMS MDU RESOURCES, CENTENNIAL ENERGY; DOWNGRADES CASCADE; OUTLOOK STABLE

Fitch Ratings-New York-01 August 2018: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc. (MDU; Issuer Default Rating [IDR] BBB+) and Centennial Energy Holdings, Inc. (Centennial; IDR BBB), the holding company for MDU's non-utility operations. Fitch has downgraded MDU's regulated natural gas distribution utility subsidiary, Cascade Natural Gas Corporation's (Cascade) IDR to 'BBB+' from 'A-'. The Rating Outlook is Stable for all three entities. A full list of rating actions follows at the end of this release.

MDU's ratings and debt instrument notching continue to reflect the existing corporate structure under which Montana-Dakota Utilities Co., a four-state regulated electric utility, and Great Plains Natural Gas Co., a two-state regulated natural gas utility, are divisions of MDU, with all the debt at MDU representing divisional utility debt. MDU is implementing a plan to reorganize into a parent holding company structure that would make Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. wholly-owned subsidiaries of MDU. Under the new holdco structure, MDU's legacy utility debt would be transferred to Montana-Dakota Utilities Co. and Great Plains Natural Gas would become a division of Montana-Dakota Utilities Co. The reorganization is subject to regulatory approvals and management expects the transition to be effective Jan. 1, 2019. Fitch will reassess MDU's ratings and debt instrument notching once the transition to the new organizational structure is completed.

Cascade's ratings downgrade is driven by a materially weaker financial profile due to a less than favorable rate outcome in its Washington rate case and elevated capex that will significantly pressure leverage over the next two to three years. Fitch believes the likelihood of a material improvement in Washington's regulatory environment that would lead to more constructive rate outcomes is questionable in the near-to-intermediate term. Fitch projects Cascade's adjusted debt/EBITDAR and FFO-adjusted leverage to average 4.9x and 5.2x, respectively, over 2018-2020, reflecting credit measures that are no longer supportive of an 'A-' utility credit profile.

KEY RATING DRIVERS

MDU
Continued Focus on Regulated Businesses: MDU owns four low-risk regulated electric and natural gas utilities that operate in relatively balanced regulatory compacts and serve parts of eight contiguous states from Minnesota to Washington, providing regulatory diversity. Fitch estimates regulated utilities' share of consolidated capital investments will grow to approximately 69% of total capex over 2018-2022, compared with roughly 36% in 2014, when the exploration and production (E&P) segment represented the bulk of investments. Utility capex primarily targets upgrade of electric and gas infrastructure and renewable investments. Fitch forecasts the regulated utilities to generate roughly 45% of consolidated EBITDA in 2022 compared with 24% back in 2014 when E&P's share was 40%. Coupled with the Federal Energy Regulatory Commission (FERC)-regulated pipeline business, Fitch estimates MDU's regulated operations will contribute greater than 50% of consolidated EBITDA compared with approximately 30% in 2014.

Relatively Balanced Regulation: Regulatory mechanisms are generally supportive of credit quality. Some regulatory jurisdictions allow the use of decoupling and riders for investments in renewables, gas pipe replacement, transmission and environmental equipment. All jurisdictions allow trackers for fuel and purchased power costs, and a purchased gas adjustment clause for gas utilities. North Dakota and Montana were the largest contributors to electric revenue, representing 66% and 20%, respectively, in 2017. Idaho and Washington were the largest contributors to natural gas revenue, representing 33% and 26%, respectively, in 2017.

Tax Reform: Fitch expects the impact of tax reform to be manageable within MDU's consolidated financial profile, with the anticipated adverse effect on utility cash flows partly mitigated by the earnings uplift accruing to the two non-utility construction materials and contracting and construction services segments. Notably, MDU recorded a combined $46.2 million earnings benefit from its construction materials and services businesses as a result of tax reform in 4Q2017. By contrast, the utilities and the pipeline and midstream business booked a combined $6.6 million charge in 4Q2017.

Exposure to Unregulated Operations: Fitch's primary credit concern is MDU's cash flow exposure to unregulated operations, which gradually diminished with recent divestitures, but remains present nonetheless. Fitch projects Centennial's non-utility operations will contribute nearly 55% of MDU's EBITDA over the next five years. We estimate the construction materials and contracting and construction services businesses will represent 80%-85% of Centennial's EBITDA over 2018-2022. Centennial's construction materials and contracting segment consists of the mining, processing, and selling of construction aggregates; the production and selling of asphalt mix, and the supply of ready-mix concrete. The construction services segment provides inside and outside specialty contracting services. The remainder of Centennial's EBITDA is generated by the pipeline and midstream segment, which consists almost entirely of FERC-regulated pipeline operations. On a positive note, these businesses are financially robust and are not capital intensive.

Conservative Financing Policy: Fitch recognizes MDU's continued commitment to manage its businesses' balance sheet conservatively. Centennial's financial profile benefits from modest financial leverage, with debt/total capitalization managed at around 30%-35%. Utilities' financial policies are managed consistent with their authorized regulatory capital structures.

Adequate Credit Metrics: Fitch expects EBITDAR and FFO coverage ratios to average 4.5x and 4.3x, respectively, over 2018-2020. Adjusted debt/EBITDAR and FFO-adjusted leverage are projected to average 3.6x and 3.8x, respectively, over the period. Ongoing rate relief and successful execution on a significant backlog of projects in the construction materials and services segments should support a relatively stable financial profile over the forecast period.

Potential Holding Company Reorganization: MDU's ratings and debt instrument notching continue to reflect the existing corporate structure under which Montana-Dakota Utilities Co., a four-state regulated electric utility, and Great Plains Natural Gas Co., a two-state regulated natural gas utility, are divisions of MDU, with all the debt at MDU representing divisional utility debt. MDU is implementing a plan to reorganize into a parent holding company structure that would make Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. wholly-owned subsidiaries of MDU. Under the new holdco structure, MDU's legacy utility debt would be transferred to Montana-Dakota Utilities Co. and Great Plains Natural Gas would become a division of Montana-Dakota Utilities Co. The transaction is subject to regulatory approval, and MDU has received approvals from FERC and a majority of jurisdictions, and is still waiting for approvals from Wyoming and Montana. The reorganization is consistent with several merger standards, including a no-harm provision. In addition, the consolidated holding company capital structure is expected to remain as MDU's current consolidated capital structure. Management expects the transition to be effective Jan. 1, 2019.

CASCADE

Ratings Downgrade: Cascade's ratings downgrade is driven by a materially weaker financial profile due to a less than favorable rate outcome in its Washington rate case and elevated capex that will significantly pressure leverage over the next two to three years. Fitch believes the likelihood of a material improvement in Washington's regulatory environment that would lead to more constructive rate outcomes is questionable in the near-to-intermediate term. Fitch projects adjusted debt/EBITDAR and FFO-adjusted leverage to average 4.9x and 5.2x, respectively, over 2018-2020, reflecting credit measures that are about 100bps weaker than prior projections and are no longer supportive of an 'A-' utility credit profile.

Less than Supportive Rate Order: Cascade received a natural gas base rate reduction of $2.9 million for its Washington State service territory, effective Aug. 1, 2018, based on a below-average 9.4% authorized ROE and 49% equity ratio. In addition, the rate order stipulates Cascade must return approximately $40.2 million of protected and $8.1 million of unprotected excess accumulated deferred income taxes (ADIT) to customers. The utility is to return $1.7 million of protected excess ADIT and about $808,000 of unprotected ADIT for 2018 over a 15-month period. The utility had initially filed for a $5.9 million base rate increase and had subsequently revised its request to a rate reduction of $1.7 million to include the effects of tax reform, which lowered the federal corporate tax rate to 21% from 35%.

The Washington Utilities and Transportation Commission's (WUTC) decision to disallow Cascade from retaining $1.6 million of excess taxes collected for the period Jan. 1, 2018 (date the new tax law became effective) through July 31, 2018 (prior to implementation of new rates) was unfavorable, in Fitch's view. The utility must return the excess taxes collected over a 15-month amortization period. In addition, the WUTC denied Cascade's request to recover in rates O&M expenses related to the maximum allowable operating pressure validation plan for natural gas pipes built in 1970 onwards. Cascade can however recover in rates the O&M associated with pipes built prior to 1970. Despite favourable rate mechanisms including decoupling and pipe replacement trackers, Fitch believes the rate decision signals the Washington regulatory compact remains challenging, hindering Cascade's ability to earn its authorized ROE, and noting that the utility has been underearning its authorized return for several years.

