**Exhibit No. __ (TJN-5)**
**Docket No. UG-200568**
**Witness: Tammy J. Nygard**

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

| | |
|---|---|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br>Complainant,<br><br>v.<br><br>CASCADE NATURAL GAS CORPORATION,<br><br>Respondent. | DOCKET UG-200568 |

**CASCADE NATURAL GAS CORPORATION**

**EXHIBIT OF TAMMY J. NYGARD**

**FITCH AND S&P GLOBAL RATINGS REPORTS**

**January 8, 2021**

FitchRatings

RATING ACTION COMMENTARY

# Fitch Affirms Ratings of MDU, Montana-Dakota, Cascade and Centennial Energy; Outlooks Stable

Tue 22 Dec, 2020 - 12:34 PM ET

Fitch Ratings - Chicago - 22 Dec 2020: Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) of MDU Resources Group, Inc. (MDU) at 'BBB+'. Fitch has also affirmed the Long-Term IDRs of its regulated utility subsidiaries Montana-Dakota Utilities Co. and Cascade Natural Gas Corporation (Cascade) at 'BBB+', along with those of Centennial Energy Holdings, Inc. (Centennial) at 'BBB', the holding company for MDU's non-utility operations. The Rating Outlook remains Stable for all four entities.

MDU's ratings and Stable Outlook reflect the regulatory diversity provided by its ownership of low-risk regulated utilities, its exposure to financially sound unregulated businesses, a conservative financing policy and solid credit metrics for the rating category.

MDU's consolidated credit profile reflects the strength of its wholly-owned operating subsidiaries with ratings well positioned in the 'BBB' rating category. Earnings and cash flows are supported by a large capex program focused on regulated investments over the next five years (71% of total) and a robust pipeline of projects at its construction businesses. The proportion of MDU's regulated earnings approximated 46% in 2019, a slight decline from 51% in 2018 following strong performance from its construction materials and services businesses.

MDU's business mix is expected to move back in line with historical levels with regulated operations projected to approximate half of consolidated earnings as strong growth in its lower-risk utility and Federal Energy Regulatory Commission (FERC) regulated pipeline operations are expected to slightly outpace continued growth in its unregulated construction businesses over the 2020-2024 financial forecast.

Montana-Dakota's ratings reflect the relatively low-risk nature of its integrated electric and gas utility business, moderate regulatory diversity, credit-supportive rate mechanisms, robust ring-fencing provisions and manageable capex. Credit metrics are adequate for the current rating category with FFO leverage projected by Fitch to average 4.3x in 2020-2024.

Cascade's ratings benefit from a low-risk business profile supported by its regulated natural gas distribution assets, supportive rate design, including revenue decoupling, robust ring-fencing provisions, and benefit of ownership by MDU.

Other considerations include weakened credit metrics driven by an elevated capital program focused on pipe replacement, with timely recovery under an infrastructure tracking mechanism and via frequent rate case filings. Cascade's low business risk profile mitigates the higher leverage, in Fitch's view, but balanced rate orders in pending and future rate proceedings will be key to maintaining existing ratings.

Centennial's credit profile is supported by the earnings diversity stemming from the ownership of three distinct businesses consisting of construction materials and contracting, construction services, and the pipeline segment, which is almost entirely regulated. Centennial benefits from MDU ownership, historically prudent management of the capital structure, and sound credit metrics for the rating category. The cyclical nature of the sector and modestly rising M&A activity in the construction materials business are modest rating concerns.

## KEY RATING DRIVERS

MDU

Utilities Anchor Credit Profile: MDU owns four low-risk regulated electric and natural gas utilities that operate in 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 approximate 52% of total capex over 2020-2024, compared with roughly 36% in 2014, when the exploration and production (E&P) segment represented the bulk of investments.

Utility capex primarily targets upgrades of electric and gas infrastructure and new gas generation and renewable investments. Fitch forecasts the regulated utilities to generate 38% of consolidated EBITDA in 2024 compared with 24% back in 2014, when E&P's share was 40%. Coupled with the FERC-regulated pipeline business, Fitch estimates MDU's regulated operations will continue to contribute approximately 50% of consolidated EBITDA compared with approximately 30% in 2014. Montana-Dakota, the largest EBITDA contributor to MDU's utility segment, contributed 22% of consolidated EBITDA in 2019.

