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Statute

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May 27, 2020

Oregon Public Utility Commission  
P.O. Box 1088  
Salem, OR 97308-1088

Attn: Filing Center

RE: RG-44(8), Cascade Natural Gas Corporation's 2019 Affiliated Interest Report  
And Cost Allocation Manual

Pursuant to OAR 860-027-0100 and OAR 860-027-0048(6), Cascade Natural Gas Corporation ("Cascade" or the "Company") herewith submits its 2019 Affiliated Interest Report and its Cost Allocation Manual.

Please contact me at (509) 734-4593 if you have any questions regarding this filing.

Sincerely,

/s/ Michael Parvinen

Michael Parvinen  
Director, Regulatory Affairs

Enclosures

*In the Community to Serve®*

## CASCADE NATURAL GAS CORPORATION

### Affiliated Interest Report for the Calendar Year 2019

**I. An organizational chart showing the parent company, all subsidiaries, and the percentage of ownership for each.**

See the attached organizational chart.

**A. Changes in the list of directors and, or other changes in the list of directors and or officers in common to the regulated utility and the affiliated interest.**

Please see the attached lists.

**B. Changes in successive ownership between the regulated utility and the affiliated interest.**

Please see the attached organizational chart for Cascade's affiliates.

**C. A narrative description of the affiliated entity with which the regulated utility does business.**

- MDU Resources Group Inc. - Parent Company to Cascade Natural Gas Corporation. Provides management/consulting/legal services to Cascade Natural Gas Corporation.
- Knife River Corporation - A subsidiary of MDU Resources. Provides asphalt services for Cascade Natural Gas Corporation. In addition, Cascade leases part of the facility with Knife River and provides distribution system transportation (Tariff Schedule 163) for a Knife River subsidiary company in Central Oregon.
- Centennial Holdings Capital LLC - A subsidiary of MDU Resources. Carries various liability insurance policies on behalf of Cascade Natural Gas Corporation.
- Montana-Dakota Utilities Co. (MDU) – A subsidiary of MDU Resources. Cascade provides 24/7 gas control monitoring of MDU's distribution system and provides notification to the appropriate personnel when a problem is detected.
- Intermountain Gas Co. (IGC) - A subsidiary of MDU Resources. Cascade provides 24/7 gas control monitoring of IGC's distribution system and provides notification to the appropriate personnel when a problem is detected.
- FutureSource Capital Corp. – A subsidiary of Centennial Holdings Capital. Owner of MDUR corporate office buildings and land.

**D. A balance sheet and income statement for the twelve months ending December 31, 2019.**

Knife River Corporation is part of MDU Resources Construction Materials and Contracting. Below is select Income Statement and Balance Sheet information from the MDU Resources Group Inc. 2019 Annual Report.

<b>Construction Materials and Contracting</b>	
<b>Year ended December 31,</b>	<b>2019</b>
<b>Income statement data (Dollars in thousands)</b>	
Operating revenues	\$2,189,651
Intersegment revenues	1,066
<b>Total Revenue</b>	<b>\$2,190,717</b>
<b>Operating expenses:</b>	
Operation and maintenance and other	1,798,300
Depreciation, depletion and amortization	74,300
Taxes, other than income	44,100
<b>Total Cost of Sales</b>	<b>1,916,700</b>
<b>Gross Margin</b>	<b>274,017</b>
Selling, general and admin expense	
Operation and maintenance	86,362
Depreciation, depletion and amort.	3,100
Taxes, other than income	4,600
<b>Total selling, general and admin</b>	<b>94,062</b>
Operating income	179,955
Earnings (Loss) from Equity Method Investments	-
Other Income (Expense)	1597
Interest expense	23,792
Income (loss) before taxes	157,760
Income taxes	37,389
<b>Earnings (loss) on common stock</b>	<b>\$120,371</b>

<b>Construction Materials and Contracting</b>	
<b>Year ended December 31,</b>	<b>2019</b>
<b>Balance sheet data (000's)</b>	
Property, plant and equipment	\$1,910,562
<b>Total identifiable assets</b>	<b>\$1,684,161</b>

**MDU Resources Group, Inc.**

<b>Year ended December 31,</b>	<b>2019</b>
<b>Balance sheet data (000's)</b>	
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$12,326
Receivables, net	4,727
Accounts rec from subsidiaries	49,943
Inventories	-
Prepayments and other current assets	501
	<u>67,497</u>
Investments	46,294
	<u>2,842,068</u>
Investments in subsidiaries	2,842,068
Property, plant and equipment	-
Less accumulated depreciation, depletion And amortization	-
	<u>Net property, plant and equipment</u>
	-
Deferred charges and other assets	
Goodwill	-
Other	34,520
	<u>34,520</u>
<b>Total identifiable assets</b>	<b><u>\$2,990,379</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>Current liabilities:</b>	
Long-term debt due within one year	\$ -
Accounts payable	2,981
Accts pay to subsidiaries	4,752
Taxes payable	1,253
Dividends payable	41,580
Accrued compensation	8,812
Other accrued liabilities	7,786
	<u>67,164</u>
<b>Long-term debt</b>	<b>-</b>
<b>Deferred credits and other liabilities:</b>	
Deferred income taxes	-
Other	75,969
	<u>75,969</u>
<b>Stockholders' equity:</b>	
Preferred stocks	-
Common stock	200,923
Other paid-in capital	1,355,404
Retained earnings	1,336,647

Accumulated other comprehensive loss	(42,102)
Treasury stock at cost – 538,921 shares	(3,626)
Total stockholders' equity:	2,847,246
<b>Total liabilities and stockholders' equity</b>	<b>\$2,990,379</b>

<b>Year ended December 31,</b>	<b>2019</b>
<b>Income statement data (000's)</b>	
Operating revenues	\$ 0
Operating expenses	0
Operating income	0
Other income	0
Interest expense	0
Income (loss) before taxes	0
Income taxes	0
Net Income from cont. ops.	\$ 0

### Intermountain Gas Company

<b>Year ended December 31,</b>	<b>2019</b>
<b>Balance sheet data (000's)</b>	
<b>Property, plant and equipment</b>	\$759,984
Less accumulated depreciation, depletion and amortization	276,328
	483,656
Deferred charges and other assets:	12,084
<b>Total identifiable assets</b>	<b>\$556,738</b>

<b>Year ended December 31,</b>	<b>2019</b>
<b>Income statement data (000's)</b>	
Operating revenues	\$251,547
Operating expenses:	
Purchased natural gas sold	138,805
Operations	53,968
Depreciation and amortization	22,310
Taxes other than income	11,321
Total operating expenses	226,404
Operating income	25,143

Other income (loss)	(428)
Interest expense	5,782
Income (loss) before taxes	18,933
Income taxes	2,888
Net Income	\$16,045

**Montana-Dakota Utilities Co.**

<b>Year ended December 31,</b>	<b>2019</b>
<b>Balance sheet data (000's)</b>	
<b>Property, plant and equipment</b>	\$2,975,764
Less accumulated depreciation, depletion and amortization	913,102
	2,062,662
Deferred charges and other assets:	244,423
<b>Total identifiable assets</b>	<b>\$2,458,343</b>

<b>Year ended December 31,</b>	<b>2019</b>
<b>Income statement data (000's)</b>	
Operating revenues	\$650,996
Operating expenses:	
Fuel and purchased power	86,557
Purchased natural gas sold	182,122
Operations	188,142
Depreciation and amortization	83,287
Taxes other than income	28,625
Total operating expenses	568,733
Operating income	82,263
Other income (loss)	5,196
Interest expense	32,885
Income (loss) before taxes	54,574
Income taxes	(12,548)
Net Income	\$67,122

**Centennial Holdings Capital LLC**

<b>Year ended December 31,</b>	<b>2019</b>
<b>Balance sheet data</b>	

<b>Property, plant and equipment</b>	\$35,212,646
Less accumulated depreciation, depletion And amortization	11,485,857
	<u>23,726,789</u>
Non current investments	
Operating lease-right of use	158,771
<b>Total identifiable assets</b>	<b>\$23,885,560</b>

