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August 9, 2007

BY ELECTRONIC AND UPS OVERNIGHT

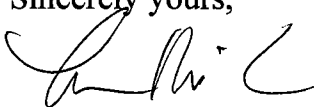
Oregon Public Utility Commission
Attn: Filing Center
550 Capitol Street N.E. Suite 215
Salem, Oregon 97301-2551

**Re: Application of Cascade Natural Gas Corporation for Approval of the
Intercompany Administrative Services Agreement With MDU
Resources Group, Inc.**

Dear Sir/Madam:

As required by Commitment 9 in Exhibit 1 of Order No. 07-320 in Docket UM 1283, Cascade Natural Gas Corporation ("Cascade") files for approval herewith the original plus three (3) copies of the Intercompany Administrative Services Agreement between Cascade and MDU Resources Group, Inc. Copies of this filing are being served upon parties to Docket UM 1283.

Thank you for your attention to this matter.

Sincerely yours,

Lawrence Reichman

LR:dma
Enclosures
cc: Service List

62016-0003/LEGAL13463801.1

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OLYMPIA · PHOENIX · PORTLAND · SAN FRANCISCO · SEATTLE · SHANGHAI · WASHINGTON, D.C.

Perkins Coie LLP and Affiliates

1 **BEFORE THE PUBLIC UTILITY COMMISSION**

2 **OF OREGON**

3 DOCKET _____

4 In the Matter of the Application of
5 CASCADE NATURAL GAS
6 CORPORATION for Approval of the
7 Intercompany Administrative Services
8 Agreement with MDU Resources Group,
9 Inc.

APPLICATION OF CASCADE NATURAL
GAS CORPORATION

9 Pursuant to ORS 757.495, OAR 860-027-0040, and OAR 860-027-0041, Cascade
10 Natural Gas Corporation ("Cascade") requests approval from the Oregon Public Utility
11 Commission (the "Commission") of the Intercompany Administrative Services Agreement (the
12 "IASA") between MDU Resources Group, Inc. ("MDU Resources") and its utility business units,
13 including Cascade. Following the acquisition of Cascade by MDU Resources on July 2, 2007,
14 Cascade became an indirect subsidiary of MDU Resources and will be subject to the IASA. This
15 filing is also made in compliance with recent Commission orders approving the acquisition.

16 **I. Background**

17 In its Order No. 07-221 issued June 5, 2007, in Docket UM 1283, the Commission
18 approved the acquisition of Cascade by MDU Resources, subject to a list of commitments
19 specified in a stipulation among several parties to the proceeding. In Order No. 07-320 issued
20 July 25, 2007, the Commission adopted an amended list of commitments (the "Commitments").
21 Included in the Commitments is Cascade's and MDU Resources' commitment regarding the
22 filing of the IASA. Specifically, Commitment 9 provides:

23 MDU Resources and Cascade shall comply with all
24 Commission statutes, rules, and ordering conditions concerning
25 affiliated interests filings. This shall include the Inter-company
26 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

1 which are subject to that agreement. The IASA will include the
2 corporate and affiliate cost allocation methodologies described in
3 condition 12. The IASA will be filed with the Commission as
4 soon as practicable after the closing of the transaction by which
5 Cascade becomes an indirect subsidiary of MDU Resources (the
6 "Transaction"). Approval for ratemaking purposes will not be
7 requested in such filing. Amendments to the IASA will also be
8 filed with the Commission.

9 In accordance with Commitment 9, and as required by ORS 757.495 and OAR 860-027-
10 0040 and OAR 860-027-0041, the IASA is submitted herewith for Commission approval. A
11 copy of the IASA is included as Exhibit A. Consistent with Commitment 9, approval for
12 ratemaking purposes is not requested in this filing. The reasonableness of payments under the
13 IASA between Cascade and MDU Resources will be considered in subsequent rate proceedings.

14 **II. Oregon Affiliated Interest Application Filing Requirements**

15 Cascade provides the following information as required by OAR 860-027-0040 and OAR
16 860-027-0041.

17 **A. Name and Address**

18 The applicant's exact name and address are:

19 Cascade Natural Gas Corporation
20 222 Fairview Avenue North
21 Seattle, WA 98109

22 **B. Communications and Notices**

23 All notices and communications with respect to this application should be addressed to:

24 Jon T. Stoltz
25 Sr. Vice President Regulatory
26 Cascade Natural Gas Corporation
222 Fairview Avenue No.
Seattle, WA 98109
Tel. (206) 381-6823
Fax (206) 654-4039
JSTOLTZ@cngc.com

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27 **C. Relationship Between Cascade and MDU Resources**

28 Cascade is an indirect, wholly owned subsidiary of MDU Resources. The parties to the
29 IASA are MDU Resources, Cascade, and the two other utility business units of MDU Resources,

1 Montana-Dakota Utilities Co. ("Montana-Dakota") and Great Plains Natural Gas Co. ("Great
2 Plains"), which are divisions of MDU Resources. The other parties to the IASA are "affiliated
3 interests" of Cascade as defined in ORS 757.015.