Sizeable Capex: Fitch estimates Cascade's capital spending to be materially higher than previous expectations, with capex earmarked toward infrastructure build and replacement of aging pipes. Fitch projects capex to total $400 million-$430 million over 2018-2022. Fitch expects the utility to fund capex with a balanced mix of internal cash flows, debt and equity infusions from MDU.

Ring-Fencing Mechanisms: Cascade's credit profile benefits from ring-fencing mechanisms that insulate the utility from MDU's other regulated and unregulated businesses. Ring-fencing mechanisms include no Cascade guarantees or cross-default provisions within debt agreements at other MDU entities that could impact Cascade; a prohibition on intercompany loans; and dividend payment restrictions so that Cascade may not make dividend payments that would reduce its common equity ratio below 38%. In addition, Cascade may not make a dividend payment to MDU unless certain credit metrics are maintained.

MDU Ownership: Cascade's ratings take into consideration the benefit of ownership by MDU, which can provide parental support through cash infusions if needed. In addition, Cascade enjoys good financial flexibility, as reflected by the ability to access its own liquidity and issue debt on its own.

Low-Risk Business Profile: Cascade's low-risk business profile reflects the nature of its regulated gas distribution assets that operate in Washington and Oregon, where the utility benefits from timely recovery of purchased gas costs. Fitch estimates Washington represented roughly 75% of total Cascade's revenue in 2017.

CENTENNIAL

Earnings Diversity: Centennial's ratings reflect a diverse business mix that includes three distinct businesses of construction materials and contracting, construction services, and pipeline/

midstream. Since the E&P divestiture, Centennial has transitioned to a business model primarily geared towards the construction materials and construction services businesses, with pipeline/ midstream adding some level of earnings diversity. Favorably, following Centennial's exit from the refining business and the sale of its interest in the Pronghorn midstream asset, the pipeline/ midstream segment is now almost entirely FERC-regulated. Fitch estimates the construction materials and construction services businesses will generate 80%-85% of Centennial's consolidated EBITDA through 2022. Historically, those businesses have done relatively well and have built up a significant backlog of projects going into 2018, which should help boost earnings and cash flows in the near term. Fitch expects relatively stable demand in the intermediate term for construction materials and services spending prompted by committed federal government funding of transportation projects.

Cyclical Construction Sector: The seasonal and cyclical nature of the construction and building materials industry continues to be the main rating concern. Fitch's expectations of continued improvement in construction activity over 2018-2019 partly alleviates the credit risk in the near term. In particular, highway construction is expected to expand in the intermediate term given the passage of the new long-term highway bill in December 2015, which should provide greater certainty of funding from the federal government. In addition, the passage in several states of fuel-tax increases in 2017 will increase state funding for infrastructure projects and should benefit both the construction materials and construction services in 2018. Fitch expects highway and street spending will grow mid-single-digits in 2018.

M&A: Centennial completed three tuck-in acquisitions so far in 2018 that will expand the scope and geographic presence of the construction materials business. MDU stated publicly that it will continue to look for acquisition opportunities in the construction materials and construction services businesses. Fitch assumes Centennial will continue to manage the business and funding for future acquisition opportunities in a conservative manner, maintaining debt/total capitalization around historical levels of 30%-35%.

Sound Credit Metrics: Fitch forecasts EBITDA coverage and leverage ratios to average 13.5x and 1.7x, respectively, over 2018-2020. Those metrics are well positioned at the 'BBB' rating level. EBITDA coverage and leverage ratios were 13.4x and 1.4x, respectively, at year-end 2017.

MDU Ownership: Centennial's ratings take into consideration the benefit of ownership by MDU, which can provide parental support through cash infusions if needed. In addition, Centennial enjoys good financial flexibility, as reflected by the ability to access its own liquidity and issue debt on its own.

Notching: MDU retains a divisional structure so that the legacy utility is in fact the parent company. All the debt at MDU represents divisional utility debt. As a result, MDU's senior unsecured debt is rated one-notch above its IDR, consistent with Fitch's utility notching convention.

Parent-Subsidiary Linkage: There is a weak rating linkage between the IDRs of MDU and its wholly-owned subsidiaries Cascade and Centennial. Utility debt is serviced at the operating company level for MDU and its gas utility subsidiaries Cascade and Intermountain. Both subsidiaries have access to their own credit facilities. Cascade's robust ring-fencing mechanisms that were put in place with the acquisition by MDU in 2007 and the legal structure which isolates the non-utility businesses within Centennial, a non-recourse holding company, from the rest of the MDU corporate family is a factor in the ratings. There are no cross-default provisions, intercompany loans, or guarantees amongst MDU and regulated utilities and Centennial. In its notching considerations, Fitch restricts the differential between the Long-Term IDRs of MDU and each of its two subsidiaries to a maximum of two notches.

DERIVATION SUMMARY

MDU's financial profile is stronger than NorthWestern's and Xcel's and comparable to Otter Tail's. At year-end 2017, adjusted debt/EBITDAR and FFO-adjusted leverage were 3.2x and 3.8, respectively, at MDU, 4.1x and 4.1x at Xcel, 5.0x and 5.1x at NorthWestern, and 3.4x and 3.4x at Otter Tail.

Cascade as a local gas distribution company (LDC) has a relatively comparable business profile to LDC peers North Shore Gas Co. (NSG; A/Stable), Connecticut Natural Gas Corporation (CNG; A-/Stable), and Wisconsin Gas LLC (WI Gas; A-/Stable). Cascade, CNG and NSG are some of the smallest regulated utilities on an EBITDA basis under Fitch's coverage. Fitch considers Washington regulation to be challenging, Connecticut regulation to be relatively balanced, while Wisconsin and Illinois regulations are viewed as constructive.

Fitch forecasts Cascade's leverage metrics to hover around the high 4x range, reflecting a weaker financial profile than its peers. Fitch expects leverage metrics around 3.5x-4.0x at WI Gas and NSG and below 3.0x at CNG over the near term.

Centennial Energy Holdings, Inc.'s core operations consist of the construction materials and construction services businesses, which represented nearly 95% of Centennial's total revenue and 85% of total EBITDA at year-end 2017. An almost entirely FERC-regulated pipeline and midstream business contributed the remainder of revenue and EBITDA. As such, Fitch considers Martin Marietta Materials, Inc. (BBB/Stable) and Vulcan Materials Company (BBB-/Stable), two leading suppliers and producers of building materials, to be Centennial's closest peers. Centennial has a slightly weaker business risk profile than its peers, primarily due to the smaller scope of operations, market position, and geographic footprint. Centennial is a top 10 U.S. aggregate producer, operates in 15 states, and has about 1 billion tons of reserves. By contrast, Martin Marietta is the leading supplier of building materials, including aggregates, through a network of operations spanning 26 states, Canada, and the Caribbean Islands. The company believes it has the #1 or #2 positions in 85% of the markets it serves. Vulcan is also larger than Centennial, with a portfolio of 15.5 billion tons of aggregates serving markets in 20 U.S. states, Mexico and the Bahamas. On an EBITDA basis, Martin Marietta and Vulcan were close to 3x the size of Centennial at year-end 2017.

Centennial has a stronger financial profile than its peers. At year-end 2017, total debt/EBITDA and FFO-adjusted leverage were 1.4x and 3.5x, respectively, at Centennial, 2.9x and 3.9x at Martin Marietta, and 2.9x and 3.9x at Vulcan.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within our Rating Cases for the Issuers

MDU
--Rate relief across all regulated utilities over 2018-2022;
--EBITDA margins range between 13%-15%;
--Capex averages $535 million annually over 2018-2020;
--Regulated operations contribute approximately 55% of consolidated EBITDA.

CASCADE
--Base Rate filing in Washington in 2019;
--Capex averages $98 million annually over 2018-2020.

CENTENNIAL

--EBITDA margins range between 11%-13%;
--Capex ranges between $100 million-$200 million annually;
--Construction materials and construction services contribute approximately 80%-85% of Centennial's EBITDA;
--Modest incremental acquisitions in construction materials segment assumed in 2019 and 2020.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Positive Rating Action

MDU
A continued shift in earnings and business mix toward regulated businesses coupled with adjusted debt/EBITDAR sustained below 3.0x.

CASCADE
Given the ratings downgrade and sizeable capex projected over the forecast period, a positive rating action is unlikely in the near-to-intermediate term.