**Year ended December 31, 2019**  
**Income statement data (000's)**

Operating revenues	\$2,920,500
Operating expenses:	
Operations	3,707,785
Depreciation	502,285
Taxes other than income	1,133
Gain on disp. of property	-
Loss on disp. of property	24,481
Total operating expenses	4,235,684
Operating income	(1,315,184)
Interest income	209,144
Other income	(27,236)
Income (loss) before taxes	(1,133,276)
Income taxes	34,052
Net Income	<u>\$ (1,167,328)</u>

**Future Source Capital Corp.**

**Year ended December 31, 2019**

**Balance sheet data**

<b>Property, plant and equipment</b>	\$34,004,073
Less accumulated depreciation, depletion And amortization	11,145,373
	<u>22,858,700</u>
Deferred charges and other assets	32,983
<b>Total identifiable assets</b>	<b>\$30,778,531</b>

**Year ended December 31, 2019**  
**Income statement data (000's)**

Operating revenues	\$ 0
Operating expenses:	



Operations	269,592
Depreciation	162,471
Taxes other than income	1133
Gain on disp. of property	-
Loss on disp. of property	22,307
Total operating expenses	455,503
Operating income	(455,503)
Interest income	8,445
Other income	0
Income (loss) before taxes	(446,072)
Income taxes	(110,527)
Net Income	\$ (335,545)

## II. Service Payments by Cascade to an Affiliate

MDU Resources Group, Inc.			
Account	Description	Total Company	Total Oregon
	MDU/MDUR Consulting-Cap Exp	2,130,630.74	529,035.61
426.1	Donations	211,302.02	52,466.30
426.2	Life Insurance	(569,914.53)	(141,509.79)
426.4	Political Activities	306,253.81	76,042.83
426.5	Other Deductions	1,555.78	0.00
813	Other Gas Supply Expenses	172,369.94	42,799.47
870	Operation Supervision and Engineering	1,236,083.64	306,928.99
874	Mains & Services Expenses	465,128.74	226,068.27
875	Measuring & Regulating Station Expenses General	115,169.47	28,596.59
878	Meter & Housing Regulator Expenses	(0.22)	(0.05)
880	Other Expenses	1,235,529.25	306,745.31
881	Rents	69,876.23	8,605.98
885	Maintenance Supervision and Engineering	80,218.38	19,925.14
887	Maintenance Mains	619,343.70	18,563.42
887.1	Pipeline Integrity	7,141.36	1,773.22
892	Maintenance of Services	199.80	49.61
894	Maintenance of Other Equipment	48,296.66	11,821.05
901	Supervision	44,898.44	11,148.27
902	Meter Reading Expenses	211,446.04	52,502.09

903	Customer Records & Collection Expenses	5,336,032.43	1,324,936.86
904	Uncollectible Accounts	1,209,258.39	215,040.78
908	Customer Assistance Expenses	279,237.45	62,967.35
909	Informational & Instructional Advertising Expenses	166,829.62	51,574.43
920	Administrative & General Salaries	7,255,804.86	1,801,616.17
921	Office Supplies & Expenses	3,391,430.82	842,019.99
922	Administrative Expenses Transferred Credit	(245,017.55)	(60,728.53)
923	Outside Services Employed	267,372.76	67,930.04
925	Injuries & Damages	9,351.41	2,321.97
926	Employee Pensions & Benefits	28,351.40	7,039.61
930.1	General Advertising Expenses	30,962.46	7,687.99
930.2	Misc. General Expenses	753,502.25	187,092.78
931	Rents	1,384,278.64	343,716.39
932	Maintenance of general plant	2,101.15	521.73
	<b>Grand Total</b>	<b>\$ 26,255,025.34</b>	<b>6,405,299.87</b>

<b>Affiliate/Subsidiary</b>	<b>Description</b>	<b>Total Company</b>	<b>Total Oregon</b>
Future Source Capital Corp.	921 Office Supplies & Expenses	\$103,102.00	\$25,600.23
Knife River Corporation	931 Rent/Various Tariff Distribution	\$75,815.20	\$75,815.20
Montana-Dakota Utilities Co.	Various Intercompany Services	\$13,837,723.50	\$3,435,906.75
MDU Resources Group, Inc.	Various Intercompany Services	\$6,224,157.86	\$1,545,458.40
Intermountain Gas Company	Various Intercompany Services	\$1,424,089.87	\$353,601.51
Centennial Holdings Capital LLC	928 Injuries & Damages	\$1,311,309.76	\$325,598.21

<b>SERVICE PAYMENTS BY THE AFFILIATE TO THE UTILITY</b>			
<b>Name</b>	<b>Description</b>	<b>Total Company</b>	<b>Total Oregon</b>
Montana-Dakota Utilities Co.	880 Other Expenses	\$ 13,039.55	\$ 13,039.55

**Descriptions of Basis Pricing**

Attached is the Cost Allocation Manual which describes the costing method procedures for Cascade Natural Gas Corporation.

**III. Intercompany loans to Cascade from an affiliate or loans from an affiliate to Cascade**

**A. Month-end amounts outstanding for short term and long term loans.**

Cascade made no loans to any of the affiliates during 2019, and no affiliate loaned Cascade money in 2019.

**B. The highest amount during the year.**

Not applicable.

**C. A description of the terms and conditions for loans including interest rate.**

Not applicable.

**D. The total amount of interest charged and the weighted average rate of interest.**

Not applicable.

**E. Commission Order approving the transactions.**

Not applicable.

**IV. Parent guaranteed debt of affiliate**

None.

**V. Transactions other than services**

None.

# Attachments

**2019 Affiliated Interest Report  
Attachments**

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# **Cascade Natural Gas Corporation**

## **Primary Address**

8113 West Grandridge Boulevard  
Kennewick, Washington 99336-7166

### **Management Name**

Goodin, David L.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Vollmer, Jason L.  
Chiles, Mark A.  
Darras, Patrick C.  
Gilchrist, Hart

Goodin, David L.  
Jones, Anne M.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Liepitz, Karl A.  
Link, Margaret (Peggy) A.  
Madison, Scott W.

Martuscelli, Eric P.  
Nygard, Tammy J.  
Senger, Garret

Vollmer, Jason L.

### **Title**

Director  
Director  
Director  
Director  
Vice President - Regulatory Affairs and Customer Service  
Vice President – Engineering and Operations Services  
Vice President - Safety, Process Improvement and Operations Systems  
Chair of the Board  
Vice President - Human Resources  
President and Chief Executive Officer  
General Counsel and Secretary  
Assistant Secretary  
Chief Information Officer  
Executive Vice President - Business Development and Gas Supply  
Vice President – Field Operations  
Controller  
Executive Vice President - Regulatory Affairs, Customer Service and Administration  
Treasure

# **Montana-Dakota Utilities Co.**

## **Primary Address**

400 North Fourth Street  
Bismarck, North Dakota 58501-4092

### **Management Name**

Goodin, David L.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Vollmer, Jason L.  
Chiles, Mark A.  
Darras, Patrick C.  
Gilchrist, Hart

Goodin, David L.  
Hourigan, Kirsti B.  
Jones, Anne M.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Liepitz, Karl A.  
Link, Margaret (Peggy) A.  
Madison, Scott W.

Martuscelli, Eric P.  
Nygard, Tammy J.  
Senger, Garret

Skabo, Jay

### **Title**

Director  
Director  
Director  
Director  
Vice President - Customer Service  
Vice President – Engineering and Operations Services  
Vice President - Safety, Process Improvement and Operations Systems  
Chair of the Board  
Assistant Secretary  
Vice President - Human Resources  
President and Chief Executive Officer  
General Counsel and Secretary  
Assistant Secretary  
Chief Information Officer  
Executive Vice President - Business Development and Gas Supply  
Vice President – Field Operations  
Controller  
Executive Vice President - Regulatory Affairs, Customer Service and Administration  
Vice President - Electric Supply

Vollmer, Jason L.

