

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1283

In the Matter of

MDU RESOURCES GROUP, INC.

Application for Authorization to Acquire
Cascade Natural Gas Corporation

STIPULATION

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

PARTIES

1. The initial parties to this Stipulation (the "Stipulation") are MDU Resources Group, Inc. ("MDU Resources"), Cascade Natural Gas Corporation ("Cascade"), Staff of the Public Utility Commission of Oregon ("Staff"), Citizens' Utilities Board ("CUB"), Northwest Industrial Gas Users ("NWIGU"), Community Action Directors of Oregon ("CADO"), Oregon Energy Coordinators Association ("OECA"), and NW Energy Coalition (together, the "Parties" and individually, a "Party"). This Stipulation will be made available to other parties to this docket, who may participate by signing and filing a copy of this Stipulation.

2. The Parties, by signing this Stipulation, agree that the terms of the application and this Stipulation will provide net benefits to Cascade's customers, that approval of the application will serve Cascade's customers in the public interest, and that the Public Utility Commission of Oregon (the "Commission") should issue an order approving the Stipulation and MDU Resources's request, as amended, to control and exercise influence over Cascade.

BACKGROUND

3. On November 8, 2006, MDU Resources filed an application with the Commission requesting authorization of a proposed transaction (the "Transaction") whereby MDU Resources

would acquire all of the outstanding common stock of Cascade from its existing shareholders, and Cascade would thereafter become a wholly owned subsidiary of MDU Resources.

Concurrent with the filing of this Stipulation, MDU Resources will file an amended application (the "Application") reflecting changes to the structure of the Transaction, as agreed by the Parties, whereby Cascade would become an indirect wholly owned subsidiary of MDU Resources.

4. Staff, CUB, NWIGU, CADO, OECA, and NW Energy Coalition have reviewed the application, the pre-filed testimony of MDU Resources and Cascade, the proposed amendments to the application, and MDU Resources' and Cascade's responses to the extensive discovery requests submitted in this proceeding.

5. Since February 2007, the Parties have engaged in settlement discussions on the issues in this proceeding. The settlement discussions have been open to all parties to this Docket.

AGREEMENT

6. Exhibit 1 contains the complete list of Commitments/Conditions that MDU Resources and Cascade agree to as a part of this Stipulation (the "Commitments"). By virtue of executing this Stipulation, MDU Resources and Cascade agree to perform all of the Commitments set forth in Exhibit 1 according to the provisions of each Commitment.

7. Concurrently with the negotiation of this Stipulation, Cascade, Staff, CUB, and NWIGU have negotiated an agreement to resolve all issues in Commission Docket No. UG 173 ("UG 173"), which is set forth in a separate written stipulation. MDU Resources, Cascade, Staff, CUB, and NWIGU acknowledge that their agreement to this Stipulation is based in part on the terms of the stipulation to settle UG 173.

8. The Parties acknowledge that with the terms of the Application and this Stipulation, including the Commitments set forth in Exhibit 1, in conjunction with entering into

the stipulation for settlement of UG 173, MDU Resources and Cascade have satisfied the "net benefits" standard in Oregon pursuant to ORS 757.511 for approval of the Application.

9. The Parties agree to support Commission approval of this Stipulation and the Application. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this proceeding and any appeal, provide either witnesses to sponsor or legal representatives to support this Stipulation, and recommend the Commission issue an order adopting the agreements and Commitments contained herein and approving the Application. If any other party to this proceeding challenges this Stipulation, the Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include addressing issues incorporated in the settlements embodied in this Stipulation.

10. The Commitments may be expanded or modified as a result of a regulatory decision or settlement in the state of Washington. MDU Resources and Cascade agree that the Commission shall have an opportunity and the authority, which opportunity and authority MDU Resources and Cascade will not oppose, to consider and adopt in Oregon any commitments or conditions to which MDU Resources and Cascade agree or with which MDU Resources and Cascade are required to comply in Washington, even if such commitments and conditions are agreed to after the Commission enters its order in this docket; provided, however, that any financial commitments, or commitments having a financial impact, shall be proportionate to Cascade's corresponding business function in Oregon in relation to its corresponding total business function. To facilitate the Commission's consideration and adoption of the commitments and conditions from Washington, the Parties urge the Commission to issue an order accepting this Stipulation as soon as practical, but to reserve in such order the explicit right to re-open Exhibit 1 to add (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Oregon)

commitments and conditions accepted or ordered in Washington. To provide input to the Commission to facilitate a prompt decision regarding the desirability or lack of desirability for any out-of-state commitments and conditions to be adopted in Oregon, the Parties agree to and recommend the following process:

- Within five calendar days after a stipulation with new or amended commitments is filed by MDU Resources and Cascade with the commission in Washington, MDU Resources and Cascade will electronically send a copy of the stipulation and commitments to the Parties.
- Within five calendar days after the commission in Washington issues an order that accepts a stipulation to which MDU Resources and Cascade are a party or otherwise imposes new or modified commitments or conditions, that order, together with all commitments and conditions of any type agreed to by MDU Resources and Cascade or ordered by the commission in Washington, will be filed with the Commission and served on all parties to this docket by the most expeditious means practical (the "Final Filing").
- Within ten business days after the Final Filing, any Party may file with the Commission its response, including its position as to whether any of the commitments and conditions from Washington (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Oregon) should be adopted in Oregon.
- Within five business days after any such response filing, any Party to the docket may file a reply with the Commission. The Parties agree to support in their filings (or by representation of same by MDU Resources) the issuance by the Commission of an order regarding the adoption of such commitments and

conditions as soon as practical thereafter, recognizing that the Transaction cannot close until each respective state has issued a final order.

- If the last day of any calendar time period referenced above falls on a Saturday, Sunday, or a holiday, the next business day will be considered as the last day.

11. The Parties will encourage the Commission to enter an order granting final Oregon approval as soon as possible but not later than June 5, 2007. The Application that MDU Resources will file shall extend the statutory time period through June 5, 2007. The Parties agree not to request a further extension of the suspension period in this case from MDU Resources unless another state issues its final order later than May 15, 2007.

12. Not later than the Final Filing, MDU Resources and Cascade will disclose to the Parties any written commitments or conditions made in Oregon or Washington (between the date of the filing of the Stipulation and the receipt of the Washington commission order in the transaction docket) intended to encourage approval of the transaction or avoidance of an objection thereto.

13. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material part of this Stipulation or imposes additional material conditions in approving the Application, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all Parties within 15 business days of the Commission's order, to withdraw from this Stipulation, pursue their rights under OAR 860-014-0085, and/or seek reconsideration or appeal of the Commission's order. However, prior to withdrawal, the Party shall engage in good faith negotiation with the other Parties. No Party withdrawing from this Stipulation, including MDU Resources and Cascade, shall be bound to any position, commitment, or condition of this Stipulation.

14. If the Commission rejects all or any material part of the stipulation settling UG 173, or imposes additional material conditions in approving that stipulation, any Party among

MDU Resources, Cascade, Staff, CUB, and NWIGU that is disadvantaged by such action shall have the right, upon written notice to the Commission and all Parties within 15 business days of the Commission's order, to withdraw from this Stipulation. However, prior to withdrawal, the Party shall engage in good faith negotiation with the other Parties. No Party withdrawing from this Stipulation, including MDU Resources and Cascade, shall be bound to any position, commitment, or condition of this Stipulation.

15. By executing this Stipulation, no Party waives any right to assert such positions regarding the prudence, just and reasonable character, rate or ratemaking impact or treatment, or public interest as they deem appropriate pertaining to any Commitment.

16. The Parties agree that this Stipulation represents compromises in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as expressly identified in the Stipulation.

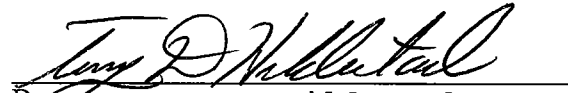
17. Subject to Paragraph 18 of this Stipulation, the effective date of this Stipulation as to each Party shall be the date of that Party's signature to the Stipulation.

18. The Commitments of MDU Resources and Cascade under this Stipulation are subject to the Commission's approval of the Application in this docket on terms and conditions acceptable to MDU Resources and Cascade, in their sole discretion, the closing of the Transaction, and the Commission's approval of the stipulation in UG 173 on terms and conditions acceptable to Staff, CUB, NWIGU, MDU Resources and Cascade.

19. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party as of the date(s) entered below:

MDU RESOURCES GROUP, INC.