CENTENNIAL
Centennial's relatively smaller operating and geographical scale relative to peers makes a positive rating action unlikely in the near term.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

MDU
--A material deterioration of the regulatory environments in which the utilities operate;
--A significant and prolonged economic downturn at the construction materials and construction services segments;
--Further expansion into unregulated businesses leading to higher leverage;
--Adjusted debt/EBITDAR greater than 3.8x and FFO-adjusted leverage greater than 5.0x on a sustained basis.

CASCADE
--Further deterioration of the Washington regulatory compact;
--Adjusted debt/EBITDAR greater than 4.2x and FFO-adjusted leverage greater than 5.0x on a sustained basis.

LIQUIDITY

Adequate Liquidity:
MDU and subsidiaries have adequate liquidity for working capital and other short-term funding requirements. As of March 31, 2018, MDU had $59 million of cash and cash equivalents and availability under its combined four revolvers (MDU, Centennial, Intermountain Gas Co., Cascade) was approximately $625 million. Both MDU and Centennial maintain commercial paper programs backed by their respective revolvers. In June 2018, MDU extended the maturity date of its $175 million revolving credit agreement to June 8, 2023. In April 2017, Cascade upsized its credit facility to $75 million and extended the maturity date to April 2020. Intermountain Gas Co., Cascade's sister gas utility, upsized its credit facility to $85 million with an April 2020 maturity date. Centennial's $500 million credit facility expires in September 2021. All four bank agreements restrict the debt/capitalization ratio from exceeding 65%.
FULL LIST OF RATING ACTIONS

Fitch affirms the following ratings:

MDU Resources Group, Inc.
--Long-Term IDR at 'BBB+';
--Short-Term IDR and CP at 'F2';
--Senior unsecured at 'A-'.

Centennial Energy Holdings, Inc.
--Long-Term IDR at 'BBB';
--Short-Term IDR and CP at 'F2';
--Senior unsecured at 'BBB'.

Cascade Natural Gas Co.
--Short-Term IDR at 'F2';

Fitch downgrades the following ratings:
Cascade Natural Gas Co.
--Long-Term IDR to 'BBB+' from 'A-';
--Senior unsecured to 'A-'from 'A'.

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Summary of Financial Statement Adjustments - There were no adjustments made to the published financials that were material to the rating rationale.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10023785
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10024585

FITCH AFFIRMS MDU RESOURCES, CENTENNIAL ENERGY AND CASCADE; OUTLOOK STABLE

Fitch Ratings-New York-23 June 2017: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc. (MDU; Issuer Default Rating [IDR] 'BBB+'), its regulated natural gas distribution utility subsidiary, Cascade Natural Gas Corporation (Cascade; IDR 'A-'), and Centennial Energy Holdings, Inc. (Centennial; IDR 'BBB'), the holding company for MDU's non-utility operations. The Rating Outlook is Stable for all three entities. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

MDU
Focus on Regulated Businesses: MDU owns four low-risk regulated electric and natural gas utilities that operate in relatively balanced regulatory compacts and serve parts of eight contiguous states from Minnesota to Washington, providing regulatory diversity. Fitch estimates regulated utilities' share of consolidated capital investments will grow to approximately 65% of total capex over 2017-2021, compared with roughly 36% in 2014, when the exploration and production (E&P) segment represented the bulk of investments. Accordingly, Fitch forecasts the regulated utilities to generate 40%-45% of consolidated EBITDA compared with 24% back in 2014 when E&P's share was 40%. Coupled with the Federal Energy Regulatory Commission (FERC)-regulated pipeline business, Fitch estimates MDU's regulated operations will contribute greater than 50% of consolidated EBITDA compared with approximately 30% in 2014.

Utilities' earnings and cash flows should benefit from a number of rate decisions expected in various jurisdictions in 2017. Utilities have approximately $32.1 million in pending rate requests while another $27.4 million in interim rates has already been implemented. Rate design mechanisms are generally supportive of credit quality. Some regulatory jurisdictions allow the use of decoupling and riders for investments in renewables, transmission and environmental equipment. All jurisdictions allow trackers for fuel and purchased power costs, and a purchased-gas adjustment clause for gas utilities. Fitch assumes balanced rate outcomes in all rate cases.

Exposure to Unregulated Operations: Fitch's primary credit concern is MDU's cash flow exposure to unregulated operations, which gradually diminishes with recent divestitures, but remains present nonetheless. Fitch projects Centennial's unregulated operations will contribute nearly 45% of MDU's EBITDA over the next five years. We estimate the construction materials and construction services businesses will represent 80%-85% of Centennial's EBITDA over 2017-2021, with the remainder generated by the pipeline and midstream segment, which consists almost entirely of FERC-regulated pipeline operations. On a positive note, these businesses are financially robust and are not capital intensive.

Conservative Financing Policy: Fitch recognizes MDU's continued commitment to manage its businesses' balance sheet conservatively. Centennial's financial profile benefits from modest financial leverage, with debt/total capitalization managed at around 30%-35%. Utilities' financial policies are managed consistent with their authorized regulatory capital structures.

Sound Credit Metrics: Declining leverage as a result of divestitures has strengthened credit metrics. Fitch expects EBITDAR and FFO coverage ratios to average 4.8x and 4.3x, respectively, over 2017-2019. Adjusted debt/EBITDAR is projected to average 3.2x over the period. Improved utility earnings and cash flows and successful execution on a significant backlog of projects in the construction segment should support a stable financial profile over the forecast period.

CASCADE

Low-Risk Business Profile: Cascade's ratings reflect the low-risk nature of its regulated gas distribution assets that operate in relatively balanced regulatory compacts in Washington and Oregon, where the utility benefits from timely recovery of purchased gas costs. Washington represents nearly 90% of Cascade's rate base. Fitch estimates the utility to account for approximately 40% of MDU's gas utilities EBITDA and 20% of combined electric and gas utilities EBITDA.

Balanced Regulation: Cascade is allowed to implement a revenue decoupling mechanism in Washington that insulates net revenues from the effects of weather, energy efficiency and conservation, and customer demand. Washington rate design also includes a pipeline replacement rider that provides timely recovery of costs through annual revenue adjustments outside of rate cases. Under the rider, the utility will receive $1.9 million on an annual basis to recover pipeline replacement costs. Oregon rate mechanisms include decoupling and forward-looking test years.

Ring-Fencing Mechanisms: Cascade's credit profile benefits from ring-fencing mechanisms that insulate the utility from MDU's other regulated and unregulated businesses. Ring-fencing mechanisms include no Cascade guarantees or cross-default provisions within debt agreements at other MDU entities that could impact Cascade, a prohibition on intercompany loans, and dividend restrictions.

Manageable Capex: Fitch expects Cascade's capital spending will continue to rise over the next few years, with capex earmarked toward infrastructure-build and replacement of aging pipes. Fitch projects capex to total $250 million-$300 million over 2017-2021.

Credit Metrics: Credit metrics are projected to improve over the forecast period, primarily reflecting the positive effect of recent rate increases. EBITDAR and FFO coverage ratios are expected to average 5.3x and 5.2x, respectively, over 2017-2019 while adjusted debt/EBITDAR is projected to average 3.7x over the same time frame.

MDU Ownership: Cascade's ratings take into consideration the benefit of ownership by MDU, which can provide parental support through cash infusions if needed. In addition, Cascade enjoys good financial flexibility, as reflected by the ability to access its own liquidity and issue debt on its own.

CENTENNIAL

Earnings Diversity: Centennial's ratings reflect a diverse business mix that includes construction materials and contracting, construction services, and pipeline/midstream. Since the E&P divestiture, Centennial has transitioned to a business model primarily geared towards the construction businesses, with pipeline/midstream adding some level of earnings diversity. Favorably, following Centennial's exit from the refining business and the sale of its interest in the Pronghorn midstream asset, the pipeline/midstream segment is now almost entirely FERC-regulated. Fitch estimates the construction businesses will generate 80%-85% of Centennial's consolidated EBITDA through 2021. Historically those businesses have done relatively well and have built up a significant backlog of projects going into 2017, which should help boost earnings and cash flows in the near term. Fitch expects relatively stable demand in the intermediate term for construction products prompted by committed federal government funding of transportation projects.

Cyclical Construction Sector: The seasonal and cyclical nature of the construction industry continues to be the main rating concern. Fitch's expectations of continued improvement in construction activity over 2017-2018 partly alleviates the credit risk in the near term. In particular, highway construction is expected to expand in the intermediate term given the passage of the new long-term highway bill in December 2015, which should provide greater certainty of funding from the federal government.

