

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is to describe why the acquisition of Cascade by MDU
3 Resources Group, Inc. ("MDU Resources") is in the best interests of Cascade's
4 customers, employees and shareholders. I also provide an overview of Cascade and
5 discuss some of the current and future challenges that are being faced by the Company,
6 and address the primary factors driving Cascade's decision to investigate acquisition
7 options and the process that led up to Cascade's decision to enter into the Merger
8 Agreement with MDU Resources (the "proposed Transaction").

9 **Q. Have you previously testified or sponsored testimony before the Commission and
10 other utility commissions?**

11 A. Yes. I testified in the Company's current general rate proceeding, Docket
12 No. UG-060256. I have also testified before regulatory bodies in the states of Alabama,
13 Arkansas, New Mexico, Texas, and Oregon.

14 **OVERVIEW OF CASCADE NATURAL GAS CORPORATION**

15 **Q. Please briefly describe Cascade Natural Gas Corporation.**

16 A. Cascade provides natural gas service to approximately 235,000 customers in 93
17 communities in Washington and Oregon. Our diverse service territory covers more than
18 32,000 square miles. Cascade's Washington customers are served from three of our four
19 operational regions: Western, which includes the Kitsap Peninsula, the Grays Harbor
20 area, and Kelso/Longview; Northwest, which includes Bellingham, Mt. Vernon, and Oak

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1 Harbor/Anacortes; and Central, which includes the communities of Sunnyside,
2 Wenatchee/Moses Lake, Tri-Cities, Walla Walla, and Yakima. Cascade's service
3 territory is relatively widely dispersed and characterized by lower overall population
4 density than the larger metropolitan areas in Washington and Oregon.

5 Cascade is one of the fastest growing natural gas utilities in the nation. In the last
6 five years, Cascade's customer base grew at a pace of 3 to 5 percent, which is
7 significantly more than the national average. This high level of growth was made
8 possible by the overall population growth in Cascade's service area, and the low level of
9 market saturation for natural gas in the Northwest.

10 **Q. Please describe Cascade's current business focus.**

11 A. Cascade's primary focus is providing safe and reliable natural gas distribution and related
12 services to our customers throughout our service territories. We have worked hard to
13 continuously improve these services and operate as efficiently as possible while
14 diligently controlling expenses. We also focus on providing the highest value to all of
15 our stakeholders, including customers, employees, and shareholders.

16 **Q. What are the current challenges facing Cascade?**

17 A. As a relatively small public utility that operates as a public company, Cascade faces
18 several challenges in today's industry and the current economy. Being relatively small
19 inhibits our ability to recruit highly qualified personnel, as the opportunities for
20 advancement within the organization are limited. Our total cost of service profile is

1 influenced, as compared to other larger companies, because they are able to spread their
2 corporate overhead expenses over a larger number of customers. As a public company,
3 the cost of maintaining public-company status and complying with the federal securities
4 laws that relate to public companies, including the Sarbanes-Oxley Act of 2002, is
5 significant.

6 Due to our small size, Cascade faces additional challenges when raising capital.
7 From time to time, Cascade needs additional investor capital to meet the needs of a
8 rapidly growing customer base. In addition to supporting Cascade's strong customer
9 growth in Washington and Oregon, Cascade periodically needs to expand, replace
10 sections and reinforce its distribution system and infrastructure. In this regard, Cascade
11 currently has only two active financial analysts following and producing financial
12 commentary on our Company. This limits our ability to provide the financial markets
13 with broad expert knowledge of who we are and why we are a good investment choice.
14 When other analysts were asked why they do not follow Cascade, they responded that it
15 is because of Cascade's small size. The general rule seems to be that they do not have
16 time for companies with less than one billion dollars in market capitalization. The
17 financial markets are an important source of investment capital, which is obviously a
18 challenge for a small public company like Cascade.

1 **REASONS FOR THE PROPOSED TRANSACTION**

2 **Q. Why did Cascade decide to explore opportunities for a merger?**

3 A. Our board of directors and management have periodically evaluated our long-term
4 strategic objectives and alternatives. This includes the prospects for continued operation
5 as an independent company, as well as relationships with other entities. We have
6 continued to revise and refine these considerations in light of industry developments, the
7 current regulatory environment, and other market factors affecting long-term shareholder
8 value. In pursuing strategies for enhancing shareholder value, we have from time to time
9 considered opportunities for acquisitions, business combinations, and other strategic
10 alternatives. In this case, the board reviewed and discussed our historical and projected
11 financial performance, the price performance of our common stock (including as
12 compared with our peers), and our operations as compared with our regional peers.
13 Those evaluations also considered our regulatory environment, the size of the Company
14 compared with our peers, the population growth and development in our service markets,
15 the current condition of the mergers and acquisitions market, and other relevant
16 information.