By: Terry D. Hildestad
Its: President & Chief Executive Office
Dated: April 23, 2007

CASCADE NATURAL GAS
CORPORATION

By:
Its:
Dated:

STAFF OF THE OREGON PUBLIC
UTILITY COMMISSION

By:
Its:
Dated:

CITIZENS' UTILITY BOARD

By:
Its:
Dated:

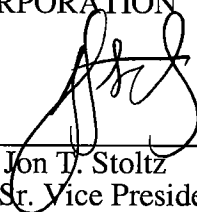
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This Stipulation is entered into by each Party as of the date(s) entered below:

MDU RESOURCES GROUP, INC.

By:
Its:
Dated:

CASCADE NATURAL GAS
CORPORATION



By: Jon T. Stoltz
Its: Sr. Vice President – Gas Supply and
Regulatory
Dated: April 18, 2007

STAFF OF THE OREGON PUBLIC
UTILITY COMMISSION

By:
Its:
Dated:

CITIZENS' UTILITY BOARD

By:
Its:
Dated:

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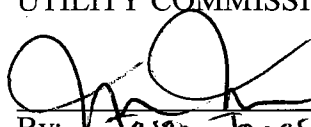
MDU RESOURCES GROUP, INC.

By:
Its:
Dated:

CASCADE NATURAL GAS
CORPORATION

By:
Its:
Dated:

STAFF OF THE OREGON PUBLIC
UTILITY COMMISSION



By: Jason Jones
Its: Attorney
Dated: 4/24/07

CITIZENS' UTILITY BOARD

By:
Its:
Dated:

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MDU RESOURCES GROUP, INC.

By:
Its:
Dated:

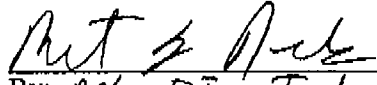
CASCADE NATURAL GAS
CORPORATION

By:
Its:
Dated:

STAFF OF THE OREGON PUBLIC
UTILITY COMMISSION

By:
Its:
Dated:

CITIZENS' UTILITY BOARD


By: Robert T. Jenks
Its: Executive Director
Dated: 4/25/07

NORTHWEST INDUSTRIAL GAS
USERS

Paula E. Pyron
By: Paula E. Pyron
Its: Executive Director
Dated: April 23, 2007

COMMUNITY ACTION DIRECTORS OF
OREGON

By:
Its:
Dated:

OREGON ENERGY COORDINATORS
ASSOCIATION

By:
Its:
Dated:

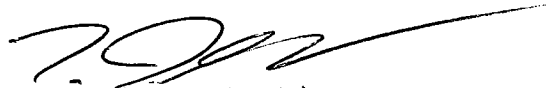
NW ENERGY COALITION

By:
Its:
Dated:

NORTHWEST INDUSTRIAL GAS
USERS

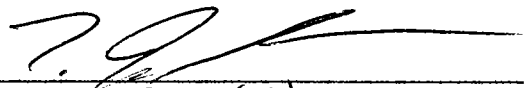
By:
Its:
Dated:

COMMUNITY ACTION DIRECTORS OF
OREGON



By: THOMAS JAMES (TIM) ABRAHAMSON
Its: OREGON ENERGY PARTNERSHIP COORDINATOR
Dated: April 25, 2007

OREGON ENERGY COORDINATORS
ASSOCIATION



By: THOMAS JAMES (TIM) ABRAHAMSON
Its: OREGON ENERGY PARTNERSHIP COORDINATOR
Dated: April 25, 2007

NW ENERGY COALITION

By:
Its:
Dated:

NORTHWEST INDUSTRIAL GAS
USERS

By:
Its:
Dated:

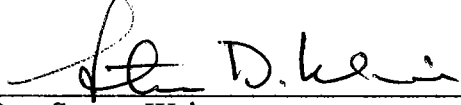
COMMUNITY ACTION DIRECTORS OF
OREGON

By:
Its:
Dated:

OREGON ENERGY COORDINATORS
ASSOCIATION

By:
Its:
Dated:

NW ENERGY COALITION



By: Steven Weiss
Its: Sr. Policy Associate
Dated: April 13, 2007

MDU Resources Acquisition of Cascade Natural Gas Corporation

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

- 1) Cascade will maintain its own accounting documentation, and financial data will be accessible in Cascade's Washington office. Cascade's financial books and records and state and federal utility regulatory filings and documents will continue to be maintained in Cascade's Washington office consistent with current practice and be available to the Commission, upon request.
- 2) Financial statements and other financial books and records for Cascade shall be maintained separate from the books and records of MDU Resources. The assets of Cascade and its subsidiaries will be accounted for separately from the assets of MDU Resources and its other subsidiaries, divisions and affiliates. This condition shall not prevent the maintenance of books and records for Cascade, MDU Resources or their affiliates on or through a common accounting platform or system. This condition shall also not prevent, for non-Oregon regulatory purposes, the consolidated treatment or reporting of financial statements, financial results, and other financial books and records of Cascade, MDU Resources or their subsidiaries and affiliates for financial reporting, tax or other purposes.
- 3) MDU Resources and Cascade will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between Cascade and its affiliated interests or which are otherwise reasonably calculated to lead to discoverable information regarding Cascade.
- 4) In accordance with Oregon law or regulation, the Commission or its agents may audit the accounting records of MDU Resources and its subsidiaries or divisions that are the basis for charges to Cascade. MDU Resources agrees to cooperate fully with such Commission audits.
- 5) Any diversified holdings and investments (e.g., non-utility related business or foreign utilities) of MDU Resources will not be held by Cascade or a subsidiary of Cascade. This condition will not prohibit MDU Resources or its affiliates other than Cascade from holding diversified businesses.
- 6) Cascade will operate as an indirect wholly owned subsidiary of MDU Resources. Cascade will not issue debt for the acquisition of Cascade's stock by MDU Resources. Cascade agrees to hold its Oregon customers harmless from any financial risk exposures of MDU Resources' other affiliates including Centennial Energy Holdings, Inc. (Centennial) and any associated costs resulting from such financial risk exposure. No credit facilities at Cascade will contain cross-default provisions with respect to credit facilities at

MDU Resources or Centennial or their subsidiaries, and no credit facility signed by Cascade will allow any creditor of MDU Resources, Centennial or their subsidiaries (other than Cascade and its subsidiaries) to have recourse against Cascade or its subsidiaries in the event of bankruptcy of MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries). No credit facilities at MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries) will contain cross-default provisions with respect to credit facilities at Cascade, and no credit facility signed by MDU Resources or Centennial or their subsidiaries will allow any creditor of Cascade or its subsidiaries to have recourse against MDU Resources or Centennial or their subsidiaries (other than Cascade and its subsidiaries).

- 7) At least one director of Equico, the intermediate holding company that will own Cascade's stock, will be an Independent Director who is not a member, stockholder, director (except as such Independent Director of Equico), officer, employee, partner, attorney, creditor, supplier, customer other than a consumer, or supplier of MDU Resources or its affiliates. The organizational documents for Equico will not permit Equico, without the unanimous consent of all its directors including the Independent Director, to merge, liquidate or sell substantially all of Equico's assets or to consent to the institution of bankruptcy proceedings or the inclusion of Equico in bankruptcy proceedings.
- 8) Cascade or MDU Resources will notify the Commission subsequent to MDU Resources' board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of MDU Resources; or (2) the change in effective control or acquisition of any material part or all of Cascade by any other firm, whether by merger, combination, transfer of stock or assets; or (3) any acquisition of a business with a substantial business presence in Cascade's service area that has a value in excess of \$100 million or requires notification of the United States Securities and Exchange Commission.
- 9) MDU Resources and Cascade shall comply with all Commission statutes, rules, and ordering conditions concerning affiliated interests filings. This shall include the Inter-company Administrative Services Agreement (IASA). Cascade intends that by obtaining Commission approval of the IASA, Cascade will avoid the need to seek individual approval of affiliate transactions which are subject to that agreement. The IASA will include the corporate and affiliate cost allocation methodologies described in condition 12. The IASA will be filed with the Commission as soon as practicable after the closing of the transaction by which Cascade becomes an indirect subsidiary of MDU Resources (the "Transaction"). Approval for ratemaking purposes will not be requested in such filing. Amendments to the IASA will also be filed with the Commission.

10) Cascade commits for Oregon regulatory purposes, that commencing with closing of the Transaction and through December 31, 2012, the allocated shared corporate costs, as well as its allocated and assigned utility division costs, will not exceed the costs the Cascade customers would otherwise have paid absent the acquisition, as adjusted for changes in the Consumer Price Index. Compliance with this condition shall be determined as follows:

- a. For purposes of this condition, Cascade's Oregon-allocated A&G costs will be based on the A&G categories, assumptions, and values contained in Appendix 1 titled, "UM 1283 900 Accounts Stretch- Oregon-allocated" using the 2005 Accounts 901 through 935 labor and non-labor costs, but excluding Account 904 (uncollectible accounts) costs (the "2005 Benchmark"). The 2005 Benchmark will be set at \$6,848,545. The benchmark for each subsequent year shall equal the prior year's benchmark multiplied by the increase in the Consumer Price Index for All Urban Consumers: All Items: Index 1982-84=100 (Series CUUR0000SA) in the previous twelve months. Cascade may propose, when using future test years, to use a forecast of the consumer price index. Except as provided in Condition 11, Cascade commits that during the period of this condition, Cascade's A&G costs, excluding Account 904 costs, for rate making, revenue sharing and regulatory reporting purposes shall be the lesser of its actual 900 Accounts costs, excluding Account 904 costs, or the benchmark for the applicable year. Because public purpose funding in Account 908 did not commence until after 2005, such costs shall also be excluded from the condition and calculations of this paragraph, but shall be included for ratemaking, revenue sharing, and regulatory reporting purposes.
- b. Cascade will not shift A&G costs to operational and maintenance accounts (FERC accounts 700-894), capital accounts, deferred debit accounts, deferred credit accounts, or other regulatory accounts that are a basis for ratemaking.
- c. Cascade may request that the Commission include in the benchmark A&G costs that are incurred or increased as a direct consequence of a change in a statute or rule, or as a result of an order or directive of the Commission, effective after the date of this condition. The intent of this condition is to protect Cascade from unforeseen mandated circumstances that could increase A&G costs.

11) MDU Resources and Cascade further commit that beginning at the same time as the fall 2008 PGA rate adjustment (estimated to be around November 1, 2008) and continuing through December 31, 2012, Cascade will provide annual rate credits of \$200,000 to Oregon customers distributed on an equal margin basis unless otherwise ordered by the Commission. The rate credits in this paragraph will not be off-settable for the first three years, and thereafter

will be fully off-settable, on a prospective basis, by the amount that Cascade demonstrates to the Commission's satisfaction in any general rate case that the Oregon-allocated A&G expenses included in Cascade's rates are lower than the benchmark set in condition 10 and have not been shifted to operational and maintenance accounts (FERC accounts 700-894), capital accounts, deferred debit accounts, deferred credit accounts, or other regulatory accounts that are a basis for ratemaking. The rate credits shall be provided as bill credits for each month that this condition is in effect, pro-rated based upon estimated volumes and subject to true-up on an annual basis in a manner to be approved by the Commission. Rate credits shall be excluded from Cascade's regulatory accounts and shall be paid for out of shareholder funds.

- 12) Any corporate cost allocation used for rate setting, and subsequent changes thereto, will be submitted to the Commission for review. Any proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads, required by law or rule to be submitted to the Commission for review or approval, will comply with the following principles:
- a. For services rendered to Cascade or each cost category subject to allocation to Cascade by MDU Resources or any of its affiliates, Cascade must be able to demonstrate that such service or cost category is necessary to Cascade for the performance of its regulated operations, is not duplicative of services already being performed within Cascade, and is reasonable and prudent.
 - b. Cost allocations to Cascade and its subsidiaries will be based on generally accepted accounting standards; that is, in general, direct costs will be charged to Cascade and its subsidiaries whenever possible and shared or indirect costs will be allocated based upon the primary cost-driving factors.
 - c. MDU Resources and its divisions will have in place an allocation or reporting system adequate to support the allocation and assignment of costs of executives and other relevant personnel to Cascade.
 - d. An audit trail will be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.
 - e. Costs which would have been denied recovery in rates had they been incurred by Cascade regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through MDU Resources. Cascade shall include in any rate case filing a confirmation of this provision or a proposed implementing ratemaking adjustment if necessary.