Sale of the Refining Business: In June 2016, WBI Energy, a subsidiary of Centennial, sold its membership interests in Dakota Prairie Refining to Tesoro Corp. The refinery had suffered financially from adverse commodity pricing and lower diesel demand since it came online in mid-2015 and had posted an EBITDA loss of approximately $50 million in 2015. MDU recorded a pre-tax impairment of approximately $252 million in second-quarter 2016 as a result of the disposal. The transaction is modestly supportive of credit quality.

Robust Credit Metrics: Fitch forecasts EBITDAR coverage and leverage ratios to average 13x and 1.4x, respectively, over 2017-2019. The financial profile benefits from a low financial leverage position with debt-to-total capitalization managed around 30%-35%.

MDU Ownership: Centennial's ratings take into consideration the benefit of ownership by MDU, which can provide parental support through cash infusions if needed. In addition, Centennial enjoys good financial flexibility, as reflected by the ability to access its own liquidity and issue debt on its own.

NOTCHING

MDU retains a divisional structure so that the legacy utility is in fact the parent company. All the debt at MDU represents divisional utility debt. As a result, MDU's senior unsecured debt is rated one-notch above its IDR, consistent with Fitch's utility notching convention. Utility debt is serviced at the operating company level for MDU and its gas utility subsidiaries Cascade and Intermountain. Cascade's robust ring-fencing mechanisms and the legal structure which isolates the non-utility businesses within Centennial, a non-recourse holding company, from the rest of the MDU corporate family is a factor in the ratings. In its notching considerations, Fitch restricts the differential between the Long-Term IDRs of MDU and each of its subsidiaries to a maximum of two notches.

DERIVATION SUMMARY

The ratings recognize MDU's improved business profile following several credit-positive actions executed over the last two years, including exiting the commodity-sensitive E&P operations and the refining business, and selling the company's interest in the Pronghorn midstream asset. Due to the depressed commodity environment, the E&P and refining businesses had generated material negative cash flows and were not supportive of credit quality. Management's ongoing strategy to shift its mix of EBITDA and capex towards regulated businesses, including electric and gas utilities and to a lesser extent FERC-regulated pipelines, lowers business risk and provides more predictable earnings and cash flows.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

MDU
--Rate relief across all regulated utilities over 2017-2021;
-EBITDA margins range between 14%-16%;
--Capex averages $385 million annually over the next five years;
--Regulated operations contribute approximately 50%-55% of consolidated EBITDA.

CASCADE
--Washington and Oregon rate relief per recent rate orders;
--Capex averages $55 million annually over the next five years.

CENTENNIAL
--EBITDA margins range between 11%-12%;
--Capex ranges between $100 million-$200 million annually;
--Construction contributes approximately 80%-85% of Centennial's EBITDA;
--Proceeds from sale of midstream asset used towards debt pay-down.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

MDU
Continued shift in earnings and business mix towards regulated businesses coupled with adjusted debt/EBITDAR sustained below 3x.

CASCADE
Adjusted debt/EBITDAR improving to 3.2x on a sustained basis.

CENTENNIAL
Centennial's relatively smaller operating and geographical scale relative to construction peers makes a positive rating action unlikely in the near term.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

MDU
- A material deterioration of the regulatory environments in which the utilities operate;
--A significant and prolonged economic downturn at the construction segment;
--Further expansion into unregulated businesses leading to higher leverage;
--Adjusted debt/EBITDAR between 3.5x-3.8x on a sustained basis.

CASCADE
-Unexpected deterioration in the regulatory compacts;
-Adjusted debt/EBITDAR greater than 3.8x on a sustained basis.

CENTENNIAL

-A significant and prolonged downturn at the construction segment;
--Further expansion into unregulated businesses leading to higher leverage;
--Adjusted debt/EBITDAR greater than 2x on a sustained basis.

LIQUIDITY

MDU and subsidiaries have adequate liquidity for working capital and other short-term funding requirements. As of March 31, 2017, MDU had $51 million of consolidated cash and cash equivalents and availability under its four revolvers was approximately $652 million. Both MDU and Centennial maintain commercial paper (CP) programs backed by revolvers. MDU's own revolver is for $175 million and matures in May 2019. In April 2017, Cascade upsized its credit facility to $75 million and extended the maturity date to April 2020. Intermountain upsized its credit facility to $85 million with an April 2020 maturity date. Centennial's $500 million credit facility expires in September 2021. All four bank agreements restrict the debt-to-capitalization ratio from exceeding 65%.

FULL LIST OF RATING ACTIONS

Fitch affirms the following:

MDU Resources Group, Inc.
--Long-Term IDR at 'BBB+';
--Short-Term IDR and CP at 'F2';
--Senior unsecured at 'A-'.

Cascade Natural Gas Co.
--Long-Term IDR at 'A-';
--Short-Term IDR at 'F2';
--Senior unsecured at 'A'.

Centennial Energy Holdings, Inc.
--Long-Term IDR at 'BBB';
--Short-Term IDR and CP at 'F2';
--Senior unsecured at 'BBB'.

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Summary of Financial Statement Adjustments - There were no adjustments made to the published financials that were material to the rating rationale.

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For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)
https://www.fitchratings.com/site/re/895493
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)
https://www.fitchratings.com/site/re/886557

FitchRatings

Fitch Affirms MDU Resources, Centennial Energy and Cascade; Outlook Stable

Fitch Ratings-New York-17 June 2016: Fitch Ratings has affirmed the ratings of MDU Resources Group, Inc. (MDU; Issuer Default Rating [IDR] 'BBB+'), its regulated gas distribution utility subsidiary, Cascade Natural Gas Corporation (Cascade; IDR 'A-'), and Centennial Energy Holdings, Inc. (CEH; IDR 'BBB'), the holding company for MDU's non-utility operations. The Rating Outlook is Stable for all three entities. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

MDU
The ratings recognize MDU's improved business profile following its recent divestiture of the volatile exploration and production (E&P) operations, the ownership of four low-risk electric and gas utilities that operate in relatively balanced regulatory environments and serve parts of eight contiguous states from Minnesota to Washington, higher margins at CEH driven by growth of the economically sensitive construction group, low operating leverage, and sound consolidated credit metrics for the current rating category.

MDU received proceeds and tax benefits of approximately $500 million from the oil and natural gas asset sales, which are being used to pay down outstanding E&P debt and fund capex. Consolidated capex is projected to decline with the capital-intensive upstream operations now disposed of. Management plans to spend approximately $2.3 billion of capex over 2016-2020, compared with $3.6 billion over the last five years, amounting to a 36% drop. Fitch estimates regulated utilities' share of consolidated capital investments will grow to approximately 65% of total capex over 2016-2020, compared with roughly 30% in 2014, when the upstream segment represented the bulk of investments.

Accordingly, Fitch forecasts the regulated utilities to generate 40%-45% of consolidated EBITDA compared with 24% back in 2014 when E&P's share was 40%. Utilities' earnings and cash flows should benefit from a number of rate decisions expected in various jurisdictions in 2016. Utilities have $27.6 million in pending rate requests while another $27.6 million in interim rates has already been implemented. Rate design mechanisms are generally supportive of credit quality. Some regulatory jurisdictions allow the use of decoupling and riders for investments in renewables, transmission and environmental equipment. All jurisdictions allow trackers for fuel and purchased power costs, and a purchased-gas adjustment clause for gas utilities. Fitch assumes balanced rate outcomes in all rate cases.

The key credit concern is MDU's cash flow exposure to unregulated operations, which has diminished but remains present nonetheless. Fitch projects CEH's unregulated operations will contribute a meaningful 45%-50% of MDU's EBITDA over the next five years. We estimate the construction materials and construction services businesses will represent approximately 76.5% of CEH's EBITDA over 2016-2020, with the remainder generated by the pipeline and midstream segment, which consists primarily of FERC-regulated pipeline operations. On a positive note, these businesses are financially sound, operate with low leverage and are not capital intensive. Fitch recognizes MDU's continued commitment to manage the balance sheet of these operations in a conservative manner.

Credit metrics are adequate but have limited headroom at current rating levels. Fitch expects EBITDAR and FFO coverage ratios to average 4.5x and 4.2x, respectively, over 2016-2018. Adjusted debt/EBITDAR is projected to average 3.7x over the same timeframe. For the LTM 1Q16, EBITDAR and FFO coverage ratios stood at 3.4x and 3.5x, respectively, while adjusted/debt/EBITDAR was 4.7x.