Treasurer

## **MDU Resources Group, Inc.**

### **Primary Address**

1200 West Century Ave  
Bismarck, North Dakota 58503

#### **Management Name**

Everist, Thomas  
Fagg, Karen B.  
Goodin, David L.  
Hellerstein, Mark A.  
Johnson, Dennis W.  
Moss, Patricia L.  
Ryan, Edward A.  
Sparby, David M.  
Wang, Chenxi  
Wilson, John K.  
Barth, Stephanie A.

Goodin, David L.  
Hourigan, Kirsti B.

Jones, Anne M.  
Kuntz, Daniel S.  
Liepitz, Karl A.

Link, Margaret (Peggy) A.  
Riehl, Adrienne L.  
Senger, Dustin J.  
Vollmer, Jason L.

#### **Title**

Director  
Director  
Director  
Director  
Director and Chair of the Board  
Director  
Director  
Director  
Director  
Director  
Vice President, Chief Accounting Officer and  
Controller  
President and Chief Executive Officer  
Assistant General Counsel and Assistant  
Secretary  
Vice President - Human Resources  
Vice President, General Counsel and Secretary  
Assistant General Counsel and Assistant  
Secretary  
Vice President and Chief Information Officer  
Assistant Secretary  
Assistant Treasurer  
Vice President, Chief Financial Officer and  
Treasurer

## **Intermountain Gas Company**

### **Primary Address**

555 South Cole Road  
Boise, Idaho 83709

#### **Management Name**

Goodin, David L.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Vollmer, Jason L.  
Chiles, Mark A.  
Darras, Patrick C.  
Gilchrist, Hart

Goodin, David L.  
Jones, Anne M.  
Kivisto, Nicole A.  
Kuntz, Daniel S.  
Liepitz, Karl A.  
Link, Margaret (Peggy) A.

#### **Title**

Director  
Director  
Director  
Director  
Vice President - Regulatory Affairs and Customer Service  
Vice President – Engineering and Operations Services  
Vice President - Safety, Process Improvement and Operations  
Systems  
Chair of the Board  
Vice President - Human Resources  
President and Chief Executive Officer  
General Counsel and Secretary  
Assistant Secretary  
Chief Information Officer

Madison, Scott W.

Executive Vice President - Business Development and Gas Supply

Martuscelli, Eric P.

Vice President – Field Operations

Nygaard, Tammy J.

Controller

Senger, Garret

Executive Vice President - Regulatory Affairs, Customer Service and Administration

Vollmer, Jason L.

Treasurer

## **Centennial Holdings Capital LLC**

### **Management Name**

Goodin, David L.

### **Title**

Manager

Kuntz, Daniel S.

Manager

Vollmer, Jason L.

Manager

Goodin, David L.

Chair of the Board, President and Chief

Executive Officer

Kuntz, Daniel S.

General Counsel and Secretary

Vollmer, Jason L.

Vice President and Treasurer

## **FutureSource Capital Corp.**

### **Primary Address:**

1200 West Century Avenue, Bismarck, ND 58503

### **Management Name**

Goodin, David L.

### **Title**

Manager

Kuntz, Daniel S.

Manager

Vollmer, Jason L.

Manager

Goodin, David L.

Chair of the Board, President and Chief

Executive Officer

Kuntz, Daniel S.

General Counsel and Secretary

Vollmer, Jason L.

Vice President and Treasurer

## **Knife River Corporation**

### **Primary Address:**

P.O. Box 5568, Bismarck, North Dakota 58506-5568

### **Management Name**

Barney, David C.

### **Title**

Director

Goodin, David L.

Director

Kuntz, Daniel S.

Director

Vollmer, Jason L.

Director

Barney, David C.

President and Chief Executive Officer

Christenson, Nancy K.

Vice President - Administration and

Treasurer

Ford, Christopher B.

Chief Accounting Officer

Goodin, David L.

Chair of the Board

Kuntz, Daniel S.

General Counsel and Secretary

Liepitz, Karl A.

Assistant Secretary

Pladsen, Glenn R.

Vice President - Operations Support

Ring, Nathan W.

Vice President - Business Development



# Cascade Natural Gas

## Cost Allocation Manual

2019



*In the Community to Serve<sup>®</sup>*

# Cost Allocation Manual

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# Cost Allocation Manual

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# Cost Allocation Manual

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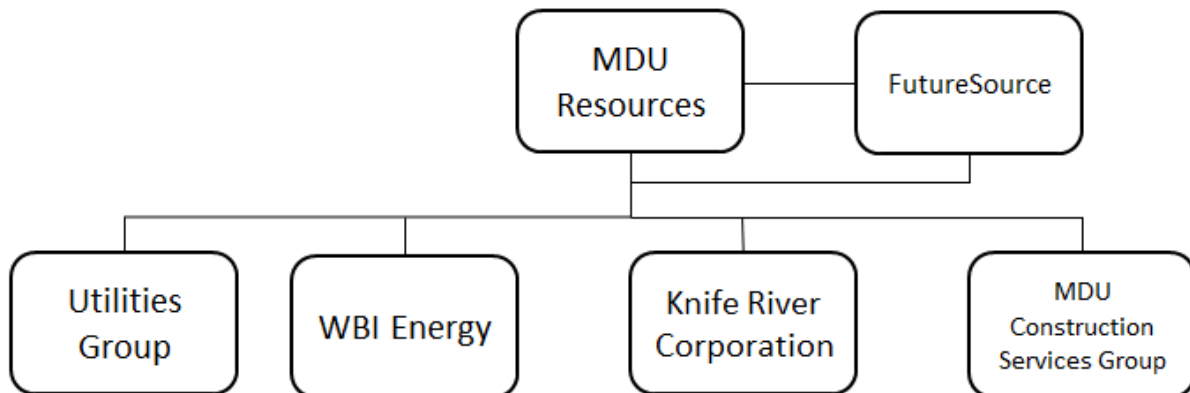
## Overview

Cascade Natural Gas Corporation (CNG), a gas distribution company operating in the states of Washington and Oregon, is a subsidiary of MDU Resources Group, Inc. Cascade Natural Gas has its' own set of financial records. The operations of Cascade Natural Gas Corporation are under the direction of one Utility Group (UG) executive leadership team.

FutureSource Capital Corporation (FutureSource) is a separate legal entity that owns the corporate campus facilities that house the MDUR corporate staff and other property utilized in providing services to the operating companies within MDUR.

Below is an overview of the operational structure for the purpose of assigning costs. The diagram presented is intended to provide an overview for cost allocation only and is not intended to represent the legal structure of the Corporation. Note that costs from MDUR and FutureSource are directly assigned or allocated and charged to the operating companies (i.e. Utilities Group, WBI Energy, etc.)

## Corporate Level



This document is intended to provide an overview of the different types of allocations and the processes employed to direct costs to CNG.

# Cost Allocation Manual

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This document will discuss the allocations to/from:

- MDUR and FutureSource to Cascade Natural Gas Corporation
- Montana-Dakota/Great Plains to Cascade Natural Gas Company (CNGC) and Intermountain Gas Corporation (IGC)
- Cascade Natural Gas Corporation (CNG) to Intermountain Gas Company (IGC) and Montana-Dakota/Great Plains
- Utility segment to state jurisdictions

Overall, the approach to allocating costs at each level is to directly assign costs when applicable and to allocate costs based on the function or driver of the cost.

## **MDU Resources Group, Inc. (MDUR) Allocations**

The MDUR corporate staff consists of shared services departments (payroll, human resources, business services and enterprise information technology), and administrative and general departments.