4 **D. Voting Securities**

5 MDU Resources holds 100 percent of the membership interests of MDU Energy Capital,
6 LLC, which in turn, owns 100 percent of the membership interests of Prairie Cascade Energy
7 Holdings, LLC, which in turn, owns 100 percent of the voting securities of Cascade.

8 **E. Common Officers and Directors**

9 The following officers or directors of Cascade hold positions as officers or directors of
10 one or more of the affiliates that are parties to the IASA:

| 11 Name | 12 Position with Cascade | 13 Position with Affiliate |
|-----------------------|---|---|
| 14 Terry D. Hildestad | 15 Chairman of the Board and 16 Director | 17 President, Chief Executive 18 Officer and Director of MDU 19 Resources Group; Managing 20 Committee Member of 21 Montana-Dakota and Great 22 Plains |
| 23 Bruce T. Imsdahl | 24 Chief Executive Officer and 25 Director | 26 President, Chief Executive Officer and Managing Committee Member of Montana-Dakota and Great Plains |
| 27 Vernon A. Raile | 28 Director | 29 Executive Vice President, 30 Treasurer and Chief Financial 31 Officer of MDU Resources; 32 Managing Committee Member 33 of Montana-Dakota and Great 34 Plains |
| 35 Paul K. Sandness | 36 General Counsel, Secretary and Director | General Counsel and Secretary of MDU Resources, Montana-Dakota and Great Plains; Managing Committee Member of Montana-Dakota and Great Plains |
| 37 Daniel S. Kuntz | 38 Assistant Secretary | Associate General Counsel of MDU Resources |

1 **F. Pecuniary Interest**

2 No officer or director of either MDU Resources or Cascade is a party to or has a
3 pecuniary interest in the IASA.

4 **G. Description of Goods and Services Provided**

5 The IASA governs the provision of administrative services between and among MDU
6 Resources and its utility businesses – Cascade, Montana-Dakota, and Great Plains – and includes
7 administrative services that are provided by: MDU Resources to its utility businesses, the utility
8 businesses to MDU Resources, and the utility businesses to each other. *Article 1 of the IASA*
9 (*page 2*). Administrative services to be provided under the IASA include but are not limited to:

- 10 • Services by the Board of Directors, and executive, management, professional,
11 technical, and clerical employees;
- 12 • Financial and accounting services, corporate governance and compliance services,
13 legal services, audit services, information and technology services, treasury
14 services, investor relations services, governmental and regulatory services, human
15 resources services, communications services, payroll processing services,
16 employee benefits participation, procurement and fleet management, tax and
17 related services, contract negotiation and administration services, insurance and
18 risk management services, environmental services and engineering and technical
19 services;
- 20 • The use of office facilities, including but not limited to office space, furniture,
21 equipment, machinery, supplies, computers and computer software,
22 communications equipment, insurance policies, and other personal property; and
- 23 • The use of automobiles, airplanes, other vehicles, and equipment.

24 *Article 1 of the IASA (page 1).*

25 **1. Tracking Costs for Administrative Services**

26 Commitment 9 requires MDU Resources and Cascade to maintain reporting systems and
27 audit trails sufficient to support the assignment and allocation of costs:

28 c. MDU Resources and its divisions will have in place an
29 allocation or reporting system adequate to support the allocation
30 and assignment of costs of executives and other relevant personnel
31 to Cascade.

32 d. An audit trail will be maintained such that all costs subject
33 to allocation can be specifically identified, particularly with respect

1 to their origin. In addition, the audit trail must be adequately
2 supported. Failure to adequately support any allocated cost may
3 result in denial of its recovery in rates.

4 This obligation is carried forward in Article 4 of the IASA:

5 ii) Parties must maintain records sufficient to specifically
6 identify costs subject to allocation, particularly with respect to their
7 origin. In addition, the records must be adequately supported in a
8 manner sufficient to justify recovery of the costs in rates of the
9 Utility.