CASCADE

Cascade's ratings reflect the low-risk nature of its regulated gas distribution assets that operate in relatively balanced regulatory environments in Washington and Oregon, a constructive settlement in its pending Washington rate case, projected improvement in credit metrics, and adequate access to liquidity including parent cash infusions if required. Cascade represents approximately 40% of MDU's gas utilities EBITDA and 20% of combined electric and gas utilities EBITDA. Washington represents nearly 90% of Cascade's rate base.

The utility reached a settlement in its pending Washington rate case that provides a base rate increase of $4 million effective September 2016. Importantly, the Washington Utilities and Transportation Commission (WUTC) authorized Cascade to implement a revenue decoupling mechanism that insulates net revenues from the effects of weather, energy efficiency and conservation, and customer demand.

Fitch forecasts credit metrics will strengthen over the forecast period following a relatively weak 2015 financial performance principally due to lower customer demand. EBITDAR and FFO coverage ratios are expected to average 5.2x and 4.6x, respectively, over 2016-2018 while adjusted debt/EBITDAR is projected to average 3.7x over the same timeframe. For the LTM 1Q16, EBITDAR and FFO coverage ratios stood at 4.9x and 3.4x, respectively, while adjusted debt/EBITDAR was 3.9x.

We anticipate Cascade's capital spending will continue to rise modestly over the next few years, with capex earmarked towards infrastructure build and replacement of aging pipes. On a positive note, the utility has a pipeline replacement rider in Washington that provides timely recovery of costs through annual revenue adjustments outside of rate cases.

Cascade's credit profile benefits from ring-fencing mechanisms that insulate the utility from MDU's other regulated and unregulated businesses. Ring-fencing mechanisms include no Cascade guarantees or cross-default provisions within debt agreements at other MDU entities which could impact Cascade, a prohibition on intercompany loans, and dividend restrictions.

CEH

CEH's ratings reflect a diverse business mix that includes construction and pipeline/midstream, sound credit metrics, low leverage, modest capex requirements, and adequate liquidity. Since the E&P divestiture, CEH has transitioned to a business model primarily geared towards the construction materials and construction services businesses, with pipeline/midstream adding some level of earnings diversity. Fitch estimates the construction businesses will generate, on average, about 80% of CEH's consolidated EBITDA over 2016-2020. Historically those businesses have done relatively well and have built up a significant backlog of projects going into 2016, which should help boost earnings and cash flows over 2016-2017. Further earnings opportunities should arise in the intermediate term given the passage of the new $305 billion long-term highway bill in December 2015.

The seasonal and cyclical nature of the construction industry continues to be the main rating concern. In addition, Fitch will closely monitor management's assessment of strategic alternatives for its 50% ownership interest in the Dakota Prairie Refinery. The refinery has suffered financially from adverse commodity pricing and lower diesel demand since it came online in mid-2015 and MDU has indicated impairment charges are a possibility if market conditions persist. An exit from the refining business would be a positive development.

Forecasted credit measures are consistent with the current rating category. Fitch expects EBITDAR coverage and leverage ratios to average 11.4x and 2.1x, respectively, over 2016-2018. The financial profile benefits from a modest financial leverage position with debt-to-total capitalization managed around 35%-40%. For the LTM 1Q16, EBITDAR coverage and leverage metrics were 5.2x and 3.8x, respectively, reflecting weaker EBITDAR from the exit of the E&P business.

CEH's ratings take into consideration the benefit of ownership by MDU, which can provide parental support through cash infusions if needed. In addition, CEH enjoys good financial flexibility, as reflected by the ability to access its own liquidity and issue debt on its own.

NOTCHING
MDU retains a divisional structure so that the legacy utility is in fact the parent company. All the debt at MDU represents divisional utility debt. As a result, MDU's senior unsecured debt is rated one-notch above its IDR, consistent with Fitch's utility notching convention. Utility debt is serviced at the operating company level for MDU and its gas utility subsidiaries Cascade and Intermountain Gas Co. (Intermountain). The legal structure which isolates the non-utility businesses within CEH, a non-recourse holding company, from the rest of the MDU corporate family is a factor in the ratings. In its notching considerations, Fitch restricts the IDRs of MDU and its two subsidiaries to a one-notch separation. The one-notch differential illustrates the potential parental funding support provided by MDU to Cascade and CEH, the strategic and financial importance of those businesses, and the relatively modest size of the utility.

KEY ASSUMPTIONS
Fitch's key assumptions within our rating case are as follows:

MDU
-EBITDA margins range between 13%-16% over 2016-2020;
-Capex averages $460 million annually over the next five years;
-No bonus depreciation.

CASCADE
-Rate increase as per Washington rate case settlement;
-Capex averages $50 million annually over the next five years.

CEH
-EBITDA margins range between 11%-12.5% over 2016-2020;
-Capex ranges between $50 million-$200 million annually over the next five years;
-Construction contributes approximately 80% of CEH's EBITDA;
-No material earnings contribution from the refinery.

RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to a positive rating action include:

MDU
Continued shift in earnings and business mix towards regulated businesses coupled with adjusted debt/EBITDAR below 3x.

CASCADE
Given the limited headroom in credit metrics for the current ratings, a positive rating action is unlikely in the near term.

CEH
A greater focus on FERC-regulated investments coupled with adjusted debt/EBITDAR below 1.5x.

Negative: Future developments that may, individually or collectively, lead to a negative rating action include:

MDU
--A material deterioration of the regulatory environments in which the utilities operate;
--A significant and prolonged economic downturn at the construction segment;
--Further expansion into unregulated businesses leading to higher leverage;
--Adjusted debt/EBITDAR between 3.5x-3.75x on a sustained basis.

CASCADE
--A downgrade of MDU;
--Unexpected deterioration in the regulatory compacts;
--Adjusted debt/EBITDAR greater than 3.75x on a sustained basis.

CEH
--A significant and prolonged downturn at the construction segment;
--Further expansion into unregulated businesses leading to higher leverage;
--Adjusted debt/EBITDAR greater than 2.75x on a sustained basis.

LIQUIDITY
MDU and subsidiaries have adequate liquidity for working capital and other short-term funding requirements. As of March 31, 2016, MDU had $91 million of cash and cash equivalents and availability under its four revolvers was $586 million. Both MDU and CEH maintain commercial paper programs backed by revolvers. MDU's own revolver is for $175 million and matures in May 2019. Cascade's $50 million revolver expires in July 2018. Intermountain's $65 million revolver expires in July 2018. CEH's $650 million revolver expires in May 2019. All four bank agreements restrict the debt-to-capitalization ratio from exceeding 65%.

FULL LIST OF RATING ACTIONS

Fitch affirms the following:

MDU Resources Group, Inc.
-- Long-Term IDR at 'BBB+';
-- Short-Term IDR and commercial paper (CP) at 'F2';
-- Senior unsecured at 'A-';
-- Preferred stock at 'BBB'.

Cascade Natural Gas Co.
-- Long-Term IDR at 'A-';
-- Short-Term IDR at 'F2';
-- Senior unsecured at 'A'.

Centennial Energy Holdings, Inc.
-- Long-Term IDR at 'BBB';
-- Short-Term IDR and CP at 'F2';
-- Senior unsecured at 'BBB'.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjYyMjA5MzMsInNlc3Npb25LZXkiOiI0VlIXN0tNRTJUM01LUlIZTFU4Q0JZRlFIMjEySVdYUUlKQTdEOVhWIn0.IKSIniTNKkhZfFxFHHnTGSmZ1ePKdVXlEFRW_GOk6Jg)
Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers (pub. 05 Apr 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879564&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjYyMjA5MzMsInNlc3Npb25LZXkiOiI0VlIXN0tNRTJUM01LUlIZTFU4Q0JZRlFIMjEySVdYUUlKQTdEOVhWIn0.IKSIniTNKkhZfFxFHHnTGSmZ1ePKdVXlEFRW_GOk6Jg)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1006257&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjYyMjA5MzMsInNlc3Npb25LZXkiOiI0VlIXN0tNRTJUM01LUlIZTFU4Q0JZRlFIMjEySVdYUUlKQTdEOVhWIn0.IKSIniTNKkhZfFxFHHnTGSmZ1ePKdVXlEFRW_GOk6Jg)
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1006257)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

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Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

FITCH AFFIRMS MDU RESOURCES, CENTENNIAL ENERGY AND CASCADE; OUTLOOKS STABLE

Fitch Ratings-New York-17 June 2015: Fitch Ratings has affirmed the ratings for MDU Resources Group, Inc. [MDU; Issuer Default Rating (IDR) 'BBB+'], its regulated gas distribution subsidiary, Cascade Natural Gas Corporation (Cascade; IDR 'A-'), and Centennial Energy Holdings, Inc. (Centennial; IDR 'BBB'), a holding company for MDU's nonutility operations. The Outlooks for all three issuers is Stable. A full list of ratings follows at the end of this press release.