### **Shared Services**

MDU Resources Group, Inc. has several departments that provide specific services to the operating companies. These departments have developed a pricing methodology which is updated annually for the allocation of costs to the MDUR operating companies that utilize their services. (See Exhibit IV) These departments include:

#### **Payroll Shared Services**

Payroll Shared Services department provides comprehensive payroll services for MDUR companies and employees. It processes payroll in compliance with appropriate federal, state and local tax laws and regulations. Payroll Shared Services is also responsible for preparation, filing and payment of all payroll related federal, state and local tax returns. It also maintains and facilitates payments and accurate reporting to payroll vendors for employee benefits and other payroll deductions. For Montana-Dakota and Great Plains, the payroll shared services department is also responsible for the accumulation of time entry records and maintenance of employee records. Montana-Dakota and Great Plains do not have any departments that provide these payroll related services.

# Cost Allocation Manual

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## **Human Resources**

Human Resources operates as “One HR” across the regulated business units of MDU Resources Group including Montana-Dakota, Great Plains, Cascade Natural Gas, Intermountain Gas, and WBI Energy. There are employees in the HR departments at each of the business units that focus on the operational function of human resources: employee relations, labor relations, staffing, and leave management, all for their specific location. At MDU Resources, shared HR functions are performed for all of the regulated businesses: compensation management, benefits administration, policy development, human resource information systems, organizational development, as well as providing support and backup for the business unit functions.

## **Business Services**

Business Services provides support services for facilities and administrative services (including bill printing), supply chain (purchasing and inventory), fleet, travel, and accounts payable (including unclaimed property). Business Services also creates and maintains the Corporation's national accounts for the purchase of products, goods and services. National accounts take advantage of the combined purchasing power of all the Corporation's operating companies. Business Services is committed to serving its customers by providing timely, standardized, cost-effective goods and services that support business strategies and goals.

## **Enterprise Information Technology**

Enterprise Information Technology (EIT) provides policy guidance, infrastructure related IT functions and security-focused governance. EIT seeks to increase the return on investment in technology through consolidation of common IT systems and services, while eliminating waste and duplication. EIT works to increase the quality and consistency of technology, increase functionality and service to the enterprise, provide governance for managing and controlling risk and reduce costs through economies of scale.

The EIT services get allocated to Montana Dakota using agreed upon formulas based on utilization of the services.

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## General and Administrative Services

Administrative and general functions performed by MDUR for the benefit of the operating companies include the following departments:

- Corporate governance, accounting & planning
- Communications & public affairs
- Human resources
- Internal audit
- Investor relations
- Legal
- Risk management
- Tax and compliance
- Treasury services

Administrative and general function performed by MDU for the benefit of the utility group include the following departments:

- Corporate governance, accounting & planning
- Customer Service
- Engineering
- Gas Supply
- Human Resources
- Information Technology
- Safety Management

Cascade Natural Gas Corporation receives an allocation of these corporate costs. Corporate Policy No. 50.10 states "*It is the policy of the Company to allocate MDU Resources Group, Inc.'s (MDU) administrative costs and general expenses to the MDU's business units*". Business units described in the policy have been referred to as operating companies in this document. The policy states that costs that directly relate to a business unit will be directly assigned to the applicable business unit and only the remaining unassigned expenses will be allocated to the operating companies using the corporate allocation methodology. The allocation factor developed to apportion MDUR's unassigned administrative costs is a capitalization factor which is based on 12 month average capitalization at March 31, effective July 1 and at September 30, effective January 1 each year. MDUR has a mix of regulated and non-regulated companies. The non-regulated companies are cyclical in nature and could be impacted significantly with a downturn in the economy. It is unlikely during that same downturn their share of corporate costs would be materially different. Due to the volatility of non-regulated companies, and

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inconsistency between periods of other potential allocation factors, capitalization is the most appropriate allocation factor for MDUR. Capitalization includes total equity and current and non-current long-term debt (including capital lease obligations). The computation of the Corporate Overhead Allocation Factors is shown in Exhibit I.

Cascade Natural Gas is reflected in the Corporate Overhead Allocation Factors in **Exhibit I**. Operating companies that receive allocated costs on a monthly basis from MDUR include:

- Montana Dakota – Electric utility segment
- Montana Dakota/Great Plains – Gas utility segment
- Cascade Natural Gas Corporation (CNGC)
- Intermountain Gas Company (IGC)
- WBI Energy Transmission
- WBI Midstream
- Knife River (KR)
- MDU Construction Services Group, Inc. (CSG)

Corporate costs are recorded in the administrative and general (A&G) function for Cascade Natural Gas Corporation.

## **FutureSource**

FutureSource, a separate legal entity, owns the facilities at the corporate campus that house the MDUR corporate staff and other property utilized in providing services to all the operating companies within MDUR. These include the corporate office, computers, telephones, furniture, fixtures and aircraft. Montana-Dakota/Great Plains acquired an interest in a portion of the land, building, hangar and aircraft with a cash contribution to FutureSource and placed these assets into rate base. Montana-Dakota/Great Plains receives a cost of service return from CNG and IGC for their proportionate share of the contribution made by Montana-Dakota. The revenue received by Montana-Dakota for this cost of service is recorded in miscellaneous revenue.

Annually, FutureSource calculates a cost of service for any unfunded portion of these corporate assets and invoices the operating companies on monthly basis.



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Components included in the cost of service for these facilities and other property include operation and maintenance expenses, depreciation, property taxes, income taxes and a pre-tax return on investment. The annual calculation is maintained by FutureSource and the most recent copy may be requested from the MDU Resources Corporate Planning Department.

FutureSource also owns and operates a corporate aircraft and a hangar. Fixed costs for the aircraft are allocated to the MDUR operating companies on the MDUR corporate overhead factor referenced above (Exhibit I). The variable costs are charged to the appropriate business unit as a direct charge on an hourly flight rate. These charges will at times exceed or be below the actual variable cost. A year-end true-up includes an adjustment to the excess or shortfall in such hourly billing. Flights for employees of Montana-Dakota/Great Plains are directly assigned to the appropriate utility segment and state jurisdiction based on the purpose of the trip. For trips that are not directly applicable to a utility segment/jurisdiction, costs are allocated on the employee's standard payroll allocation and subsequently allocated to the jurisdictions. Standard labor distribution allocations are discussed on page 18.

## **Cascade Natural Gas Corporation Allocation of Cost to/from Others**

### **Allocations to/from other MDUR Companies**

Certain Montana-Dakota/Great Plains owned assets, such as the General Office/Annex facility, located at the utility headquarters in Bismarck, and the assets associated with the contribution made for FutureSource assets, are also used for the benefit of other MDUR operating companies. To cover the cost of ownership and operating costs associated with these owned assets, a revenue requirement (asset return plus annual operating expenses) is computed for the shared assets. The expense component included in the return is composed of operating and maintenance costs, depreciation, income tax and property tax expenses. The resulting revenue requirement is billed to the other MDUR operating companies, including CNGC and IGC, as a monthly fee.

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Intermountain Gas owns the customer care center located in Meridian, ID. To cover the cost of ownership associated with that owned asset, a revenue requirement (asset return) is computed similarly to Montana-Dakota owned assets. The expense component included in the return is composed of operating and maintenance costs, depreciation and income tax expense. The resulting revenue requirement is billed to the Montana-Dakota/Great Plains and Cascade as a monthly fee. The costs are allocated based on the number of customers served by each utility.

Additionally, a portion of the cost ownership of the Kennewick General Office is billed to Montana-Dakota/Great Plains and Intermountain Gas Company based on office space occupied by shared utility group employees. The expense component included in the return is composed of depreciation, operating expense and income tax.

The resulting revenue requirements are billed to the Montana-Dakota/Great Plains and Intermountain Gas Company as a monthly fee. The costs are allocated based on the number of customers served by each utility.

Additionally, some expenses are allocated or directly assigned at the invoice/PO or credit card purchase stage.

## **Allocations to other Utility Companies**

Montana-Dakota/Great Plains has several departments that provide services to all four utility operating companies (Montana-Dakota, Great Plains, Cascade Natural Gas Co. and Intermountain Gas Company). These departments include:

- Leadership Group - composed of the Executive Group and Directors that oversee shared utility specific functions
- Customer Services - (Call Center, Scheduling and Online Services)
- Operations & Engineering Services Group – composed of shared utility group operations department functions
- Information Technology and Communications- (Enterprise Network & Telecommunications, Enterprise Management, Enterprise Development and Integration, Field Automation, Enterprise GIS)
- Environmental
- Safety & Technical Training
- Business Development
- Gas Supply & Control
- Utility Group Controller

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These operational groups have calculated the proper allocation to use to allocate the costs to the utility companies based on services performed for each utility company. The allocation methodology is included in Exhibit V.