10 iii) It is the responsibility of the Utility Parties to this
11 Agreement to ensure that costs which would have been denied
12 recovery in rates had such costs been directly incurred by the
13 regulated operation are appropriately identified and segregated in
14 the books of the regulated operation.

15 *Article 4 of the IASA (page 3).*

16 **2. Charges for Administrative Services**

17 Shared services, whether directly billed or allocated, will be charged at fully loaded cost
18 by the entity providing the service ("Providing Party"). Labor, for example, will include such
19 items as salary and wages plus loadings for incentives, benefits, paid absences, payroll taxes, and
20 payroll additives attributable to such labor for actual time spent providing the service. Non-labor
21 costs will be directly billed or allocated at actual amounts incurred by the Providing Party.

22 Where capital assets are involved in the provision of a service, a return on the asset may be
23 included in the fully loaded charge. All such shared services costs incurred by the Providing
24 Party will be directly charged when the cost of the service was specifically incurred for a party,
25 and any residual indirect amounts will be allocated each month to all benefiting entities.

26 The IASA provides that charges for administrative services will be made on the basis of
27 direct assignment, service charges, or pursuant to an allocation methodology (in the case of costs
28 incurred for the general benefit of the entire corporate group). *Article 4 of the IASA (pages 2-3).*

29 These methods of determining charges are described briefly as follows:

30 Direct Charges: The costs incurred for an Administrative Service
31 that is specifically incurred for a party ("Recipient Party") are
32 charged by the Providing Party, including, but not limited to,

1 allocable salary and wages, incentives, paid absences, payroll
2 taxes, payroll additives (insurance premiums, health care and
3 retirement benefits and the like), direct non-labor costs, if any, and
similar expenses, and reimbursement of out-of-pocket third party
costs and expenses.

4 Service Charges: These are costs that are impractical to assign
5 directly but for which a cost/benefit relationship can be reasonably
6 identified between the service and the Recipient Party. A practical
7 allocation method will be established by Providing Party that
8 allocates the cost of this service equitably and consistently to the
9 Recipient Party.

10 Allocations: These are costs incurred for the general benefit of the
11 entire utilities group for which direct charging and service charges
12 are not practical. These costs will be allocated among the parties
13 based on an allocation methodology which will be established and
14 used consistently from year to year. The cost allocation
15 methodology is discussed in the next section.

16 *Id. (page 2).*

17 **3. Cost Allocation Methodology**

18 The IASA identifies the principles that will be followed in any cost allocation
19 methodology used for assigning corporate and affiliate costs. *Article 4 of the IASA (page 3).*
20 These principles are consistent with the principles to which MDU Resources and Cascade
21 committed in Commitment 12, which states that:

22 Any corporate cost allocation used for rate setting, and
23 subsequent changes thereto, will be submitted to the Commission
24 for review. Any proposed cost allocation methodology for the
25 allocation of corporate and affiliate investments, expenses, and
26 overheads, required by law or rule to be submitted to the
Commission for review or approval, will comply with the
following principles:

- 27 a. For services rendered to Cascade or each cost
28 category subject to allocation to Cascade by MDU
29 Resources or any of its affiliates, Cascade must be able to
30 demonstrate that such service or cost category is necessary
31 to Cascade for the performance of its regulated operations,
32 is not duplicative of services already being performed
33 within Cascade, and is reasonable and prudent.
- 34 b. Cost allocations to Cascade and its subsidiaries will
35 be based on generally accepted accounting standards; that
36 is, in general, direct costs will be charged to Cascade and

1 its subsidiaries whenever possible and shared or indirect
2 costs will be allocated based upon the primary cost-driving
factors.

3 c. MDU Resources and its divisions will have in place
4 an allocation or reporting system adequate to support the
allocation and assignment of costs of executives and other
5 relevant personnel to Cascade.

6 d. An audit trail will be maintained such that all costs
7 subject to allocation can be specifically identified,
particularly with respect to their origin. In addition, the
8 audit trail must be adequately supported. Failure to
adequately support any allocated cost may result in denial
of its recovery in rates.

9 e. Costs which would have been denied recovery in
10 rates had they been incurred by Cascade regulated
operations will likewise be denied recovery whether they
11 are allocated directly or indirectly through MDU
Resources. Cascade shall include in any rate case filing a
12 confirmation of this provision or a proposed implementing
ratemaking adjustment if necessary.