KEY RATING DRIVERS

MDU Resources

MDU's rating reflects the benefit of MDU's diverse business mix, low leverage and plans to divest its upstream operations. It also considers the stable operating performance and low risk business profile of MDU's portfolio of regulated utilities which serve parts of eight contiguous states from Minnesota to Washington. The tariff mechanisms at the utilities generally provide for full recovery of commodity and purchased power costs that minimize cash flow volatility.

Primary concerns are MDU's economically sensitive construction materials and construction services businesses which have been generating strong results. Concerns also include the execution of the sale of the upstream segment.

MDU's consolidated leverage defined as debt to EBITDA was 2.7x for the LTM ending March 31, 2015, up from 2.4x at the end of 2014. The increase in leverage is attributed to lower EBITDA which fell 9% in the LTM versus 2014. With the MDU's upstream operations now discontinued, Fitch expects EBITDA to decline in 2015 and leverage is expected to be in the range of 2.75 - 3.0x by yearend.

For the LTM, capital expenditures were $982 million, close to the $972 million spent in 2014. Spending is expected to remain significant going forward even with the sale of the exploration and production segment (which accounted for 37% of 2014's capex budget). Between 2015 and 2019, MDU intends to spend $3.9 billion for the utilities, pipeline and construction businesses for capex and acquisitions (net of proceeds from asset disposals), up significantly from spending of $1.9 billion in the prior five years.

Cascade

Cascade's ratings take into consideration the utility's regulated cash flows, supportive regulatory environment, strong stand-alone credit metrics, adequate liquidity position that is supported by MDU, and manageable capital spending and external funding requirements.

Concerns for Cascade are modest and include volume sensitivity to weather in the absence of a weatherization clause in Washington where it receives approximately 70% of its operating margin.

As of March 31, 2015, Cascade had $48 million of availability on its $50 million revolver which matures in 2018.

Cascade is significantly insulated from MDU's other regulated and nonregulated businesses through ring-fencing. Ring-fencing mechanisms include no Cascade guarantees or cross default provisions within debt agreements at other MDU entities which could impact Cascade, and a prohibition on intercompany loans.

Centennial

Fitch considers the ratings for Centennial apart from those of MDU. The ratings for Centennial are supported by its strong financial profile and diverse mix of businesses, including midstream and construction.

Concerns for Centennial also center around the economically sensitive construction materials and construction services businesses which have been generating strong results. Concerns also include the execution of the sale of the upstream segment.

Centennial's stand-alone credit metrics remain healthy. Its financial profile benefits from a modest financial leverage position with debt to total capitalization managed around 30% to 35%. As of March 31, 2015, Centennial had $315 million of availability on its $650 million revolver which matures in 2017.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
--The upstream operations are sold and the transaction closes in 4Q15/1Q16;
--EBITDA margins fall to approximately 13.5% following the sale of the upstream segment;
--Modest dividend growth continues;
--Capex averages over $800 million a year over the next few years.

RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to positive rating action include:

--Favorable rating action is not viewed as likely on any of the issuers. However, if leverage falls below 2.5x on a sustained basis while there is an increased focus on regulated operations, positive rating action could occur at MDU and Centennial.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:

--Leverage at MDU in excess of 3.0x on a sustained basis. This is above the prior trigger and considers the company's pending sale of upstream assets which reduces risk to the credit profile.
--An inability to sell or a departure from the strategy to dispose the upstream business coupled with leverage above 2.5x on a sustained basis.

LIQUIDITY

MDU's liquidity appears sufficient for its funding requirements. As of March 31, 2015, MDU had $122 million of cash on the balance sheet and availability on its four revolvers was $558 million. Both MDU and Centennial maintain commercial paper programs backed by revolvers. MDU's own revolver is for $175 million and matures in 2019. Cascade's $50 million revolver expires in 2018. Intermountain's $65 million revolver matures in 2018. Centennial's $650 million revolver expires in 2019. All four bank agreements restrict the debt to capital ratio from exceeding 65%.

FULL LIST OF RATING ACTIONS

Fitch affirms the following:

MDU Resources Group, Inc.
--Long-term IDR at 'BBB+';
--Short-term IDR and commercial paper (CP) at 'F2';
--Senior unsecured at 'A-';
--Preferred stock at 'BBB'.

Cascade Natural Gas Corporation
--Long-term IDR at 'A-';
--Short-term IDR at 'F2';
--Senior unsecured at 'A'.

Centennial Energy Holdings, Inc.
--Long-term IDR at 'BBB';
--Short-term IDR and CP at 'F2';
--Senior unsecured at 'BBB'.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393
Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (pub. 25 Nov 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=821568

MDU Resources Group, Inc.; Centennial Energy Holdings, Inc.; and Cascade Natural Gas Company

Full Rating Report

Ratings

MDU Resources Group, Inc.

Long-Term IDR	BBB+
Senior Unsecured Notes	A–
Preferred Stock	BBB
Short-Term IDR and CP	F2

Centennial Energy Holdings, Inc.

Long-Term IDR	BBB
Senior Unsecured Notes	BBB
Short-Term IDR and CP	F2

Cascade Natural Gas Company

Long-Term IDR	A–
Senior Unsecured Notes	A
Short-Term IDR and CP	F2

IDR – Issuer Default Rating.
CP – Commercial paper.

Rating Outlook

Stable

Financial Data

MDU Resources Group, Inc.

($ Mil.)	LTM 3/31/14	12/31/13
Revenues	4,574	4,462
Operating EBITDA	884	880
FFO	721	736
EBITDA/Interest Expense (x)	9.8	8.9
Debt/Operating EBITDA (x)	2.4	2.1

Related Research

Fitch Downgrades MDU Resources' & Centennial Energy's Ratings; Affirms Cascade's Ratings (June 2014)

Pipelines, Midstream and MLP Stats Quarterly — First-Quarter 2014 (First-Quarter Review) (June 2014)

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Key Rating Drivers

Diverse Assets: MDU Resources Group, Inc. (MDU) benefits from a significantly diverse mix of assets. The most volatile businesses are the upstream operations and the construction segments. These segments, along with pipeline and energy services, accounted for 76% of revenues in 2013. The most stability is seen with its regulated utilities, which accounted for the balance of revenues. MDU has benefited in the past from its diversification during periods of weak environments for the construction segments.

Low Leverage: MDU operates with low leverage, which was 2.4x as of the end of the first quarter of 2014. Leverage is currently elevated following an acquisition for $206 million. Fitch Ratings forecasts leverage to be in the 2.25x–2.50x range by the end of 2014. Management has a history of being conservative with the balance sheet.

Significant Spending for Upstream: The company has increased its focus on spending for upstream operations. While some assets have been sold, other assets have been acquired as the company has been seeking to increase its focus on crude oil production. Capex at the upstream segment was $378 million in 2013, of the $909 million total MDU budget. In 2014, it expects to spend $440 million on upstream which excludes $206 million spent on assets acquired in the Powder River Basin.

Stable Rating Outlook: All three entities have a Stable Outlook. Fitch expects that management will continue to operate MDU and Centennial with fairly low leverage given its exposure to operations with volatile cash flows. The Outlook for Cascade is supported by its leverage which is low compared to other similarly rated utilities.

Rating Sensitivities

Positive Rating Action: Favorable rating action is not viewed as likely on any of the issuers. However, if MDU and Centennial increased focus on regulated operations positive rating action could occur.

Negative Rating Action: Leverage at MDU in excess of 2.5x on a sustained basis. Continued expansion in non-regulated businesses as a percentage of total EBITDA. Other negative rating action triggers include higher leverage as a result of EBITDA contraction and debt increases due to acquisitions or growth project funding.