- 13) Cascade's financial securities excluding common equity (e.g., debt and preferred stock) will be maintained separate from the financial securities of MDU Resources and its affiliates. Cascade will maintain its own corporate credit rating separate from that of MDU Resources and its affiliates.
- 14) Cascade will exclude all costs of the Transaction, including integration costs, from Cascade's utility accounts for ratemaking purposes (e.g., earnings reviews, PGA filings, etc.) Within 90 days following completion of the Transaction, Cascade will provide a preliminary accounting of transaction costs. Further, Cascade will provide the Commission with a final accounting of these costs within 60 days of the close of accounting for the Transaction. For purposes of this condition, "integration costs" include costs associated with determining how Cascade will operate effectively as an indirect subsidiary of MDU Resources after the Transaction closes. Integration costs include but are not limited to senior executive officers costs as a result of employment agreement change of control provisions. Integration costs will not include any costs that Cascade would have reasonably incurred absent the Transaction or costs incurred to combine Cascade's operating systems with those of MDU Resources for improved efficiencies or for other beneficial purposes. Transition costs are costs that are neither transaction nor integration costs and are incurred to improve efficiencies. If Cascade includes any transition costs for ratemaking purposes, it must provide to the Commission's satisfaction a demonstration of the net benefit for customers. Cascade commits that it will not seek to defer, pursuant to ORS 757.259, any transition costs.
- 15) MDU Resources and Cascade will provide the Commission, upon request, with unrestricted access to all written information provided by and to credit rating agencies that is reasonably calculated to lead to discoverable information relating to Cascade.
- 16) MDU Resources and Cascade commit that neither Cascade nor its subsidiaries will, without the approval of the Commission, make loans to MDU Resources or its respective subsidiaries, or assume any obligation or liability as guarantor, endorser, surety or otherwise for MDU Resources or its respective subsidiaries; provided that this condition will not prevent Cascade, to the extent allowed by law, from making loans or transferring funds to a subsidiary of Cascade or assuming any obligation or liability on behalf of a subsidiary of Cascade. MDU Resources and Cascade will not pledge any of the assets of the business of Cascade as backing for any securities which MDU Resources or its respective subsidiaries, but excluding Cascade and its subsidiaries, may issue.
- 17) Cascade will not advocate for a higher cost of debt or equity capital as compared to what Cascade's cost of debt or equity capital would have been, absent MDU Resources' ownership.

- 18) Nothing in these acquisition conditions shall be interpreted as a waiver of Cascade's or MDU Resources' rights to request confidential treatment for information that is the subject of any conditions.
- 19) Nothing in these acquisition conditions shall be interpreted to limit the Commission's authority under its statutes and rules.
- 20) If the Commission believes that MDU Resources or Cascade have violated any of these commitments, or any conditions imposed by the Commission in its final order approving the Application (collectively, the "Conditions"), then the Commission shall give MDU Resources and Cascade written notice of the violation.
- a. If the violation is for failure to file any notice or report required by the Conditions, and if MDU Resources or Cascade, as applicable, provides the notice or report to the Commission within ten business days of the receipt of the written notice, then the Commission shall take no action. MDU Resources or Cascade may request, for cause, an extension of the ten-day period. For any other violation of the Conditions, if such failure is corrected within five business days of the written notice, then the Commission shall take no action. MDU Resources or Cascade may request, for cause, an extension of the five-day period.
 - b. If MDU Resources or Cascade, or both, fail to file a notice or written report or fail to cure any other violation within the time periods permitted in subparagraph a. above, then the Commission may open an investigation, with an opportunity for MDU Resources or Cascade, as applicable, to request a hearing, to determine the number and seriousness of the violations. If the Commission determines after the investigation and hearing (if requested) that MDU Resources or Cascade, or both, violated one or more of the Conditions, then the Commission shall issue an order stating the level of penalty it will seek. MDU Resources or Cascade, or both, as appropriate, may appeal such an order under ORS 756.610. If no party appeals the order stating the penalty, or if the Commission's order is upheld on appeal, and the order imposes penalties under a statute that further requires the Commission to file a complaint in court, then the Commission may file a complaint in the appropriate court seeking the penalties specified in the order, and MDU Resources or Cascade, as applicable, shall file a responsive pleading agreeing to pay the penalties. The Commission shall seek penalties only against MDU Resources for violations by only MDU Resources and only against Cascade for violations by only Cascade, but may seek penalties against both MDU Resources and Cascade when both have violated a commitment or condition.

- c. The Commission shall not be bound by the process provided in paragraph 19a in the event the Commission determines Cascade has violated any of the material conditions more than two times within a rolling 24-month period.
- d. Cascade or MDU Resources, or both, shall have the opportunity to demonstrate to the Commission that the process provided in paragraph 20(b) should not apply on a case-by-case basis.