## **Cascade Natural Gas Corporation's Allocations to Utility Segments**

### **Revenues**

All sales and transportation revenues are directly assigned to the appropriate state jurisdiction. Miscellaneous service revenue, rent and other revenue is directly assigned to the utility jurisdiction where possible and common derived revenue is allocated to the utility jurisdiction based on the reason for which the revenue was received.

### **O&M Expense**

As operation and maintenance costs are incurred, the expense is directly assigned to the appropriate state jurisdiction in the general ledger where possible. Expenses incurred that are common to both jurisdictions, such as administrative and general costs, are split between jurisdictions based on the function and/or driver of the cost.

### **Facility Expense Allocations**

Costs for operations and maintenance of facilities are charged directly to the applicable utility jurisdiction when the facility is for the benefit of one jurisdiction.

For expenses associated with distribution operation facilities, such as a region office that serves more than one utility jurisdiction, the costs are allocated to the utility jurisdiction based on the current year 3-factor formula.

### **Labor/Reimbursable expense allocations**

The development of standard labor distributions for Cascade Natural Gas employees is described below based on the type of employee. Standard labor distributions are used for all employees to account for certain expenses as detailed below.

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Labor, benefit costs and reimbursable expenses are directly assigned to a utility jurisdiction where possible. If the expense is not direct, the appropriate utility segment is charged as follows:

## ***Union Employees***

Time tickets are required for productive time. The employee specifies the proper utility segment, location and FERC account based on work performed. To account for non-productive time, standard payroll labor distributions are established for all employees. These standard labor distributions are calculated for union employees based on the historical actual charges by utility segment for the last 12 months.

## ***Non-Union Employees***

Non-union employees are not required to submit detailed time tickets with applicable general ledger accounts specified. Rather each employee has a "standard" set of general ledger accounts that split the labor costs to utility jurisdiction based on an expected ratio of work between jurisdictions. This split can be unique and is based on the employee's position. Costs are distributed based on this standard labor distribution for each employee, and the allocations are reviewed annually. Time studies are completed at least every five years.

- Payroll allocations for operations supervisors are a function of their direct reports or may be determined by time studies conducted.
- Payroll allocations for staff engineers are determined by time studies.
- Payroll allocations for General Office support staff are reviewed by the applicable department head based on the type of work performed.

Reimbursable employee expenses are directly assigned to a utility jurisdiction and FERC account when possible. For employee expenses that are applicable to more than one utility jurisdiction, such as training that is not specific to a utility segment, the employee's standard labor distribution percentages for each segment are used.

## **Taxes Other than Income**

Ad valorem taxes are reviewed by function and all functions are directly assigned except for common ad valorem taxes, which follow plant. Payroll

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related taxes follow the allocation of labor and revenue and electric production taxes are directly assigned. Common taxes other than income, such as the Highway Use tax or Secretary of State filing tax are allocated on the appropriate factor to the segments.

## **Income Taxes**

Income taxes, both current and deferred, are allocated to the utility jurisdiction based on the underlying revenue or expense that generated the deferred taxes.

If the underlying income item is specific to a particular jurisdiction, the related taxes are assigned directly to that jurisdiction. If the underlying income item is common to both jurisdictions, the related taxes are allocated with factors used to allocate the underlying revenue or expense.

## **Plant in service/work in progress/reserve/depreciation**

Plant in service, work in progress, reserve and depreciation expense accounts are assigned to a utility jurisdiction based on the function of property. For property that benefits both utility jurisdictions an allocation process is used.

The allocation process is based on the combination of the location of the asset and the FERC account (function) that is used to allocate the project, asset, reserve and depreciation.

## **Prepayments**

Prepaid demand and commodity charges are directly assigned to the applicable utility jurisdiction. Prepaid insurance is directly assigned where possible and common policies are allocated based on the type of policy.

## **Customer Advances**

Customer advances are directly assigned to the applicable jurisdiction.

Other rate base items

Where possible, these items are directly assigned to the applicable utility jurisdiction. Common items are allocated based on the cost driver for each item.

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## Cascade Natural Gas Corporation's Allocations to State Jurisdictions

Cascade Natural Gas utilizes an automated allocation process each month to record the income statement and rate base account activity to the financial ledger (state jurisdiction) to facilitate regulatory reporting. This process is based on the general ledger account structure used in the financial software (JD Edwards). As with other items, costs are directly assigned to a jurisdiction when possible. Costs common to more than one state jurisdiction are allocated between jurisdictions. The primary driver of the allocation is the Business Unit component of the general ledger account; however, the FERC account associated with the charge is also used to determine the proper allocation method. Since operation and maintenance costs are assigned to the utility jurisdiction as incurred, this process only allocates costs between state jurisdictions. The allocation process creates a Journal Entry to the JD Edwards jurisdictional ledgers established by state and utility jurisdiction.

The allocation methodology is as follows:

The JD Edwards (JDE) software is used by Cascade Natural Gas for recording financial transactions as well as the jurisdictional allocation process for all accounts except those related to fixed assets.

The account structure within JDE consists of the following components:

Business Unit - The Business Unit is one of the primary components used for identifying the regulatory allocation of costs. It usually defines a location such as an operating region, operating district or facility, gas regulator station, or department (i.e. human resources, engineering).

Object – The object for operations and maintenance (O&M) expense accounts represents the resource consumed (i.e. payroll or materials). For balance sheet accounts, the object represents the FERC account.

Subsidiary – The subsidiary portion of the account for O&M accounts identifies the utility segment and the FERC account. For balance sheet accounts the subsidiary represents a further breakdown of the account such as which bank for a cash account.

Revenue Accounts – Revenues are directly assigned to the jurisdiction when possible. The applicable FERC account is part of the account structure and in

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the case of utility billed revenue the utility jurisdiction is included. It is the combination of the business unit, utility segment and FERC that drive the allocation factor used. An example of revenue that is allocated to the jurisdictions is revenue from the cost of service calculation which is assigned an allocable location (Business Unit).

Operation and Maintenance (O&M) accounts – As costs are incurred, the approver of the expense assigns the general ledger account structure.

It is the combination of the location (Business Unit), utility jurisdiction and FERC that drive the allocation factor utilized. Locations are assigned a factor based on the geographic area for which they serve and the FERC function assigned. For example, location (Business Unit) 230 represents the geographic location of the Sheridan, WY District. The Sheridan District serves both electric and gas and is therefore directly assigned to Wyoming for all FERC accounts. Another example is location 12900, representing the Credit and Collections Department. The Credit and Collections Department services both the electric and gas customers. The allocation of costs is based on the FERC range of accounts. The location may also be a responsibility, or department.

Location	Location Description	Sub 1	Sub 2	Utility Segment	Utility Alloc Code	Utility Allocation Description	Utility Allocation Rate	Juris Alloc Code	Juris Allocation Description	Juris Allocation Rate	Combined Effective Rate
230	Wyoming District	1560	15709999	1 Electric	00001	ELECTRIC ONLY	100.0000%	00005	WYOMING ONLY	100.000000%	100.000000%
230	Wyoming District	1580	19359999	1 Electric	00001	ELECTRIC ONLY	100.0000%	00005	WYOMING ONLY	100.000000%	100.000000%
12900	Credit & Collections	1920	19359999	1 Electric	00001	ELECTRIC ONLY	100.0000%	00026	O&M EXCLUDING FUEL & PURCHASED POWER & A&G	8.336614%	8.336614%
12900	Credit & Collections	1901	19169999	1 Electric	00001	ELECTRIC ONLY	100.0000%	00085	TOTAL COMPANY ELECTRIC CUSTOMER COUNT	11.315965%	11.315965%
12900	Credit & Collections	1580	15989999	1 Electric	00001	ELECTRIC ONLY	100.0000%	00118	ELECTRIC DISTRIBUTION PLANT	14.798583%	14.798583%

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*Co	*Location	*Obj Acct	*FERC Sub 1	*FERC Sub 2	*Start Date	Stop Date	Description	Utility Alloc Code	Utility 01	Allocation Code 01
00001	230		1560	15709999	199703	203512	Wyoming District	00001	1	00005
00001	230		1580	19359999	199501	203512	Wyoming District	00001	1	00005
00001	230		28120	28120	199703	203512	Wyoming District	00002	2	00005
00001	230		2870	29359999	199501	203512	Wyoming District	00002	2	00005

!!!