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 2019. Idaho and Washington were the largest contributors to natural gas revenue, representing 30% and 26%, respectively, in 2019.

Exposure to Unregulated Operations: Fitch's primary credit concern continues to be MDU's cash flow exposure to unregulated operations, which gradually diminished with past divestitures of volatile businesses, but remains present nonetheless. We project Centennial's non-utility operations will contribute approximately 62% of MDU's EBITDA over the next five years.

We estimate the construction materials and construction services businesses will represent 80%-86% of Centennial's EBITDA over 2020-2024, with the remainder generated by the pipeline segment, which consists almost entirely of FERC-regulated pipeline operations. On a positive note, these businesses have generated relatively stable earnings over recent years, 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 relatively modest financial leverage, with debt/total capitalization managed at around 35%-40%. Utilities' financial policies are managed consistent with their authorized regulatory capital structures.

Sound Credit Metrics: Fitch expects FFO-adjusted leverage to average around 3.1x over the forecast period. Ongoing rate relief and successful execution on a significant backlog of projects in the construction segment should continue to support a relatively stable financial profile over the forecast period.

Parent-Subsidiary Linkage: Fitch has applied a bottom-up approach in rating Montana-Dakota, Cascade, and Centennial, and a consolidated approach to rate MDU. The linkage follows a weak parent/strong subsidiary approach for Montana-Dakota and Cascade and a strong parent/weak subsidiary approach for Centennial.

Fitch considers Montana-Dakota and Cascade to be stronger than MDU due to the utilities' low-risk operations and exposure to balanced regulatory environments. MDU is considered to have a stronger credit profile than Centennial due to MDU's greater diversification provided by its ownership of lower risk regulated utilities, while Fitch considers Centennial to be weaker due to its ownership of economically sensitive construction businesses.

There is a weak rating linkage between the IDRs of MDU and its wholly-owned subsidiaries Montana-Dakota, Cascade and Centennial. Utility debt is serviced at the operating company level with the utility subsidiaries having access to their own credit facilities. Robust ring-fencing mechanisms at the utilities 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 among MDU, its regulated utilities and Centennial. In its notching considerations, Fitch restricts the differential between the Long-Term IDRs of MDU and each of its three subsidiaries to a maximum of two notches.

Montana-Dakota

Low-Risk Business Profile: Montana-Dakota's credit profile reflects the relatively low-risk nature of its integrated electric and gas businesses that operate in the four states of North Dakota, South Dakota, Montana and Wyoming. The multi-state operations provide earnings and regulatory diversity that is supportive of credit quality. The utility has minimum exposure to commodity prices.

Fitch calculates electric operations represented approximately 74% of total EBITDA in 2019. North Dakota and Montana were the largest contributors approximating 65% and 22% of total revenue, respectively. Fitch estimates Montana-Dakota represented approximately 61% of the total utility group EBITDA, composed of Montana-Dakota and affiliates Cascade and InterMountain Gas Co., and 22% of MDU's consolidated EBITDA at YE 2019.

Generally Supportive Regulation: The utility benefits from favorable rate mechanisms in North Dakota that feature riders for transmission and environmental/renewables investments, forward-looking test year, interim rate relief and a fuel adjustment clause. In Montana, the utility can recover property tax expenses via a property tax tracker. A weather normalization clause in both North Dakota and South Dakota adds partial cash flow stability to natural gas operations. Montana-Dakota has generally done well in rate cases in each of its regulatory jurisdictions, in Fitch's view.

GRC's Pending in Montana and North Dakota: Montana-Dakota has pending gas GRC's in Montana and North Dakota and Fitch assumes a reasonable outcome comparable to recent rate orders. In Montana, the utility is requesting a $8.6 million rate increase based on a 10.2% ROE and a 50.21% equity layer. In North Dakota, the utility is requesting a $8 million rate increase based on a 10.2% ROE and a 50.31% equity layer. A final decision by regulators is expected in the 1Q21 and 2Q21, respectively.