13 Under the IASA, the Providing Party will utilize allocation methodologies to assign
14 charges that are reflective of the drivers of such costs. Such allocation methodologies may
15 utilize allocation bases that include, but are not limited to: capitalization, employee labor,
16 employee counts, assets, and multi-factor allocation formulae. *Article 4 of the IASA (page 3)*.
17 Consistent with Commitment 9, the Commission will determine the appropriate corporate cost
18 allocation for establishing Cascade's rates.

19 4. Other Provisions of the IASA

20 The IASA also includes additional provisions, including but not limited to requirements
21 regarding payment arrangements (*Article 4(b)*), the maintenance of books and records necessary
22 to support the charges for administrative services (*Article 7*), and the treatment of confidential
23 information (*Articles 15 and 16*).

24 H. Estimate of Amount Cascade Will Pay Annually For Services

25 Cascade is unable at this time to reasonably estimate the amount that it will pay per year
26 for goods and services obtained by it under the IASA. The full extent and type of services to be

1 provided to Cascade has not yet been determined and is likely to increase over time as
2 administrative services are integrated with the other utility business units. Neither MDU
3 Resources nor Cascade has prepared any such estimate, and it is premature to do so at this time.

4 Under Article 8 of the IASA, Providing Parties are required to prepare and deliver to
5 Recipient Parties in advance of each budget year (the calendar year) a proposed budget for
6 administrative services to be performed during that year. MDU Resources has not yet prepared
7 such a budget for 2008, and anticipates preparing that budget in the fall of 2007.

8 In Commitment 10, Cascade has committed that allocated shared corporate costs and
9 allocated and assigned utility division costs will not exceed the costs Cascade's customers would
10 have paid absent the acquisition. These charges will be recorded in FERC A&G accounts 920 –
11 935 or other appropriate FERC expense accounts.

12 The amount and type of services that might be received from Cascade by the other utility
13 business units has not yet been determined, so no estimate is available at this time, for the same
14 reasons discussed above. Revenues received from such services will be recorded in FERC
15 revenue account 495 or other appropriate FERC revenue account(s).

16 **I. Reasons Relied Upon for Procuring the Proposed Services, and Benefits to**
17 **the Public**

18 Many of the costs directly assigned or allocated to Cascade involve corporate functions
19 that must be undertaken by any owner of a utility business. As stated in the IASA, securing
20 these corporate function services and other proposed services through the IASA will allow
21 Cascade to obtain specialized expertise or to achieve efficiencies. *Article 2 of the IASA (page 2).*

22 **J. Description of the Procurement Process and Why No Competitive Bid Was**
23 **Utilized**

24 Ownership, operation, and management of Cascade requires the undertaking of activities
25 such as corporate management, strategic and financial planning, the shouldering of costs
26 associated with human resources, risk analysis, accounting, legal services, and other corporate

1 activities associated with managing and operating a utility. No outside entity can be entrusted
2 with these oversight responsibilities. Ownership generates responsibilities to shareholders,
3 employees, customers, and the public, and some responsibilities simply cannot be assumed by
4 outside entities. Competitive bidding allowing outside entities to perform corporate ownership
5 services is not a viable option for the administrative services covered by the IASA.

6 **K. Relationship of Cost of Provision of Services and Market Value**

7 As noted above, shared services, whether directly billed or allocated, will be charged at
8 fully loaded cost by the Providing Party. The determination of a market price for many services,
9 particularly corporate services, can be difficult and expensive. For the type of services to be
10 provided to Cascade in accordance with the provisions of the IASA, including executive
11 management and oversight, there is no comparable market.

12 **L. Copy of the Proposed Agreement**

13 A copy of the IASA is Exhibit A hereto.

14 **M. Copy of Resolutions**

15 Not applicable; the officers executing the IASA on behalf of their organizations were
16 authorized to do so without separate board or shareholder resolutions.

17 WHEREFORE, for the reasons set forth above, Cascade respectfully requests that the
18 Commission issue an order approving the IASA pursuant to the provisions of ORS 757.495,
19 OAR 860-027-0040, and OAR 860-027-0041.

1 DATED: August 9, 2007

PERKINS COIE LLP

2
3 By: 

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11 Attorneys for Plaintiff
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INTERCOMPANY ADMINISTRATIVE SERVICES AGREEMENT

BY and AMONG

MDU Resources Group, Inc.

AND

Its Utility Business Units

This Intercompany Administrative Services Agreement ("Agreement") is entered into effective as of July 2, 2007 by and among MDU Resources Group, Inc. (hereinafter the "Company") and its utility divisions and subsidiaries party to this Agreement (hereinafter a "Utility" or the "Utilities") (each a "Party" and together the "Parties").