00001 code = 100 % Electric

00002 code = 100 % Gas

Code 00005 = 100% allocated to WY

*Co	*Location	*Obj Acct	*FERC Sub 1	*FERC Sub 2	*Start Date	Stop Date	Description	Utility Alloc Code	Utility 01	Allocation Code 01
00001	12900		1580	15989999	200910	203512	Credit & Collections	00001	1	00118
00001	12900		1901	19169999	200501	203512	Credit & Collections	00001	1	00085
00001	12900		1920	19359999	200501	203512	Credit & Collections	00001	1	00026
00001	12900		2870	28949999	200910	203512	Credit & Collections	00002	2	00119
00001	12900		2901	29169999	200501	201508	Credit & Collections	00002	2	00086
00001	12900		2901	29169999	201509	203512	Credit & Collections	00002	2	00087
00001	12900		2920	29359999	200501	203512	Credit & Collections	00002	2	00027

!!!

**Utility Allocation Code**  
Represents the code used to allocate costs to a business segment  
00001 = Electric segment  
00002 = Gas segment

**Allocation code 01**  
Represents the code used to allocate costs to a Jurisdiction  
00118 = Electric distribution plant  
00085 = Total company electric customer count  
00026 = O&M excluding fuel & purchased power and A&G  
00119 = Gas distribution plant  
00087 = Total company gas sales customer count  
00027 = O&M excluding cost of gas and A&G

## Taxes Other Than Income

Taxes other than income taxes are directly assigned when possible. Ad valorem taxes are allocated based on the subsidiary, which indicates the jurisdiction and function. Payroll related taxes follow the allocation of labor, revenue taxes are directly assigned and generation and other taxes are allocated on the applicable factor.



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## Income Taxes

Federal taxes that are allocated or directly assigned to the utility jurisdiction are allocated to the jurisdictions based on the factors used to allocate the underlying revenue or expense among the jurisdictions.

State taxes that are allocated or directly assigned to a utility segment, are allocated to the jurisdictions that have state income tax based on their respective state apportionments.

## Plant in Service/Work in Progress/Reserve/Depreciation Accounts

Plant in service, work in progress, reserve and depreciation expense accounts are allocated in through a similar process in the PowerPlan software based on attributes associated with the work order and asset.

It is the combination of the utility segment, location of the asset and the FERC account that is used to allocate the project, asset, reserve and depreciation. The tables that are maintained in JDE for jurisdictional allocations are interfaced into PowerPlan and are used to allocate these accounts.

## **Allocation Factors**

The allocation factors are computed annually by the Regulatory Affairs and General Accounting departments and assigned to the proper Business Unit (location) effective in January each year. See Exhibit VI for a list of the allocation factors.

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## Exhibit I - MDUR Corporate Overhead factor

MDU Resources Group, Inc.  
Corporate Overhead Allocation Factor  
January - June 2019

	MDU	MDU/GP	CNGC	IGC	WBI Energy		KR	CSG
	Electric	Gas			Transmission	Midstream		
MDUR Corporate Factor	20.4%	14.0%	14.9%	10.0%	8.3%	0.3%	22.9%	9.2%

MDU RESOURCES GROUP, INC.  
12 Month Average Consolidating Balance Sheet  
September 2018

	WBI Energy	Knife River	Construction Services	Utilities Group	Consolidated
<b>Debt and Equity</b>					
Short-term borrowings					---
LTD due within one year	1,000,000.00	28,809,524.50	71,239.98	97,035,948.02	126,916,712.50
Long-term debt	184,897,919.53	341,354,594.53	89,118,439.42	1,118,067,733.43	1,733,438,686.91
<b>Total Debt</b>	<b>185,897,919.53</b>	<b>370,164,119.03</b>	<b>89,189,679.40</b>	<b>1,215,103,681.45</b>	<b>1,860,355,399.41</b>
<b>Stockholders' equity:</b>					
Preferred stocks					---
Common stock	1,000.00	800,000.00	1,000.00	196,082,279.67	196,884,279.67
Other paid-in capital	803,182,762.05	495,748,408.91	134,859,038.50	1,739,022,954.79	3,172,813,164.25
Retained earnings	(586,466,247.50)	123,448,294.30	162,271,164.51	1,081,619,915.31	780,873,126.62
Accumulated other comprehensive income (loss)	(3,158,615.65)	(29,585,480.00)	(2,627,163.98)	(43,006,431.98)	(78,377,691.61)
Treasury stock		(3,625,812.59)		(3,625,812.59)	(7,251,625.18)
<b>Total common stockholders' equity</b>	<b>213,558,898.90</b>	<b>586,785,410.62</b>	<b>294,504,039.03</b>	<b>2,970,092,905.20</b>	<b>4,064,941,253.75</b>
<b>Total stockholders' equity</b>	<b>213,558,898.90</b>	<b>586,785,410.62</b>	<b>294,504,039.03</b>	<b>2,970,092,905.20</b>	<b>4,064,941,253.75</b>
<b>Total liabilities and stockholders' equity</b>	<b>399,456,818.43</b>	<b>956,949,529.65</b>	<b>383,693,718.43</b>	<b>4,185,196,586.65</b>	<b>5,925,296,653.16</b>
IC Investment in Subsidiaries				1,706,288,626.51	1,706,288,626.51
Fidelity E&P 12 Mth Avg Capitalization	(40,471,854.42)				(40,471,854.42)
<b>Capitalization</b>	<b>358,984,964.01</b>	<b>956,949,529.65</b>	<b>383,693,718.43</b>	<b>2,478,907,960.14</b>	<b>4,178,536,172.23</b>

	WBI Energy	Knife River	CSG	Utilities Group	Total
MDUR Corporate OH Factor	8.6%	22.9%	9.2%	59.3%	100.0%

	2018				
	Capitalization (In thousands)	Share of Corp. Allocation	Corporate Allocation	Electric	Gas
Montana-Dakota 1/	\$1,465,385	58.0%	34.4%	20.4%	14.0%
Cascade	635,833	25.2%	14.9%		14.9%
Intermountain	425,565	16.8%	10.0%		10.0%
<b>Total Utilities Group</b>	<b>\$2,526,783</b>	<b>100.0%</b>	<b>59.3%</b>	<b>20.4%</b>	<b>38.9%</b>

1/ Electric and gas segments allocated on Montana-Dakota's Corporate Overhead Factor

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## Exhibit II - Montana-Dakota/Great Plains Overhead factor

Montana-Dakota Utilities Co.  
Corporate Overhead Allocation Factors  
January - June 2019

	Electric	Gas
Montana-Dakota corporate factor	59.2	40.8
Employee factor	42.9	57.1
Plant factor	75.5	24.5
Customer factor	32.6	67.4

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## Exhibit III - Montana-Dakota/Great Plains Customer Allocation Factors