17 **Q. What process did Cascade follow in evaluating opportunities for a business**
18 **combination?**

19 A. In November 2005, we retained J. P. Morgan Securities, Inc. ("JPMorgan") to assist us
20 with reviewing and analyzing our historic operating and financial performance and to

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1 assist in modeling future expectations as an independent company. JPMorgan was also
2 asked to assist our board of directors with identifying and evaluating the relative merits
3 and feasibility of one or more potential business combinations as well as other potential
4 financial strategic alternatives. From January – March 2006, JPMorgan developed an
5 extensive list of potential companies that might have an interest in entering into a
6 transaction with Cascade, including MDU Resources. With our concurrence, JPMorgan
7 then contacted twenty-one parties, including MDU Resources, regarding their interest in
8 engaging in discussions regarding a potential business combination with Cascade.

9 In April 2006, we received indications of interest from four parties, including
10 MDU Resources. There followed a period in which these four parties conducted
11 extensive due diligence reviews of Cascade’s operating and financial information, met
12 with JPMorgan and Cascade management, and ultimately submitted proposals for our
13 consideration. With the assistance of JPMorgan, Cascade analyzed and evaluated these
14 proposals in light of the potential opportunities and challenges facing the Company as an
15 independent operating entity. Our analysis and evaluations included our costs of
16 remaining an independent public company, personnel and staffing challenges, and other
17 potential operational constraints given the Company's comparative small size.

18 After further evaluations, Cascade narrowed the discussions of merger
19 opportunities to two of these companies, including MDU Resources. Ultimately,
20 Cascade's board of directors decided to enter into the proposed Transaction and to

1 recommend approval of the proposed Transaction to Cascade's shareholders. Additional
2 details of this process are set forth in Cascade's Proxy Statement, which accompanies my
3 direct testimony as Exhibit No. ____ (DWS-2).

4 **Q. Has the proposed Transaction received the approval of Cascade's shareholders?**

5 A. Yes. Cascade's shareholders approved the proposed Transaction at a special
6 shareholders meeting on October 27, 2006.

7 **Q. Why did Cascade decide to enter into the proposed Transaction?**

8 A. As discussed above, after extensive analysis and discussion, Cascade determined that a
9 business combination presented the best opportunity for positioning Cascade to succeed
10 over the long term. Cascade chose to merge with MDU Resources because its proposal
11 provided the greatest value to shareholders with the least transactional risk, while
12 offering operational advantages to customers and employees. The price offered by MDU
13 Resources represented a premium of approximately 23 percent over Cascade's per share
14 price at the time of the offer. JPMorgan provided Cascade's board of directors with an
15 opinion that the consideration offered by MDU Resources was fair to our shareholders,
16 from a financial point of view.

17 **Q. Why do you think the proposed Transaction will serve the interests of Cascade's**
18 **customers?**

19 A. Cascade believes that MDU Resources will continue our tradition of providing excellent
20 customer service. Cascade appreciates that MDU Resources is a knowledgeable utility

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1 operator with extensive experience in the natural gas industry. They have experience
2 with acquiring and operating public utilities, and with completing acquisitions. Like
3 Cascade, MDU Resources' utilities serve relatively smaller communities in widely
4 dispersed service territories, and have similar customer profiles to Cascade's. Our board
5 of directors is satisfied that MDU Resources is committed to operating the Company and
6 its businesses successfully by meeting the needs of our customers, employees, and other
7 constituencies. We also believe that MDU Resources will continue Cascade's history of
8 and commitment to providing safe and reliable gas distribution services to our utility
9 customers. We also expect that Cascade's customers will benefit over time from the
10 introduction of MDU Resources' best utility practices into Cascade's operations.

11 Further, MDU Resources' size and financial strength will enable Cascade to have
12 access to adequate capital for utility operations and to meet expansion requirements and
13 will provide Cascade with access to this capital on more competitive terms. A
14 combination with MDU Resources presents the opportunity of lowering Cascade's
15 overall operating expenses over time as certain corporate functions may be combined.
16 This may lead to customer rates that are lower than they would have been without the
17 proposed Transaction. Becoming part of the MDU Resources family of companies will
18 also provide the potential for expanded career paths for Cascade's employees and the
19 ability to compete for highly qualified management as a part of a larger company, as will
20 likely provide better training opportunities as well. In addition, we understand that MDU

1 Resources has a history of retaining companies it acquires. This stability and long-term
2 focus are in our customers' and employees' interests.

3 From previous acquisitions made by MDU Resources in this area, we found they
4 retained the company name and continued a positive culture. The same should be true
5 here, as Cascade will become a wholly owned subsidiary. This further demonstrates
6 MDU Resources' commitment to using its size and financial strength to Cascade's
7 customer and employee benefit.

8 **Q. Does the proposed Transaction present any risk of harm to Cascade's customers or**
9 **the public generally?**

10 A. I am not aware of any risks that the proposed Transaction presents either to the
11 Company's customers or to the public generally. To the contrary, Cascade's customers
12 will benefit from the proposed Transaction, for the reasons I mentioned above.

13 **Q. Do you recommend that the Commission approve the proposed Transaction?**

14 A. Yes, I do, without any qualification or reservation.

15 **Q. Does this conclude your direct testimony?**

16 A. Yes, it does.

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