21) In the event of a dispute between Commission Staff and Cascade or MDU Resources regarding a Commission Staff request for books, documents, or records made pursuant to acquisition conditions or commitments, the parties agree that an Administrative Law Judge (ALJ) shall resolve the dispute as follows: (i) within ten (10) business days MDU Resources or Cascade shall deliver to the ALJ the books and records responsive to Staff's request and shall indicate the basis for the objection, including whether the request is overbroad, unduly burdensome or outside the scope of the Commission's jurisdiction; (ii) Staff may respond in writing and MDU Resources or Cascade, may reply; (iii) the ALJ shall review the documents in camera; and (iv) the ALJ shall issue a ruling determining whether the books, documents, or records are, directly or indirectly, relevant to Cascade or reasonably calculated to lead to the discovery of admissible evidence relevant to Cascade or to MDU Resources' adherence with the acquisition conditions or commitments. The ALJ shall use this standard whether or not Staff is making the request in connection with an open docket. Nothing in this provision shall affect the right of MDU Resources or Cascade to request that the Commission treat the documents as exempt from disclosure to third parties under applicable law or regulation. Cascade shall have the right to request that the ALJ's ruling be certified to the Commission. However, Cascade or MDU Resources must make the request to certify the ALJ's ruling to the Commission within 5 business days of receipt of the ruling. Should Cascade or MDU Resources make such a request, it must also request an expedited ruling.

22) MDU Resources and Cascade commit that Cascade will maintain adequate staffing and presence in each state in which it operates, consistent with the provision of safe and reliable service and cost-effective operations.

23) Within twelve months of the closing of the Transaction and annually thereafter through 2012, Cascade will file a report with the Commission regarding the implementation of the Conditions. The report will, at a minimum, provide a description of the performance of each of the Conditions that have quantifiable results. If any Condition is not being met, relative to the specific terms of the Condition, the report shall provide proposed corrective measures and target dates for completion of such measures. Cascade will make publicly available at the Commission non-confidential portions of the report.

- 24) The premium paid by MDU Resources for Cascade (Goodwill or Acquisition Premium) will be excluded from the utility accounts of Cascade. Further, MDU Resources and Cascade commit that they will not propose rate recovery of the Acquisition Premium in Oregon rates or include the Acquisition Premium in Cascade's Oregon results of operations unless this condition is modified by the Commission, pursuant to a filing under ORS 756.568, to allow for the recovery of the Acquisition Premium.
- 25) Cascade and/or the MDU Resources Foundation will maintain at least Cascade's current level of charitable contributions in Oregon and Washington. Some of those contributions may be made directly by Cascade in support of local organizations. In addition, qualified tax-exempt 501(c)(3) entities will be eligible to apply for grants from MDU Resources Foundation.
- 26) MDU Resources and Cascade will provide the Commission access to those portions of corporate minutes including Board of Directors' minutes, all committee and subcommittee minutes, along with any related reports and source documents that may lead to relevant information regarding Cascade's business and associated risk analysis.
- 27) Cascade will not declare or make any dividend to MDU Resources or any other person that owns or holds an equity interest in Cascade, unless, on the date of such dividend, either:
- a. at the time and as a result of such dividend, Cascade's Interest Coverage Ratio is equal to or greater than 3:1; or
 - b. at such time, Cascade's unsecured debt rating is at least investment grade (BBB- or its then equivalent with Standard & Poor's Ratings Group and Baa3 or its then equivalent with Moody's Investors Service, Inc).

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

- 28)a. Cascade commits that Cascade will not make any dividends that will reduce Cascade's common equity capital below the following percentages of Cascade's Total Capital without Commission approval (Cascade's Total Capital is defined as common equity, preferred equity and long-term debt):

41% from the date of the close of the transaction through December 31, 2008;

42% from January 1, 2009, through December 31, 2009;

43% from January 1, 2010 through December 31, 2010;

44% from January 1, 2011 through December 31, 2011;
45% after December 31, 2011.

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

c. Cascade commits that Cascade will not make any dividends that will reduce Cascade's common equity capital below 35% of Cascade's Total Adjusted Consolidated Capital (using a purchased accounting approach) without Commission approval. Cascade's Total Adjusted Consolidated Capital is defined as the common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations of both Cascade and Cascade's intermediate holding companies viewed on a consolidated basis.

d. The Commission, on its own motion or at the request of any party, may reexamine the minimum common equity percentages under this condition as financial conditions or accounting standards warrant. The common equity percentages set forth in subparagraph 28(a) shall be reviewed if the Commission adopts a capital structure for Cascade for ratemaking or revenue sharing purposes with a level of common equity capital below the applicable percentage set forth in subparagraph 28(a).

29) Through December 31, 2016, Cascade will provide notice to the Commission, and to other parties to this Docket upon request, when the dividend payment increases by 10% or more than the dividends paid over the previous quarter.