Robust Ring-Fencing Provisions: Similar to utility affiliates, Montana-Dakota'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 Montana-Dakota guarantees or cross-default provisions within debt agreements at other MDU entities that could impact Montana-Dakota; a prohibition on intercompany loans; and dividend payment restrictions so that Montana-Dakota may not make dividend payments that would reduce its common equity ratio below 45%, as stipulated in the Montana commission's order approving the reorganization.

Manageable Capex: Fitch projects capex to total $800million-$850 million over 2020-2024, with capital spending peaking around $200 million in 2022. A key driver of capex is the planned construction of an 88MW simple-cycle natural gas combustion turbine in North Dakota to replace the planned retirement of 144MW of aging coal-fired generation in 2021-2022. The gas plant is estimated to cost $73 million and has an expected in-service date in 2023.

Montana-Dakota continues to replace inefficient coal plants with new gas and wind generation. Renewables comprised 27% of MDU's electric generation resource mix for

2019, an improvement compared with 11% in 2013. The remaining fuel mix was provided by coal at 48% and natural gas at 25%. Renewable investments are recoverable under environmental rate riders in North and South Dakota, while generation investments in North Dakota are also eligible for rider recovery. Fitch expects Montana-Dakota to fund capex in a conservative manner with a mix of internal cash flows, debt, and parent equity infusions, to align with the statutory capital structure.

Adequate Credit Metrics: Fitch projects FFO-adjusted leverage to average 4.3x in 2020-2024, consistent with a 'BBB+' utility credit profile. While a large capex program pressures credit metrics in the near-term, the benefit of timely rate case filings, riders, and tax credits from renewable investments, provides support to credit measures over the next few years.

Cascade

Low-Risk Business Profile: Cascade's ratings reflect the low-risk nature of its regulated gas distribution assets across its two-state service territory in Washington and Oregon and supportive rate design, including margin decoupling and fuel cost recovery, and solid customer growth.

Fitch estimates Washington represented roughly 75% of total Cascade's revenue in 2019. Cascade's service territory continues to experience above average customer growth with a CAGR of 1.8% over the last five years, driven by favorable demographic trends in the Pacific Northwest. The utility accounted for approximately 22% of combined electric and gas utilities' EBITDA in 2019.

GRC's Pending in Oregon and Washington: Cascade's ratings reflect the expectations for reasonable outcomes in its pending general rate cases (GRCs) in Oregon and Washington. In Oregon, Cascade is requesting a $3.2 million rate increase as part of a settlement agreement based on a 9.4% ROE and a 50% equity layer. Originally, Cascade requested $4.5 million.

In Washington, the company is requesting a $13.8 million rate increase based on a 10.3% ROE and a 50.4% equity layer. A decision by regulators is expected in 1Q21 and 2Q21, respectively. The rate request follows a relatively balanced outcome in Cascade's 2019 GRC in Washington, whereby regulators approved an all-party settlement agreement in March 2020, which Fitch views as fair and credit supportive.

The 2019 GRC settlement provided for a $6.5 million rate increase based on a 9.4% ROE and a 49.1% equity layer. While the authorized ROE is lower than the 2019 industry average of 9.7%, the rate request represents 51% of the amount requested. The settlement follows a less than supportive order in the 2017 GRC, which included a rate reduction of $2.9 million dollars, primarily due to tax reform.

Fitch believes the Washington regulatory compact remains somewhat challenging as authorized ROE's tend to be below prevailing industry averages and the use of average rate base valuations and historical test years exacerbates regulatory lag. This hinders Cascade's ability to materially improve earned ROE. Fitch notes the utility has been earning below its authorized return for several years. A timely cadence of future rate case filings coupled with expectations for balanced regulatory outcomes should help improve earned returns and alleviate persistent regulatory lag.

Sizeable Capex: Fitch estimates Cascade's capital spending to approximate $428 million through 2020-2024, with the peak occurring in 2020, and declining thereafter. Capex is earmarked for new infrastructure and replacement of aging pipes, with a portion of investments subject to timely recovery under an infrastructure tracking mechanism. Fitch expects the utility to fund capex with a balanced mix of internal cash flows, debt and equity infusions from MDU.