WHEREAS, the Company provides senior management, executive oversight and other administrative services that provide value to and benefit the Utilities;

WHEREAS, the Utilities have access to professional, technical and other specialized resources that the Company may wish to utilize from time to time in the provision of administrative services; and

WHEREAS, the Company and the Utilities may desire to utilize the professional, technical and other specialized resources of the others.

NOW, THEREFORE, in consideration of the premises and mutual agreements set forth herein, the Company and the Utilities agree as follows:

ARTICLE 1. PROVISION OF ADMINISTRATIVE SERVICES

Upon and subject to the terms of this Agreement, services will be provided between and among the Company and the Utilities that are not directly applicable to the production, distribution or sale of a product or service available to customers of the Utilities ("Administrative Services"). For purposes of this Agreement, Administrative Services shall include, but not be limited to the following:

- a) services by the Board of Directors, and executive, management, professional, technical and clerical employees;
- b) financial and accounting services, corporate governance and compliance services, legal services, audit services, information and technology services, treasury services, investor relations services, governmental and regulatory services, human resources services, communications services, payroll processing services, employee benefits participation, procurement and fleet management, tax and related services, contract negotiation and administration services, insurance and risk management services, environmental services and engineering and technical services;
- c) the use of office facilities, including but not limited to office space, furniture, equipment, machinery, supplies, computers and computer software, communications equipment, insurance policies and other personal property;
- d) the use of automobiles, airplanes, other vehicles and equipment;

To obtain specialized expertise or to achieve efficiencies, the following situations may arise under this Agreement whereby Administrative Services may be provided between and among the Company and its Utilities,

- a) The Company may directly assign or allocate Administrative Services costs, common costs, or costs incurred for the benefit of the Utility or Utilities, to a Utility or the Utilities,
- b) The Company may procure Administrative Services from a Utility or the Utilities for the Company's benefit,
- c) The Company may procure Administrative Services from a Utility or the Utilities for subsequent allocation to some or all the Utilities commonly benefiting, or
- d) The Utilities may procure Administrative Services from each other or agree to directly assign or allocate common costs to each other.

ARTICLE 2. DEFINITIONS

For purposes of this Agreement these terms shall be defined as follows:

- (a) "Laws" shall mean any law, statute, rule, regulation or ordinance.
- (b) "State Commissions" shall mean any state public utility commission or state public service commission with jurisdiction over a Utility.
- (c) "Utilities" shall mean current and future direct and indirect major-owned electric and natural gas utilities of the Company including its utility divisions.

ARTICLE 3. EFFECTIVE DATE

This Agreement shall be effective as of the date set forth above; provided, however, that in those jurisdictions in which regulatory approval is required before the Agreement becomes effective, the effective date shall be as of the date of such approval.

ARTICLE 4. CHARGES AND PAYMENT

(a) CHARGES.

Parties shall charge for Administrative Services on the following basis:

- (i) Direct Assignment: The cost of an Administrative Service incurred specifically for a Party ("Recipient Party") will be directly assigned to that Party by the Party providing the Administrative Services ("Providing Party"), including, but not limited to, allocable salary and wages, incentives, paid absences, payroll taxes, payroll additives (insurance premiums, health care and retirement benefits and the like), direct non-labor costs, if any, and similar expenses, and reimbursement of out-of-pocket third party costs and expenses.
- (ii) Service Charges: Service Charges will be assessed for costs that are impractical to assign directly but for which a cost/benefit relationship can be reasonably identified between the Administrative Service and the Recipient Party. A practical allocation method will be established by Providing Party that allocates the cost of this service equitably and consistently to the Recipient Party.
- (iii) Allocations: Costs incurred for the general benefit of the entire utilities group for which direct charging and service charges are not practical will be allocated to the Parties. An allocation methodology will be established and used consistently from year to year.

The charges constitute full compensation to the Providing Party for all charges, costs and expenses incurred by the Providing Party on behalf of the Recipient Party in providing the Administrative Services, unless otherwise specifically agreed to in writing between the Parties.

If events or circumstances arise which, in the opinion of the Parties, render the costs of providing any Administrative

Services materially different from those charged under a specific rate or formula then in effect, the specific rate or formulas shall be equitably adjusted to take into account such events or changed circumstances.

Providing Parties will bill each and all Recipient Parties, as appropriate, for Administrative Services rendered under this Agreement in as specific a manner as practicable. To the extent that direct charging for services rendered is not practicable, the Providing Party may utilize allocation methodologies to assign charges for services rendered to the Recipient Party, reflective of the drivers of such costs. Such allocation methodologies may utilize allocation bases that include, but are not limited to: capitalization, employee labor, employee counts, assets, and multi-factor allocation formulae.