30) Within three months of closing of the Transaction, Cascade commits to obtain a non-consolidation opinion, subject to customary limitations and qualifications, that if the ring-fencing around Cascade is maintained and the matter is properly briefed and presented, a bankruptcy court, on its own or upon proper request of a party in interest in a case under the United States Bankruptcy Code commenced against MDU Resources, would not order the

substantive consolidation of the assets and liabilities of Cascade with those of MDU Resources. Cascade commits to promptly file such opinion with the Commission. If the ring-fencing provisions of this agreement are insufficient to obtain a non-consolidation opinion, MDU Resources agrees to promptly undertake the following actions:

- a. Notify the Commission of this inability to obtain a non-consolidation opinion.
- b. Propose and implement, upon consultation with Commission Staff and parties to this stipulation and Commission approval, such ring-fencing provisions that are sufficient to obtain such a non-consolidation opinion.
- c. Obtain such a non-consolidation opinion.

31) The Applicants agree that the Commission shall have an opportunity and the authority to consider and adopt in Oregon any commitments or conditions to which the Applicants agree or with which the Applicants are required to comply in other jurisdictions, even if such commitments and conditions are agreed to after the Commission enters its order in this docket provided, however, that any financial commitments, or commitments having a financial impact, shall be proportionate to Cascade's corresponding business function in Oregon in relation to its corresponding total company business function. To facilitate the Commission's consideration and adoption of the commitments and conditions from other jurisdictions, the Parties urge the Commission to issue an order accepting this Stipulation as soon as practical, but to reserve in such order the explicit right to re-open to add commitments and conditions accepted or ordered in another state jurisdiction.

32) MDU Resources and Cascade affirm that they understand the commitments made by Cascade in Docket UG 167 regarding Service Quality Measures backed by revenue requirement reductions and the agreement to contribute certain revenues for public purposes, including conservation and assistance to low-income customers for bill-paying and weatherization as established in that Docket. Further, MDU Resources and Cascade understand that revenue requirement reductions for noncompliance with performance standards and customer guarantees shall be paid as designated by the Commission and shall be excluded from Cascade's regulatory accounts and results of operations. Cascade supplements Cascade's previous commitments as follows:

- a. The decoupling mechanism, as set forth in the Conservation Alliance Plan tariff sheets, shall continue until September 30, 2012, subject to any necessary modifications to the Conservation Alliance Plan recommended by independent evaluation required by Section 8 of the UG 167 Stipulation or any other modification required by the Commission.

- b. Public purposes funding, at no less than the level specified in Section 10 of the UG 167 Stipulation, shall continue until September 30, 2012. Such funds shall continue to be distributed to the Energy Trust of Oregon and community services agencies in the manner prescribed in Section 10 of the UG 167 Stipulation or any other manner required by the Commission. This commitment is conditioned upon such funding being included as a cost of service for ratemaking and revenue sharing purposes.
 - c. Cascade agrees that an Earnings Sharing Mechanism as established in Order No. 04-203 in Docket UM 903 and as modified in the Docket UG 167 Stipulation shall continue until September 30, 2012, unless otherwise modified by the Commission; Provided, however, that the Parties agree that the earnings band shall be increased to 215 basis points and the baseline return on equity shall be 10.1 percent as detailed in the UG 173 settlement document.
- 33) Cascade shall file revised tariff sheets for its Oregon transportation customers to eliminate the existing 50,000 therm restriction and replace it with provisions requiring transporters to keep their nominations and deliveries within the same monthly tolerance band as Northwest Pipeline.
- 34) Commencing January 1, 2008 and continuing through December 31, 2012, Cascade shall provide not less than \$12,500 per year for funding of low-income client education programs at the four Oregon community action agencies that deliver the current Cascade low-income public purposes program. Such funding shall not come from Cascade's customers.
- 35) Cascade agrees to join the Intervenor Funding Program that was established in Commission Order No. 03-388, beginning in calendar year 2007, under the same terms and conditions as other utilities participating in the program, with the exception that Cascade will make available \$30,000 in each of the three accounts specified in Attachment B of that Order. Cascade also agrees to support an extension of the Intervenor Funding Program beyond 2007.

CERTIFICATE OF SERVICE

I certify that I served, on May 1, 2007, a **Stipulation** by causing a copy to be sent by electronic and U.S. Mail to:

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PERKINS COIE

By 

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