Pressured Credit Metrics: Cascade's credit measures are expected to weaken through 2020 as a result of the negative effects of tax reform and a large capex program focused on accelerated pipe replacement. Equity contributions from MDU and the completion of peak capital spending in 2020 will ease the financial pressure. Fitch expects FFO leverage to strengthen to 4.6x by 2023 due to increased earnings resulting from timely recovery of investments under rate riders, bringing metrics back in line with current ratings.

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 affect 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.

Centennial

Earnings Diversity: Centennial's ratings reflect a diverse business mix that includes construction materials and contracting, construction services, and the pipeline segment. Since the E&P divestiture, Centennial has transitioned to a business model primarily geared toward the construction businesses, with the modestly growing pipeline business 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 segment is now almost entirely FERC-regulated. Fitch estimates the construction businesses will generate 80%-85% of Centennial's consolidated EBITDA through 2024. Historically those businesses have done well and have built up a significant backlog of projects in 2020 and going into 2021, which should help to continue to boost earnings and cash flows in the near term.

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 through 2020 and a modest decline in 2021 partly alleviates credit risk in the near term. In particular, highway construction spending continues to sustain near record levels, given the recent passage of an extension of the highway bill through Sept. 2021, which provides greater certainty of funding from the federal government.

However, Fitch expects a modest contraction in local highway funding in 2021 as local municipalities face revenue shortfalls along with lower than normal revenue from fuel taxes due to less economic activity. Fitch expects highway and street spending will grow in the mid-single digits in 2020 before declining by approximately the same amount in 2021. At this time, expectations for a modest decline in highway spending next year is not expected to have a material effect on Centennial's current ratings or outlook.

M&A to Continue: Centennial continues to pursue an acquisitive growth strategy as it further expands the scope and geographic presence of the construction materials and services businesses. Centennial completed five small tuck in acquisitions over the last two years for an aggregate purchase price of approximately $135 million dollars. MDU continues to look for acquisition opportunities in its construction 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 levels of 35%-40%.

Sound Credit Metrics: Fitch forecasts EBITDAR leverage to average around 2.0x over 2020-2024. Those metrics are adequately positioned at the 'BBB' rating level. EBITDAR leverage was 2.1x at YE 2019.

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, with adequate liquidity under their credit facility coupled with a well-spaced maturity schedule.

## DERIVATION SUMMARY

MDU's credit profile is unique within the utility sector due to the ownership of construction businesses that represent nearly half of MDU's consolidated EBITDA. There are no other rated utility parent companies with such a sizeable presence in construction markets. MDU's closest peers are Black Hills Corp. (BKH; BBB+/Stable), Xcel Energy, Inc. (BBB+/Stable), and Otter Tail Corp. (BBB-/Stable).

Similar to Xcel and BKH, MDU benefits from earnings and regulatory diversification with utility operations in multiple states. Otter Tail's earnings can be more volatile than MDU due to the ownership of cyclical manufacturing businesses that are subject to greater market competition than MDU's construction businesses.

MDU's financial profile is stronger than BKH's and Xcel's and similar to Otter Tail's. BKH's high leverage primarily reflects its debt-funded acquisition of Black Hills Gas Holdings LLC (f/k/a SourceGas Holdings LLC) in 2016. Adjusted debt/EBITDAR and FFO leverage for 2019 were 3.5x and 3.3x, respectively, at MDU, 4.7x and 4.7x at Xcel, 5.9x and 5.5x at BKH, and 3.3x and 3.5x at Otter Tail.

Montana-Dakota's business risk profile as a regulated integrated utility is stronger than NorthWestern Corp. (NWE; BBB+/Stable) and comparable to Otter Tail Power Co. (OTP; BBB/Stable) and Black Hills Power Inc. (BHP; BBB+/Stable). Like Montana-Dakota, BHP's credit profile benefits from balanced regulation in South Dakota, where the majority of its operations reside.

NWE is a single-state utility that lacks Montana-Dakota's regulatory diversification and has faced more regulatory challenges in Montana than its utility peer. OTP also benefits from relatively balanced regulation in its three states of operations; however, its ratings are constrained due to ownership by a weaker parent.