Any cost allocation methodology for the assignment of corporate and affiliate costs will comply with the following principles:

- i) For Administrative Services rendered to a Utility or each cost category subject to allocation to a Utility, the Providing Party must be able to demonstrate that such service or cost category is reasonable for the Utility for the performance of its regulated operations, is not duplicative of Administrative Services already being performed within the Utility, and is reasonable and prudent.
- ii) Parties must maintain records sufficient to specifically identify costs subject to allocation, particularly with respect to their origin. In addition, the records must be adequately supported in a manner sufficient to justify recovery of the costs in rates of the Utility.
- iii) It is the responsibility of the Utility Parties to this Agreement to ensure that costs which would have been denied recovery in rates had such costs been directly incurred by the regulated operation are appropriately identified and segregated in the books of the regulated operation.

(b) PAYMENT.

(i) Each Providing Party shall bill the Recipient Party monthly for all charges pursuant to this Agreement via billings directly to the Recipient Party or through the Company. Full payment for all Administrative Services shall be made by the end of the calendar month following the intercompany charge. Charges shall be supported by reasonable documentation, which may be maintained in electronic form.

(ii) The Parties shall make adjustments to charges as required to reflect the discovery of errors or omissions or changes in the charges. The Parties shall conduct a true-up process as appropriate to adjust charges based on reconciliation of amounts charged and costs incurred.

ARTICLE 5. GENERAL OBLIGATIONS: STANDARD OF CARE

Utility Parties will comply with all applicable State and Federal Laws regarding affiliated interest transactions, including timely filing of applications and reports. The Parties agree not to cross-subsidize between the rate-regulated and non-rate-regulated businesses or between any rate-regulated businesses, and shall comply with any applicable State Commission Laws and orders. Subject to the terms of this Agreement, the Parties shall perform their obligations hereunder in a commercially reasonable manner.

ARTICLE 6. TAXES

Each Party shall bear all taxes, duties and other similar charges except taxes based upon its gross income (and any related interest and penalties), imposed as a result of its receipt of Administrative Services under this Agreement, including without limitation sales, use, and value-added taxes.

ARTICLE 7. ACCOUNTING AND AUDITING

Parties shall maintain such books and records as are necessary to support the charges for Administrative Services, in sufficient detail as may be necessary to enable the Utilities to satisfy applicable regulatory requirements ("Records"). All Parties:

(a) shall provide access to the Records at all reasonable times;

(b) shall maintain the Records in accordance with good record management practices and with at least the same degree of completeness, accuracy and care as it maintains for its own records; and

Subject to the provisions of this Agreement, Records supporting intercompany billings shall be available for inspection and copying by any qualified representative or agent of a Party, at the expense of the inquiring Party. In addition, State Commission staff or agents may audit the accounting records of Providing Parties that form the basis for charges to Utilities, to determine the reasonableness of allocation factors used by the Providing Party to assign costs to the Recipient Party and amounts subject to allocation or direct charges. All Parties agree to cooperate fully with such audits.

ARTICLE 8. BUDGETING

In advance of each budget year, Providing Parties shall prepare and deliver to the Recipient Parties, for their review and approval, a proposed budget for Administrative Services to be performed during that year. The approved schedule of budgeted Administrative Services shall evidence the base level of Administrative Services. The schedule shall be updated at least annually. Each Party shall promptly notify the other Party in writing of any requested material change to the budget costs for any service being provided.

ARTICLE 9. COOPERATION WITH OTHERS

The Parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Administrative Services. Such good faith cooperation will include providing electronic access in the same manner as provided other vendors and contractors to systems used in connection with Administrative Services and using commercially reasonable efforts to obtain all consents, licenses, sublicenses or approvals necessary to permit each Party to perform its obligations. Each Party shall make available to the other Party any information required or reasonably requested by the other Party regarding the performance of any Administrative Service and shall be responsible for timely providing that information and for the accuracy and completeness of that information; provided, however, that a Party shall not be liable for not providing any information that is subject to a confidentiality obligation owed by it to a person or regulatory body other than an affiliate of it or the other Party. Either Party shall not be liable for any impairment of any Administrative Service caused by it not receiving information, either timely or at all, or by it receiving inaccurate or incomplete information from the other Party that is required or reasonably requested regarding that Administrative Service. The Parties will cooperate with each other in making such information available as needed in the event of any and all internal or external audits, utility regulatory proceedings, legal actions or dispute resolution. Each Party shall fully cooperate and coordinate with each other's employees and contractors who may be awarded other work. The Parties shall not commit or permit any act, which will interfere with the performance of or receipt of Administrative Services by either Party's employees or contractors.