Montana-Dakota Utilities Co 2019 Customer Allocation Factors				Montana-Dakota Utilities Co Customer Count Splits for Regions and Districts				Customer Allocations by State		
<b>Montana</b>				<b>Rocky Mountain Region</b>		<b>Badlands Region</b>		<b>GAS</b>		
	<b>Customers</b>	<b>% Factor</b>	<b>State % Factor</b>	MT Gas	65%	ND Elec	36%	MT Gas	84,565	31.0%
Gas	84,565	0.77	0.20	WY Elec	16%	ND Gas	23%	ND Gas	109,365	40.0%
Electric	25,707	0.23	0.06	WY Gas	19%	MT Elec	22%	SD Gas	60,402	22.1%
	110,272	1.00	0.26			MT Gas	18%	WY Gas	18,782	6.9%
<b>North Dakota</b>				<b>Billings District</b>		<b>Reg split (#65)</b>				
	<b>Customers</b>	<b>% Factor</b>		All Gas	100%	Electric	59%	273,114		
Gas	109,365	0.54	0.26	<b>Sheridan Dist (#63)</b>		Gas	41%			
Electric	92,817	0.46	0.22	Electric	46%					
	202,182	1.00	0.49	Gas	54%					
<b>South Dakota</b>				<b>Dakota Heartland Region</b>		<b>Dickinson Dist</b>		<b>ELECTRIC</b>		
	<b>Customers</b>	<b>% Factor</b>		ND Elec	34%	Electric	58%	MT Elec	25,707	18.0%
Gas	60,402	0.88	0.15	ND Gas	55%	Gas	42%	ND Elec	92,817	64.9%
Electric	8,547	0.12	0.02	SD Elec	5%					
	68,949	1.00	0.17	SD Gas	6%					
<b>Wyoming</b>				<b>Region Split (#64)</b>		<b>Glendive Dist</b>		SD Elec 8,547 6.0%		
	<b>Customers</b>	<b>% Factor</b>		Electric	39%	Electric	56%	WY Elec 15,976 11.1%		
Gas	18,782	0.54	0.05	Gas	61%	Gas	44%	143,047		
Electric	15,976	0.46	0.04	<b>Bismarck Dist (#86)</b>						
	34,758	1.00	0.08	Electric	51%					
<b>Total Customers</b>				<b>Mobridge Dist (#14)</b>		<b>Williston Dist (#69)</b>				
416,161				Electric	58%	Electric	65%			
				Gas	42%	Gas	35%			
				<b>Jamestown District</b>		<b>Wolf Point Dist (#68)</b>				
				All Gas	100%	Electric	50%			
				<b>Minot District</b>		Gas	50%			
				All Gas	100%					
				<b>Black Hills Region</b>						
				SD Gas		100%				
				<b>Rapid City District</b>						
				All Gas		100%				
				<b>Spearfish District</b>						
				Gas		100%				
<b>Great Plains</b>										
<b>Jurisdictional Customer Allocation Factor</b>										
North Dakota GPNG	2,275	0.10								
Minnesota - GPNG	21,668	0.90								
	23,943	1.00								

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## Exhibit IV- MDUR Shared Services Pricing Methodology

### MDU Resources Shared Services Pricing Methodology - Effective for 2019

**Note:** Any shared services amount allocated to MDU Resources are charges out to the business units on the corporate allocation factor.

#### 761 – Payroll Shared Services:

Payroll Shared Services costs are invoiced based on the number of employees paid and stated as a cost per check. The word check, for this purpose, generically refers to paper paychecks, direct deposits and pay card transactions.

Checks are charged on a tiered structure, intended to recognize the fixed or baseline effort associated with maintaining a payroll cycle and associated reporting, regardless of number of people paid. It is also intended to reward consolidation of multiple pay groups and companies where possible and to align charges with the additional effort required to maintain multiple pay groups and pay cycles.

The monthly volume for this step pricing is accumulated individually for each pay cycle processed.

Checks for weekly pay cycles, cost per check based on the number of checks written per month:

\$ 4.25 per check for the first 500 checks  
\$ 0.25 per check for the next 500 checks  
\$ 0.10 per check for each additional check

Checks for non-weekly pay cycles, cost per check based on the number of checks written per month:

\$ 4.25 per check for the first 1500 checks  
\$ 0.25 per check for the next 500 checks  
\$ 0.10 per check for each additional check

Additionally, there will be a \$4.00 charge for each tax payment and \$250.00 charge for each quarterly tax filing and \$2 charge for each W2

There is a \$500 per month minimum charge for each operating company.

There is a premium charge of \$50 per transaction for specific off cycle checks and back-pay calculations. Examples of transactions included in the premium charge schedule are missing hours, refunded deductions, length of service awards submitted too late for inclusion in a scheduled payroll process, and back pay calculation because an increase was submitted after the pay period that includes the effective date. Examples of transactions excluded from the premium charge calculation are bonus payments, final paychecks, certified wage settlements, or any payment required as a result of a Shared Service or system error.

#### 766 – Time Entry Shared Services:

Time entry service is provided for the Utility Group and MDU Resources employees based on the average number of employees at each location.

	MDUR	MDU/GP	CNG	IGC	WBIE	KRC	CSG*	Total
Average Number of Employees	205	1,050	365	245				1,865
Total weighted allocation factor	10.99%	56.30%	19.57%	13.14%				100%

\* Time Entry Shared Services manually keys time entry for Desert Fire. Payroll Shared Services and Desert Fire agree to use two times the amount of the cost per check rather than a separate time entry charge. The two methods are comparable.

#### 970 – Human Resources:

Human Resources costs for the MDU Resources HR team are based on employees served. The average number of employees at each company for 12 months ending June 30 is calculated, then further broken down to whether they are on the Corporate-held benefit plans and/or retirement plans.

An allocation for each individual HR team member is calculated based on which group(s) of employees they serve. For example, an HR Generalist whose functions serve the Regulated companies would have an allocation to MDUR, MDUG, and WBI. A Benefits Analyst who is responsible for the Health & Welfare plans would have an allocation to the regulated companies as well as KRC and CSG companies who participate in the Corporate plans.

These individual allocations are all combined into one aggregate allocation to be used by all MDUR shared HR employees. The reason for this method is that the same work would need to be absorbed should a vacancy occur. Human Resources has three individuals that are not considered shared services and are allocated on the corporate overhead allocation factor.

	MDUR	MDU/GP	CNG	IGC	WBIE-T	WBIE-M	KRC	CSG	Total
Allocation	4.34%	25.15%	7.60%	5.25%	13.72%	2.61%	22.49%	18.84%	100%

#### 762 – Business Services:

This allocation factor is derived from the results of the following four responsibilities. After allocating the projected (budget) costs for the following four responsibilities to each business unit, based on the weighted allocation factor of each of these four responsibilities, each business unit total is summed and divided by the total cost resulting in the following allocation percentages. Individuals in this responsibility provide oversight and support for the following four responsibilities.

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Allocation %	17.66%	32.71%	11.66%	9.55%	0.64%	6.06%	1.48%	12.28%	7.96%	100%

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## 763 –Fleet and Travel:

Fleet and Travel Departments costs are invoiced based on five weighted factors from the previous year:

- Travel – based on corporate factor
- Managed Units
- National Account Spend
- Construction Equipment Acquisitions
- Fleet Acquisitions

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
% of Travel Corporate		34.30%	14.40%	12.50%		8.00%	0.40%	21.70%	8.70%	100%
# Managed Units		36	319	223						578
% of Managed Units		6.23%	55.19%	38.58%						100%
National Account Spend	\$1,322,570	\$18,679,456	\$7,681,820	\$4,895,822		\$6,196,219	\$992,764	\$132,526,463	\$51,797,911	\$224,093,025
% of National Account Spend	0.59%	8.34%	3.43%	2.18%		2.77%	0.44%	59.14%	23.11%	100%
# Construction Equip Acquisitions		69	18	9		7	4	108	107	322
% of Construction Equip Acquisitions		21.43%	5.59%	2.80%		2.17%	1.24%	33.54%	33.23%	100%
# Fleet Acquisitions		29	25	29		40	7	166	127	423
% of Fleet Acquisitions		6.86%	5.91%	6.86%		9.46%	1.65%	39.24%	30.02%	100%
<b>Weighted Allocation Factors:</b>										
Travel Corporate	21.70%	The percent of time spent on corporate travel.								
# Managed Units	15.66%	The percent of time spent on managed units.								
National Acct Spend	15.66%	The percent of time spent on national accounts.								
Construction Equip Acquisition	23.49%	The percent of time spent on the acquisition of construction equipment assets.								
Fleet Acquisition	23.49%	The percent of time spent on the acquisition of vehicle assets.								
	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Total weighted allocation factor	0.09%	16.37%	15.00%	11.36%		4.90%	0.84%	31.07%	20.37%	100%

## 764 –Supply Chain:

There are several individuals that are primarily focused on the Utility Group and some that have multiple business unit responsibilities.