Issuer Rating History — MDU Resources

Date	LT IDR	Outlook/ Watch
June 18, 2014	BBB+	Stable
April 3, 2014	A–	Negative
June 25, 2013	A–	Negative
June 27, 2012	A–	Negative
June 29, 2011	A–	Stable
June 29, 2010	A–	Stable
May 15, 2009	A–	Negative
Feb. 11, 2008	A–	Stable
April 18, 2006	A–	Stable
Dec. 6, 2005	A–	Stable
Oct. 12, 2004	A	Stable
Aug. 4, 2003	A	Stable
June 1, 2000	A	Stable

LT IDR – Long-term Issuer Default Rating.
Source: Fitch Ratings.

Issuer Rating History — Centennial Energy

Date	LT IDR	Outlook/ Watch
June 18, 2014	BBB	Stable
April 3, 2014	BBB+	Negative
June 25, 2013	BBB+	Negative
June 27, 2012	BBB+	Negative
June 29, 2011	BBB+	Stable
June 29, 2010	BBB+	Stable
May 15, 2009	A–	Negative
Feb. 11, 2008	A–	Stable
April 18, 2006	A–	Stable
Dec. 6, 2005	A–	Stable
Oct. 12, 2004	A–	Stable
Aug. 4, 2003	A–	Stable
March 24, 2000	A–	—

LT IDR – Long-term Issuer Default Rating.
Source: Fitch Ratings.

Issuer Rating History — Cascade

Date	LT IDR	Outlook/ Watch
June 18, 2014	A–	Stable
April 3, 2014	A–	Stable
June 25, 2013	A–	Stable
June 27, 2012	A–	Negative
June 29, 2011	A–	Stable
June 29, 2010	A–	Stable
May 15, 2009	A–	Negative
July 13, 2007	A–	Stable

LT IDR – Long-term Issuer Default Rating.
Source: Fitch Ratings.

Related Criteria

Corporate Rating Methodology – Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Rating Pipelines, Midstream and MLPs — Sector Credit Factors (January 2014)

Financial Overview

Liquidity for MDU was approximately $678 million at the end of the first quarter of 2014. Cash was $84 million, including approximately $23 million held at a joint venture, and availability on its four credit facilities was $454 million. Both MDU and Centennial maintain and utilize commercial paper programs backed by revolvers.

During the second quarter of 2014, MDU's revolver, which matures in 2019, was upsized to $175 million from $125 million. Also during the current quarter, Centennial's revolver, which expires in 2019, was increased to $650 million from $500 million. Cascade's $50 million revolver expires in 2018. Intermountain's Gas Company (Intermountain) $65 million revolver matures in 2018. All four bank agreements restrict the debt-to-capital ratio from exceeding 65%.

Debt maturities are not significant in 2014. In 2015, $269 million of debt will mature followed by $294 million in 2016.

The trend of negative FCF over the last several quarters has been largely driven by spending in upstream operations, which is expected to increase. FCF was negative $291 million for the LTM period ending with the first quarter of 2014, and Fitch expects the company will remain FCF negative for the remainder of the year.

For the LTM, capex was $901 million. Spending was approximately $900 million in each 2012 and 2013, up significantly from $497 million in 2011. In the current year, MDU plans to partially fund its spending program with $250 million–$300 million of equity and certain asset sales.

Total capex spending at MDU is expected to be approximately $1 billion in 2014, which excludes $206 million spent on an upstream acquisition completed in the first quarter of 2014. Over the next five years, the company projects it will spend $4.6 billion, including the $206 million acquisition and spending of $1.3 billion for the regulated utility segments.

MDU's consolidated leverage, defined as debt to EBITDA, was 2.4x for the LTM ending with first-quarter 2014, which is up slightly from 2.1x at the end of 2013. Fitch expects to see leverage in the 2.25x–2.50x range by the end of 2014.

EBITDA for the LTM ending first-quarter 2014 was $884 million, slightly better than the $880 million generated in 2013 and substantially higher than the $770 million generated in 2012. In 2013, $72 million of the EBITDA increase over 2012 was attributed to improved results at the upstream segment.

EBITDA contributions were 10% from electric utilities, 15% from natural gas distribution utilities, 6% from pipelines and energy services, 40% from upstream, 19% from construction materials and contracting, and 11% from construction services in 2013.

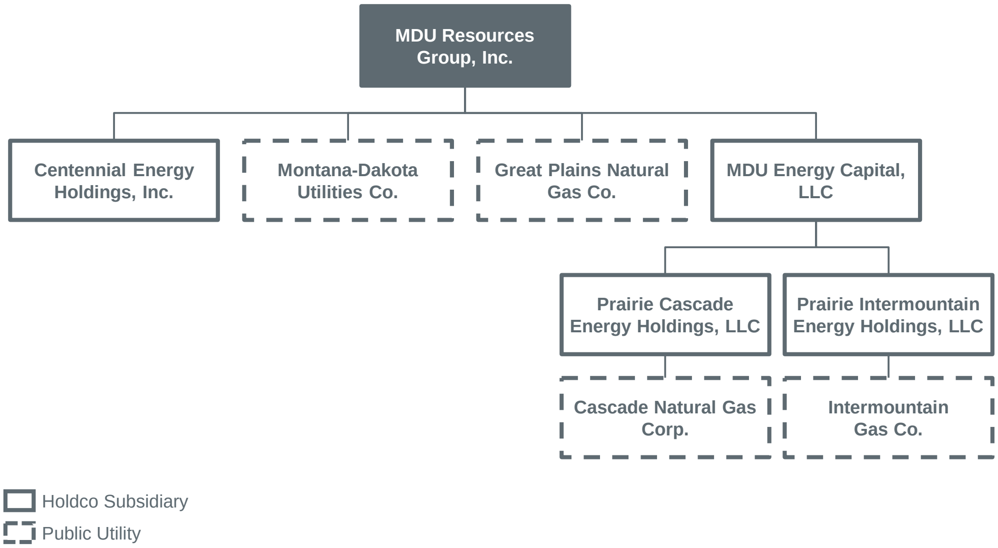
Company Profile

MDU is a diversified power and natural gas resources company based in Bismarck, ND. Regulated utility electric and gas operations span parts of eight contiguous states from Minnesota westward to Washington. Oil and gas operations include production, gathering, processing, transmission, storage and distribution of natural gas based largely in the Williston Basin areas, midcontinent and Rockies areas. Oil production has increased, reflecting strategic interests in the Bakken shale play, which is in the Williston Basin and accounted for 59% of oil production in 2013. Through Knife River Corporation, MDU is a large aggregates (sand, gravel, and crushed stone) producer and has interest in asphalt and cement production. MDU is also an infrastructure contractor that builds transmission lines, pipelines, solar and wind generation farms, and installs interior lighting, and fire and safety systems. Broadly, MDU's businesses are reported as regulated, energy and construction.

The company was formed as the Montana-Dakota Utilities Company in the early 20th century. Based on its remote and rural service area, the utility developed its own fuel supply (upstream natural gas production and coal mines), transportation and gathering (pipelines) and construction units (building electric transmission lines and pipelines). An active acquisition program beginning in the 1950s built on these diversified activities. All non-utility operations are now housed in a holding company, Centennial, which is a subsidiary of MDU.

MDU retains a divisional structure so the legacy utility is the parent company. There are two holding company subsidiaries: Centennial, which is the holding company for all nonregulated utility operations and MDU Energy Capital, LLC, a holding company for regulated utilities businesses. The legal structure that isolates the non-utility businesses in a nonrecourse holding company and ring-fences the regulated utilities (Cascade, Intermountain) is a factor in rating assignments.

Organizational and Debt Structure — MDU Resources Group, Inc.
(As of March 31, 2014)



Source: Company reports, Fitch research.

Centennial

The ratings for Centennial are supported by its strong financial profile and diverse mix of businesses, including upstream, midstream and construction.

Rating concerns for Centennial center on its upstream operations, which are a significant focus for the entity. These operations generate volatile cash flows and require significant capex. The construction segment has shown improvements and has seen significant increases in the backlog. However, it is also very economically sensitive.

Centennial's stand-alone credit metrics remain healthy. Its financial profile benefits from a modest financial leverage position, with debt to total capitalization managed around 30%–35%.