ARTICLE 10. COMPLIANCE WITH ALL LAWS

Each Party shall be responsible for (i) its compliance with all laws and governmental regulations affecting its business, including but not limited to, laws and governmental regulations governing federal and state affiliate transactions, workers' compensation, health, safety and security, and (ii) any use it may make of the Administrative Services to assist it in complying with such laws and governmental regulations.

ARTICLE 11. LIMITATION OF LIABILITY

Notwithstanding any other provision of this Agreement and except for (a) rights provided under Article 12 in connection with Third-Party Claims, (b) direct or actual damages as a result of a breach of this Agreement, and (c) liability caused by

a Party's negligence or willful misconduct, no Party nor their respective directors, officers, employees and agents, will have any liability to any other Party, or their respective directors, officers, employees and agents, whether based on contract, warranty, tort, strict liability, or any other theory, for any indirect, incidental, consequential, special damages, and no Party, as a result of providing a Service pursuant to this Agreement, shall be liable to any other Party for more than the cost of the Administrative Service(s) related to the claim or damages.

ARTICLE 12. INDEMNIFICATION

Each of the Parties will indemnify, defend, and hold harmless each other Party, members of its Board of Directors, officers, employees and agents against and from any third-party claims resulting from any negligence or willful misconduct of a Party's employees, agents, representatives or subcontractors of any tier, their employees, agents or representatives in the performance or nonperformance of its obligations under this Agreement or in any way related to this Agreement. If a Third-Party claim arising out of or in connection with this Agreement results from negligence of multiple Parties (including their employees, agents, suppliers and subcontractors), each Party will bear liability with respect to the Third-Party Claim in proportion to its own negligence.

ARTICLE 13. DISPUTE RESOLUTION

The Parties shall promptly resolve any conflicts arising under this Agreement and such resolution shall be final. If applicable, adjustments to the charges will be made as required to reflect the discovery of errors or omissions in the charges. If the Parties are unable to resolve any service, performance or budget issues or if there is a material breach of this Agreement that has not been corrected within ninety (90) days, representatives of the affected Parties will meet promptly to review and resolve those issues in good faith.

ARTICLE 14. TERMINATION FOR CONVENIENCE

A Party may terminate its participation in this Agreement either with respect to all, or with respect to any one or more, of the Administrative Services provided hereunder at any time and from time to time, for any reason or no reason, by giving notice of termination at least sixty (60) days in advance of the effective date of the termination to enable the other Party to adjust its available staffing and facilities. In the event of any termination with respect to one or more, but less than all, Administrative Services, this Agreement shall continue in full force and effect with respect to any Administrative Services not terminated hereby. If this Agreement is terminated in whole or in part, the Parties will cooperate in good faith with each other in all reasonable respects in order to effect an efficient transition and to minimize the disruption to the business of all Parties, including the assignment or transfer of the rights and obligations under any contracts. Transitional assistance service shall include organizing and delivering records and documents necessary to allow continuation of the Administrative Services, including delivering such materials in electronic forms and versions as reasonably requested by the Party.

ARTICLE 15. CONFIDENTIAL INFORMATION NONDISCLOSURE

To the fullest extent allowed by law, the provision of any Administrative Service or reimbursement for any Administrative Service provided pursuant to this Agreement shall not operate to impair or waive any privilege available to either Party in connection with the Administrative Service, its provision or reimbursement for the Administrative Service.

All Parties will maintain in confidence Confidential Information provided to each other in connection with this Agreement and will use the Confidential Information solely for the purpose of carrying out its obligations under this Agreement. The term Confidential Information means any oral or written information, (including without limitation, computer programs, code, macros or instructions) which is made available to the Company, its Utilities or one of its representatives, regardless of the manner in which such information is furnished. Confidential Information also includes the following:

- a. All Information regarding the Administrative Services, including, but not limited to, price, costs, methods of operation and software, shall be maintained in confidence.

b. Systems used to perform the Administrative Services provided hereunder are confidential and proprietary to the Company, its Utilities or third party vendors. Parties shall treat these systems and all related procedures and documentation as confidential and proprietary to the Company, the Utilities or its third party vendors.

c. All systems, procedures and related materials provided to either Party are for its internal use only and only as related to the Administrative Services or any of the underlying systems used to provide the Administrative Services.