Montana-Dakota's financial profile is stronger than NWE's and in line with that of BHP and OTP. Fitch forecasts Montana-Dakota's FFO-adjusted leverage to average in the low 4x through 2024, stronger than the 5x projected at NWE and in line with the low 4x range projected at both BHP and OTP.

Cascade is a local gas distribution company (LDC) with a relatively weaker business profile than LDC peers, Connecticut Natural Gas Corporation (CNG; A-/Stable), Wisconsin Gas LLC (A-/Stable) and Peoples Gas Light & Coke Co. (A-/Stable). Cascade and CNG are some of the smallest regulated utilities under Fitch's coverage and much smaller than its larger peers. Cascade's EBITDA is similar in size to CNG and about 3.0x smaller than Wisconsin Gas and about 6.0x smaller than Peoples Gas.

Fitch considers Washington regulation to be relatively challenging and Connecticut regulation to be relatively balanced, while regulation in Wisconsin and Illinois are viewed as constructive. Fitch forecasts Cascade's FFO leverage metrics to strengthen to below 5.0x by 2022, reflecting a weaker financial profile than its peers. Similarly, Fitch expects leverage metrics to strengthen to the low 4x by 2022 at Wisconsin Gas and the high 3x by 2021 at Peoples Gas and remain in the low 2x range at CNG over the near term.

Centennial's core operations consist of two construction businesses, which represented 96% of Centennial's total revenue and 86% of total EBITDA at YE 2019. An almost entirely FERC-regulated pipeline business contributed the remainder of revenue and EBITDA. As such, Fitch considers Martin Marietta Materials, Inc. (BBB/Negative) 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 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 approximately 1 billion tons of reserves. In 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 90% of the markets it serves. Vulcan is also larger than Centennial, with a portfolio of 16 billion tons of aggregates serving markets in 20 U.S. states, Mexico and the Bahamas. On an EBITDA basis, Martin Marietta and Vulcan are approximately 3x the size of Centennial at YE 2019. Centennial has a strong financial profile that is in line with peers. Total debt/EBITDAR and FFO leverage were 2.1x and 2.4x at YE 2019, respectively, at Centennial, 2.2x and 2.4x at Martin Marietta, and 2.2x and 2.3x at Vulcan.

## KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include

MDU

--Rate relief across all utilities in 2020-2024.

--EBITDA margins of 14%-16%.

--Capex averages $578 million over 2020-2024.

--Regulated operations contribute approximately 50% of consolidated EBITDA.

--Construction materials segment: One acquisition totaling $46 million in 2020.

Montana-Dakota

--Rate relief from rate cases and riders through 2024.

--Capex averages $169 million over 2020-2024.

--Parent equity infusions of $60 million over 2020-2022.

--Cash shortfalls funded with debt.

Cascade

--Regular base rate filings in Washington and Oregon.

--Rate relief from rate cases and riders through 2024.

--Capex averages $86 million over 2020-2024, peaking in 2020.

--Parent equity infusions of $60 million.

--Cash shortfalls funded with debt.

Centennial

--Revenue growth averages 3.7% over 2020-2024.

--EBITDA margins range from 11%-12%.

--Capex averages $278 million over 2020-2024.

--Construction contributes approximately 80%-85% of Centennial's EBITDA.

--Construction materials segment: acquisition totaling $46 million in 2020.

## RATING SENSITIVITIES

MDU

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

--While an upgrade is not anticipated given MDU's current business mix, a material increase in earnings and expansion of regulated businesses could warrant positive rating actions.

--Sustained debt/EBITDAR sustained below 3.0x and FFO leverage below 4.0x.

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

--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 segment.

--Further expansion into unregulated businesses leading to higher leverage.

--Debt/EBITDAR greater than 3.8x and FFO leverage greater than 5.0x on a sustained basis.

Montana-Dakota

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

--FFO leverage below 4.0X on a sustained basis.

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

--A material deterioration of the North Dakota regulatory compact.

--FFO leverage greater than 5.0x on a sustained basis.