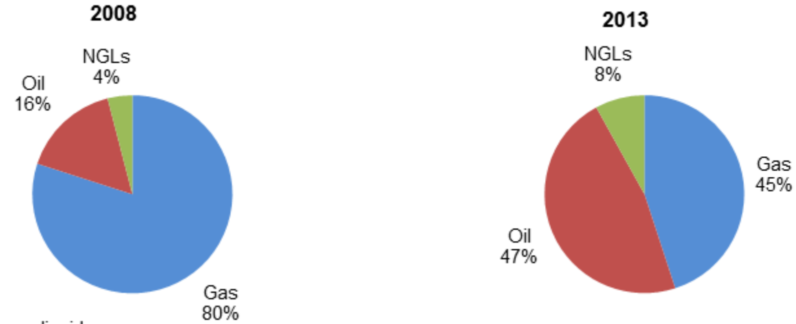
As of the end of first-quarter 2014, Centennial had $271 million of availability on its $500 million revolver. This bank facility is now $650 million and extends to 2019.

Upstream operations will continue to require a significant amount of capital to support the growing drilling program. Capex for upstream has been growing significantly over the years. The company spent $378 million on this segment in 2013 — 41% of the total budget. In 2014, spending in this segment is forecast to be $440 million, which excludes the $206 million acquisition of assets in the Powder River Basin. This would be approximately 44% of the 2014 total capex budget forecast by MDU.

Management's strategy for the upstream segment has been to rebalance its production portfolio over time and increase oil production while maintaining production diversity.

While Fitch analyzes Centennial on a stand-alone basis, its parent, MDU, offers the company support in the form of capital contributions as needed so Centennial can operate with a low debt-to-capitalization ratio. However, Fitch believes there are limits to this support, as a portion of MDU's regulated businesses are ring-fenced and may not be available to support unregulated operations in a downside scenario.

Production Mix Changes Over Time



NGLs – Natural gas liquids.
Source: Company presentations.

Cascade

Cascade is a natural gas local distribution company serving approximately 270,000 customers primarily in Washington (serving 68 communities) and parts of Oregon (28 communities). It is the second largest contributor to MDU's utility revenue base.

The ratings take into consideration Cascade's regulated cash flows, supportive regulatory environment, strong stand-alone credit metrics, adequate liquidity position supported by MDU, and manageable capital spending and external funding requirements. In Oregon, Cascade has a decoupling mechanism in place through the end of 2015. There is also an earnings sharing mechanism, as required by the Oregon Public Utility Commission.

Concerns for Cascade are modest and include volume sensitivity to weather in the absence of a weather normalization clause in Washington, where it receives approximately 70% of its operating margin.

As of the end of first-quarter 2014, Cascade had $48 million of availability on its $50 million revolver, which matures in 2018.

Cascade is significantly insulated from MDU's other regulated and nonregulated businesses through ring-fencing. Ring-fencing mechanisms include no Cascade guarantees or cross-default provisions within debt agreements at other MDU entities, which could affect Cascade, and a prohibition on intercompany loans. While Fitch analyzes Centennial on a stand-alone basis, its parent, MDU, offers the company support in the form of capital contributions as needed so Centennial can operate with a low debt-to-capitalization ratio.

MDU Segment EBITDA

($ Mil.)	2013	2012	2011
Segment Revenues			
Electric	257.3	236.9	225.5
Natural Gas Distribution	851.9	754.8	907.4
Pipeline and Energy Services	202.1	193.2	278.3
E&P	536.0	448.6	453.6
Construction Materials and Contracting	1,712.1	1,617.4	1,510.0
Construction Services	1,039.8	938.6	854.4
Other	9.6	10.4	11.4
Eliminations	(146.5)	(124.4)	(190.2)
Total	**4,462.4**	**4,075.4**	**4,050.5**
Segment EBITDA			
Electric	87.1	82.4	81.3
Natural Gas Distribution	128.8	113.3	127.3
Pipeline and Energy Services	49.2	76.8	70.9
E&P	347.9	275.8	276.4
Construction Materials and Contracting	168.1	137.4	136.6
Construction Services	97.2	77.6	50.5
Total	**878.2**	**763.3**	**743.0**
Contribution to EBITDA (%)			
Electric	9.9	10.8	10.9
Natural Gas Distribution	14.7	14.8	17.1
Pipeline and Energy Services	5.6	10.1	9.5
E&P	39.6	36.1	37.2
Construction Materials and Contracting	19.1	18.0	18.4
Construction Services	11.1	10.2	6.8
Total	**100.0**	**100.0**	**100.0**
Segment EBITDA Margins (%)			
Electric	33.9	34.8	36.0
Natural Gas Distribution	15.1	15.0	14.0
Pipeline and Energy Services	24.3	39.8	25.5
E&P	64.9	61.5	60.9
Construction Materials and Contracting	9.8	8.5	9.0
Construction Services	9.3	8.3	5.9
Total	**19.7**	**18.7**	**18.3**

E&P – Exploration and production.
Source: Company filings, Fitch research.

Financial Summary — MDU Resources Group, Inc.

($ Mil., Fiscal Years Ended Dec. 31)	2010	2011	2012	2013	LTM Ended 3/31/14
Profitability					
Operating EBITDA	739.6	749.8	770.2	879.8	884.1
Operating EBITDA Margin (%)	18.9	18.5	18.9	19.7	19.3
FFO Return on Adjusted Capital (%)	16.1	18.3	16.1	17.1	15.8
FCF Margin (%)	(0.4)	0.2	(11.0)	(6.0)	(6.4)
Coverage (x)					
FFO Interest Coverage	7.4	8.5	8.4	9.1	8.9
Operating EBITDA/Gross Interest Expense	8.0	8.1	9.0	9.8	9.8
FFO Fixed-Charge Coverage	5.5	6.2	5.9	6.3	6.1
FCF Debt-Service Coverage	0.4	0.4	(0.7)	(1.5)	(1.9)
Cash Flow from Operations/Capex	1.2	1.3	0.7	0.8	0.8
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	2.1	1.9	2.3	2.1	2.4
FFO-Adjusted Leverage	2.5	2.1	2.8	2.6	2.9
Total Adjusted Debt/Operating EBITDAR	2.4	2.2	2.6	2.4	2.7
FCF/Total Adjusted Debt (%)	(0.9)	0.4	(21.1)	(11.8)	(11.6)
Balance Sheet					
Short-Term Debt	92.8	139.3	455.3	23.8	12.2
Long-Term Senior Secured Debt	—	—	—	—	—
Long-Term Senior Unsecured Debt	1,434.0	1,285.4	1,317.9	1,842.3	2,093.6
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	15.0	15.0	15.0	15.0	15.0
Equity Credit	7.5	7.5	7.5	7.5	7.5
Total Debt with Equity Credit	**1,534.3**	**1,432.2**	**1,780.7**	**1,873.6**	**2,113.3**
Off-Balance Sheet Debt	309.6	325.6	343.2	384.8	384.8
Total Adjusted Debt with Equity Credit	**1,843.9**	**1,757.8**	**2,123.9**	**2,258.4**	**2,498.1**
Cash Flow					
Funds From Operations	597.2	694.3	636.1	736.4	720.5
Change in Working Capital	(45.9)	(66.9)	(49.4)	4.9	21.2
Cash Flow from Operations	**551.3**	**627.3**	**586.7**	**741.2**	**741.7**
Total Non-Operating/Nonrecurring Cash Flow	(0.3)	(0.7)	(2.7)	0.3	(0.0)
Capital Expenditures	(449.3)	(497.0)	(872.9)	(909.4)	(900.6)
Dividends	(119.2)	(123.3)	(159.8)	(98.4)	(132.0)
FCF	**(17.5)**	**6.3**	**(448.6)**	**(266.3)**	**(290.9)**
Net Acquisitions and Divestitures	(28.4)	40.0	(27.2)	124.5	(94.8)
Net Debt Proceeds	16.2	(104.9)	349.3	93.7	279.3
Net Equity Proceeds	5.0	5.7	0.1	14.6	69.4
Other (Investing and Financing)	71.0	(6.5)	12.0	29.0	45.8
Total Change in Cash	**47.0**	**(59.3)**	**(113.7)**	**(3.8)**	**9.6**
Ending Cash and Equivalents Balance	222.1	162.8	49.0	45.2	83.7
Short-Term Marketable Securities	—	—	—	—	—
Income Statement					
Revenue	3,909.7	4,050.5	4,075.4	4,462.4	4,573.7
Revenue Growth (%)	(6.4)	3.6	0.6	9.5	10.1
Operating EBIT	410.7	406.4	411.0	492.9	491.3
Gross Interest Expense	92.8	92.2	85.4	90.0	90.0

Source: Company filings, Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.