Notwithstanding anything in this Article 15 to the contrary, the term "Confidential Information" does not include any information which (i) at the time of disclosure is generally available to and known by the public (other than as a result of an unpermitted disclosure made directly or indirectly by a Party), (ii) was available to a Party on a nonconfidential basis from another source (provided that such source is not or was not bound by a confidentiality agreement with a Party or had any other duty of confidentiality to a Party), or (iii) has been independently acquired or developed without violating any of the obligations under this Agreement.

The Parties shall use good faith efforts at the termination or expiration of this Agreement to ensure that all user access and passwords are cancelled.

All Confidential Information supplied or developed by a Party shall be and remain the sole and exclusive property of the Party who supplied or developed it.

ARTICLE 16. PERMITTED DISCLOSURE

Notwithstanding provisions of this Agreement to the contrary, each Party may disclose Confidential Information (i) to the extent required by a State Commission, a court of competent jurisdiction or other governmental authority or otherwise as required by law, including without limitation disclosure obligations imposed under the federal securities laws, provided that such Party has given the other Party prior notice of such requirement when legally permissible to permit the other Party to take such legal action to prevent the disclosure as it deems reasonable, appropriate or necessary, or (ii) on a "need-to-know" basis under an obligation of confidentiality to its consultants, legal counsel, affiliates, accountants, banks and other financing sources and their advisors.

ARTICLE 17. SUBCONTRACTORS

To the extent provided herein, the Parties shall be fully responsible for the acts or omissions of any subcontractors of any tier and of all persons employed by such subcontractors and shall maintain complete control over all such subcontractors. It being understood and agreed that nothing contained herein shall be deemed to create any contractual relation between the subcontractor of any tier and the Parties.

ARTICLE 18. NONWAIVER

The failure of a Party to insist upon or enforce strict performance of any of the terms of this Agreement or to exercise any rights herein shall not be construed as a waiver or relinquishment to any extent of its right to enforce such terms or rights on any future occasion.

ARTICLE 19. SEVERABILITY

Any provision of this Agreement prohibited or rendered unenforceable by operation of law shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement.

ARTICLE 20. ENTIRE AGREEMENT/DOCUMENTS INCORPORATED BY REFERENCE

All understandings, representations, warranties, agreements and any referenced attachments, if any, existing between the Parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the Parties with respect to the subject matter hereof.

ARTICLE 21. OTHER AGREEMENTS

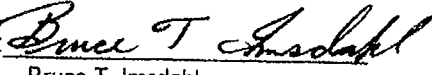
This Agreement does not address or govern the Parties' relationship involving: (a) the tax allocation agreement nor (b) any other relationships not specifically identified herein. All such relationships not addressed or governed by this Agreement will be governed and controlled by a separate agreement or tariff specifically addressing and governing those relationships or by applicable Laws or orders.

This agreement has been duly executed on behalf of the Parties as follows:

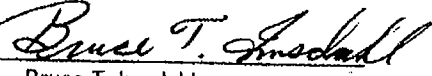
MDU RESOURCES GROUP, INC.

By: 
Terry D. Hildestad
Title: President and Chief Executive Officer

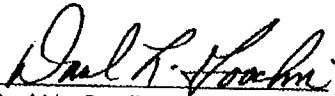
MONTANA-DAKOTA UTILITIES CO.
a division of MDU Resources Group, Inc.

By: 
Bruce T. Imsdahl
Title: President and Chief Executive Officer

GREAT PLAINS NATURAL GAS CO.
a division of MDU Resources Group, Inc.

By: 
Bruce T. Imsdahl
Title: President and Chief Executive Officer

CASCADE NATURAL GAS CORPORATION
a subsidiary of MDU Resources Group, Inc.

By: 
David L. Goodin
Title: President

CERTIFICATE OF SERVICE

I certify that I served, on August 9, 2007, the **Application of Cascade Natural Gas Corporation** by causing a copy to be sent by electronic and U.S. Mail to:

Lowrey R. Brown (*)
Jason Eisdorfer
Robert Jenks
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205

Jason W. Jones
Assistant Attorney General
Department of Justice
Regulated Utility & Business Section
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Salem, OR 97301

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Portland, OR 97232

(*) Denotes by electronic mail only.

PERKINS COIE

By 

James M. Van Nostrand, OSB No. 79428
Lawrence Reichman, OSB No. 86083
Attorneys for MDU Resources Group, Inc.