Cascade

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

--Given sizeable capex and a projected weaker financial profile in the near-to-intermediate term, a positive rating action is unlikely.

--FFO leverage below 4.0x on a sustained basis.

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

--FFO leverage greater than 5.0x on a sustained basis.

--Further deterioration of the Washington regulatory compact.

Centennial

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

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

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

--A significant and prolonged downturn at the construction materials and construction services segment.

--Further expansion into unregulated businesses leading to higher leverage.

--Total debt/EBITDA greater than 2.5x and FFO leverage greater than 3.5x on a sustained basis.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

## LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Fitch deems MDU's liquidity to be sufficient. MDU had $655 million of available liquidity under its consolidated credit facilities as of Sept. 30, 2020, including $66 million of unrestricted cash and cash equivalents. At Montana-Dakota, liquidity is provided by a $175 million unsecured revolver that matures in December 2024.The revolver backstopped the utility's CP program.

At Cascade, liquidity is provided by a $100 million credit facility that matures in June 2024. Intermountain, Cascade's sister gas utility, maintains liquidity through a $85 million credit facility with a June 2024 maturity date. Centennial's $600 million credit facility expires in December 2024.

Following the holding company reorganization in 2019, the revolver and CP program at the parent has been transferred to Montana-Dakota and the parent does not have access to its own credit facility. All four bank agreements restrict debt/capitalization from exceeding 65%.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

### RATING ACTIONS

| ENTITY/DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| Cascade Natural Gas Corporation | LT IDR | BBB+ Rating Outlook Stable | Affirmed | BBB+ Rating Outlook Stable |
| | ST IDR | F2 | Affirmed | F2 |
| • senior unsecured | LT | A- | Affirmed | A- |
| Centennial Energy Holdings, Inc. | LT IDR | BBB Rating Outlook Stable | Affirmed | BBB Rating Outlook Stable |
| | ST IDR | F2 | Affirmed | F2 |

VIEW ADDITIONAL RATING DETAILS

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## APPLICABLE CRITERIA

Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)

Short-Term Ratings Criteria (pub. 06 Mar 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy



## ENDORSEMENT STATUS

| | |
|---|---|
| Cascade Natural Gas Corporation | EU Endorsed |
| Centennial Energy Holdings, Inc. | EU Endorsed |
| MDU Resources Group, Inc. | EU Endorsed |
| Montana-Dakota Utilities Co. | EU Endorsed |

## DISCLAIMER



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Energy and Natural Resources Corporate Finance Utilities and Power North America

United States

S&P Global
Ratings

# Research

# Cascade Natural Gas Corp.

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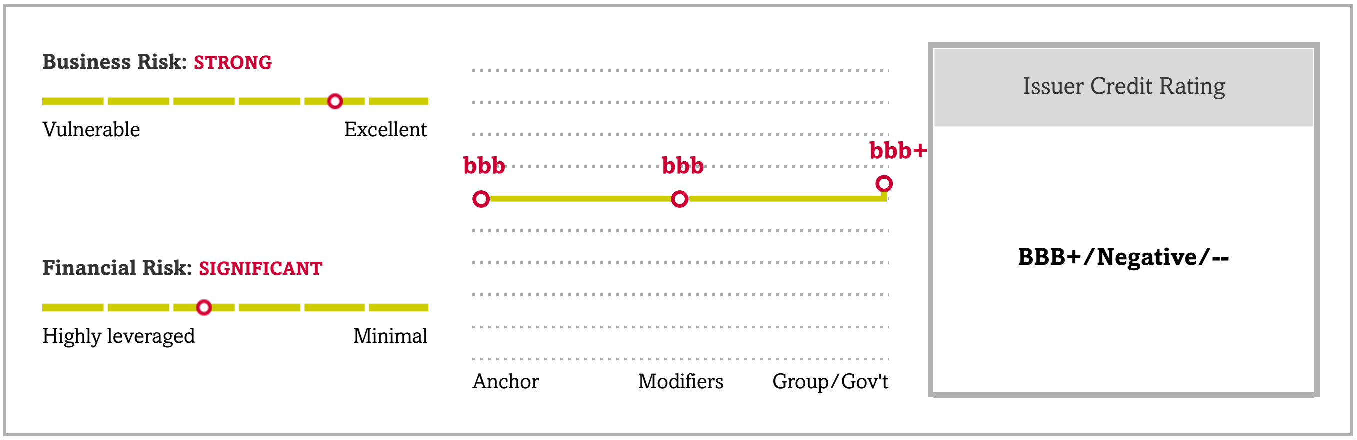
# Cascade Natural Gas Corp.




## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Lower-risk, fully regulated natural gas distribution utility operations. | The company's small size makes it susceptible to localized weather and adverse economic conditions. |
| Effective management of regulatory risk. | Vintage pipe materials increase operating risk. |
| Numerous regulatory mechanisms, including decoupling, purchased gas adjustments, and a pipeline replacement mechanism, provide cash flow stability. | A forecast of negative discretionary cash flow indicates external funding needs in the future. |
| Cascade's status as a core subsidiary of MDU Resources Group Inc. provides a one-notch uplift to our ratings. | |

***Our assessment of Cascade as a core subsidiary of MDUR underpins the rating.*** Because Cascade is a core subsidiary of MDU Resources Group Inc.(MDUR), our issuer credit rating (ICR) on Cascade is in line with our group credit profile for MDUR.

***We expect Cascade to effectively manage regulatory risk, bolstering its business risk profile.*** Although the company has a smaller-than-average customer base, which makes it susceptible to localized weather and adverse economic conditions, it benefits from numerous constructive mechanisms that provide for cash flow stability, such as decoupling, purchased gas adjustments, and a pipeline replacement mechanism.

***Forecast credit metrics remain at the lower end of the range for the significant financial risk profile category.*** We forecast that Cascade's fund from operations (FFO) to debt will average in the 13%-16% range throughout the forecast period.

## Outlook: Negative

The negative outlook on Cascade reflects our outlook on parent MDUR as well as our expectation that Cascade will maintain FFO to debt of about 13%-16%, in line with the lower end of the range for its financial risk profile category. The negative outlook on MDUR reflects our expectation that although the company's utility operations will remain a significant contributor to the overall business mix, it will also continue to grow its more cyclical non-utility businesses throughout our base case while maintaining funds from operations (FFO) to debt of about 21%-23%.

### Downside scenario

We could lower ratings on Cascade over the next 24 months if we downgrade MDUR. This could happen if MDUR disproportionately grows its riskier nonutility businesses or if it fails to maintain its business mix in such a manner that it remains sufficiently diversified. Furthermore, we could lower the ratings if MDUR's FFO to debt is consistently below 22%.

### Upside scenario

We could revise our outlook on Cascade back to stable if we take similar action on MDUR. This could occur if MDUR maintains its business mix in line with our expectations while achieving FFO to debt comfortably above 22%.

## Our Base-Case Scenario

### Assumptions

- Rate case filings and continued use of existing regulatory mechanisms;
- Capital spending averaging about $70 million to $75 million annually;
- Stable utility customer growth of about 1%-2% annually;
- Dividend payments averaging about $15 million to $20 million annually; and
- Negative discretionary cash flow.

### Key Metrics

| | 2018a | 2019e | 2020f |
|---|---|---|---|
| FFO to debt (%) | 14.5 | 14.0–16.0 | 12.0-14.0 |
| Debt to EBITDA (x) | 5.4 | 4.5-5.5 | 4.5-5.5 |
| FFO cash interest coverage (x) | 4.8 | 4.5-5.5 | 4.0-5.0 |

a--actual. e--estimate. f--forecast. FFO--Funds from operations.

## Company Description

Cascade Natural Gas Corp. distributes natural gas to about 295,000 customers in western and central Washington and central and eastern Oregon. It is a subsidiary of MDUR.

## Business Risk: Strong

Our assessment of Cascade's business risk largely reflects its lower-risk regulated gas distribution operations. Although the company's smaller-than-average customer base of about 295,000 makes it susceptible to localized weather and adverse economic conditions within its service territory, it effectively manages its regulatory risk and benefits from numerous constructive regulatory mechanisms that provide for cash flow stability, such as decoupling, purchased gas adjustments, and a pipeline replacement mechanism. After taking all of these factors into consideration, we assess the company's business risk profile at the higher end of the range compared to peers.

In addition, the company is in the middle of numerous regulatory proceedings that could affect its cash flows and recently received approval for a $6.5 million rate increase in Washington.

## Financial Risk: Significant

We assess Cascade's financial measures using our medial volatility table to reflect its lower-risk regulated utility operations and effective management of regulatory risk. Our base-case assumptions include modest customer growth of 1%-2%, capital spending to average about $70 million to $75 million annually, continued use of existing regulatory mechanisms, future rate case increases, dividends of about $15 million to $20 million annually, and equity infusions by MDUR to maintain Cascade's regulatory capital structure. As such, we expect financial measures to reflect the lower end of the range for the financial risk profile category. Specifically, we expect FFO to debt to average about 13%-16%.

## Liquidity: Adequate

We assess Cascade's liquidity as adequate to cover its needs over the next 12 months. We expect the company's liquidity sources to exceed uses by more than 1.1x. Cascade's liquidity benefits from stable cash flow generation, ample availability under its revolving credit facilities, and manageable debt maturities over the next few years. The company's well-established and solid bank relationships, prudent risk management, ability to absorb high-impact, low-probability events with limited need for refinancing, and satisfactory standing in credit markets also support our assessment.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • Minimal cash outstanding;<br>• Credit facility availability of about $90 million; and | • Capital spending of about $90 million; and<br>• Distributions to the parent of about $20 million. |

- FFO of about $50 million.

## Group Influence

In our opinion, the cumulative value provided by structural and regulatory protections--including dividend restrictions, maintenance of an investment-grade rating, a nonconsolidation opinion, regulatory approval for capital structure changes, and an independent director--could insulate Cascade's credit quality from MDUR and provide sufficient basis to potentially differentiate our issuer credit rating on the subsidiary.

Despite what we assess as sufficient insulation at Cascade to potentially differentiate our ratings on Cascade from those of its parent, we do not differentiate our issuer credit rating on Cascade from our rating on MDUR because our assessment of Cascade's stand-alone credit profile (SACP) as 'bbb' is lower than our assessment of MDUR's group credit profile. However, because we assess Cascade as a core entity to MDUR, the issuer credit rating is in line with that on MDUR. Our assessment of Cascade as core to MDUR reflects our view that the company is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes materially to the group.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

Cascade's capital structure consists of about $315 million of senior unsecured debt.

### Analytical conclusions

We rate Cascade's senior unsecured debt obligations the same as the issuer credit rating because Cascade is a qualifying investment-grade utility as per our criteria.

## Ratings Score Snapshot

### Issuer Credit Rating

BBB+/Negative/--

### Business risk: Strong

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

### Financial risk: Significant

- **Cash flow/leverage:** Significant

### Anchor: bbb

### Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

### Stand-alone credit profile : bbb

- **Group credit profile:** bbb+
- **Entity status within group:** Core (+1 notch from SACP)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 Building Materials Industry, Dec. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 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 | Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Research Update: MDU Resources Group Inc. And Subsidiairies' Outlooks Revised To Negative; Ratings Affirmed, March 30, 2020

## Business And Financial Risk Matrix

| Business Risk Profile | Financial 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 March 31, 2020)*

| | |
|---|---|
| **Cascade Natural Gas Corp.** | |
| Issuer Credit Rating | BBB+/Negative/-- |
| Senior Unsecured | BBB+ |
| **Issuer Credit Ratings History** | |
| 30-Mar-2020 | BBB+/Negative/-- |
| 12-Dec-2013 | BBB+/Stable/-- |
| 26-Nov-2013 | BBB+/Watch Neg/-- |
| **Related Entities** | |
| **Centennial Energy Holdings Inc.** | |
| Issuer Credit Rating | BBB+/Negative/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| **MDU Resources Group Inc.** | |
| Issuer Credit Rating | BBB+/Negative/A-2 |
| **Montana-Dakota Utilities Co.** | |
| Issuer Credit Rating | A-/Negative/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.