Allocations are based on two weighted factors from previous year:

- Purchase Order Count
- Purchase Order Line Count

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Purchase Order Count	29	4413	908	971		835	252			7,408
% of Purchase Orders	0.39%	59.57%	12.26%	13.11%		11.27%	3.40%			100%
Purchase Order Line Count	44	26,707	2,770	2,858		4,876	1,479			38,734
% of Purchase Order Line Count	0.11%	68.95%	7.15%	7.38%		12.59%	3.82%			100%
<b>Weighted Allocation Factors:</b>										
PO Count	1.00%	The percent of purchase orders processed by Company.								
PO Line Count	99.00%	The percent of lines on purchase orders processed by Company.								
	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Total weighted allocation factor	0.12%	68.86%	7.20%	7.44%		12.57%	3.81%			100%

# Cost Allocation Manual

## 767 –Accounts Payable:

Costs are invoiced based on four weighted factors from previous year:

- Number of Payments
- Number of Vouchers
- Number of Unclaimed Property reports
- Number of PNC payments

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
# of Payments - 8/1/2017 through 8/1/2018	2,133	32,726	20,778	18,433		6,686	2,044		739	83,539
% of Payments	2.55%	39.17%	24.87%	22.07%		8.00%	2.45%		0.89%	100%
# of Vouchers - 8/1/2017 through 8/1/2018	2,497	49,487	32,806	23,596		11,911	3,312		1,525	125,134
% of Vouchers	1.99%	39.55%	26.22%	18.85%		9.52%	2.65%		1.22%	100%
# of States Filed In - as of 5/26/2018		34	17	28		23	3	10	4	119
% of Unclaimed Property		28.57%	14.29%	23.53%		19.33%	2.52%	8.40%	3.36%	100%
# of Companies Implemented - as of 8/1/2018	3	1	1	1		1	1	19	16	43
% of PNC	6.98%	2.32%	2.33%	2.33%		2.32%	2.32%	44.19%	37.21%	100%
<b>Weighted Allocation Factors:</b>										
# of Payments	15.00%	The percent of time spent on processing payments, setting up address book records, 1099s, etc.								
# of Vouchers	65.00%	The percent of time spent on vouchering and reviewing invoices								
# of Unclaimed Property	15.00%	The percent of time spent filing unclaimed property reports, sending due diligence letters, defending audits.								
# of PNC	5.00%	The percent of time spent with companies that are using PNC to make vendor payments.								
	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Total weighted allocation factor	2.00%	36.00%	23.00%	19.20%		10.40%	2.60%	3.50%	3.30%	100%

## 770 –Buildings and Grounds:

This allocation is based on labor hours spent by location from the previous year

	MDUR	MDU/GP	CNG	IGC	WBIE	KRC	CSG	Total
Allocation %	43.00%	50.00%			4.00%	3.00%		100%

## Enterprise Information Technology (EIT):

There are several EIT departments, and each is billed out based on its own criteria. They are as follows:

**Application Services (765)** – The allocations will be based on time tracked history for the 12 months of the prior year. The MDUG portion is further divided by meter count and the WBI portion is further divided by the WBI corporate factor.

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
12-month work load	3,977	2,955	1,944	2,347		970	103	1,234	237	13,767
% of 12 mon work load	28.89%	21.46%	14.12%	17.05%		7.05%	0.75%	8.96%	1.72%	100%

Definition of 765: This team is made up of software developers providing integrations to systems and software changes. □

**Operational Technology (768)** –The allocations are based on projected work load. This department is 100% direct allocated based on the projects assigned.

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Projected Hours	661	5,579								6,240
% of 12 mon work load	10.60%	89.40%								100%

Definition of 768: This team is made up of security and infrastructure technicians.

# Cost Allocation Manual

**Customer Relations (965)** – Enterprise charges for the customer relations group are invoiced using three weighted allocation factors. The factors are as follows:

1. Direct charge for employees working for a specific business
2. Number of computing devices supported by the help desk (90%)
3. Number of mobile devices supported by the help desk (10%)

The metric used to determine device counts is devices that have checked into active directory during a 60-day period in the summer of 2018 and active devices in MobileIron.

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
<b>Direct Charges</b>			53.53%	46.47%						100%
<b>Factor- 13.49%</b>			7.22%	6.27%						13.49%
<b>Computing Device Counts</b>	313	1,266	509	653	54	309	46	1,885	1,798	6,833
<b>% of Device Count</b>	4.58%	18.53%	7.45%	9.56%	0.79%	4.52%	0.67%	27.59%	26.31%	100%
<b>% of Device Factor- 77.86% (86.51% x 90%)</b>	3.57%	14.42%	5.80%	7.44%	0.62%	3.52%	0.53%	21.48%	20.48%	77.86%
<b>Mobile Device Counts</b>	159	561	277	195	207			1,866	2,410	5,675
<b>% of Device Count</b>	2.80%	9.89%	4.88%	3.43%	3.65%			32.88%	42.47%	100%
<b>% of Device Factor- 8.65% (86.51% x 10%)</b>	0.24%	0.86%	0.42%	0.30%	0.32%			2.84%	3.67%	8.65%
<b>Total weighted allocation factor</b>	3.81%	15.28%	13.44%	14.01%	0.94%	3.52%	0.53%	24.32%	24.15%	100%

**Definition of 965:** This team is made up of help desk agents who support company owned devices and software.

## Communications (971)

Enterprise charges for the communications group are invoiced using four weighted allocation factors. The factors are as follows:

1. Direct charge for employee hours working for a specific business (10.53%) (MDUG portion is split by meter count).
2. Wide Area Network/Local Area Network/Metropolitan Area Network- Number of business unit locations (35.79%)
3. Internet/Firewall Access – Number of computing devices (35.79%)
4. IP Telephony (17.89%)

The costs are invoiced based on the following percentages:

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
<b>Direct Charges</b>		40.78%	26.83%	32.39%						100%
<b>Factor- 10.53%</b>		4.29%	2.83%	3.41%						10.53%
<b>WAN/LAN/MAN</b>	7	61	19	13	1	144	3	222	78	548
<b>% of Business Unit Locations</b>	1.28%	11.13%	3.47%	2.37%	0.18%	26.28%	0.55%	40.51%	14.23%	100%
<b>Factor- 35.79%</b>	0.46%	3.98%	1.24%	0.85%	0.06%	9.41%	0.20%	14.50%	5.09%	35.79%
<b>Internet Access/Firewall</b>	313	1,266	509	653	54	309	46	1,885	1,798	6,833
<b>% of User Accounts</b>	4.58%	18.53%	7.45%	9.56%	0.79%	4.52%	0.67%	27.59%	26.31%	100%
<b>Factor- 35.79%</b>	1.64%	6.63%	2.67%	3.42%	0.28%	1.62%	0.24%	9.87%	9.42%	35.79%
<b>IP Telephone</b>	256	822	435	389		269	35	1,747	177	4,130
<b>% of Handsets</b>	6.20%	19.90%	10.53%	9.42%		6.51%	0.85%	42.30%	4.29%	100%
<b>Factor- 17.89%</b>	1.11%	3.56%	1.88%	1.69%		1.16%	0.15%	7.57%	0.77%	17.90%
<b>Total weighted allocation factor</b>	3.21%	18.46%	8.62%	9.37%	0.34%	12.19%	0.59%	31.94%	15.28%	100%

**Definition of 971:** This team supports the wide area network and phones. This includes switches, routers and firewalls.



# Cost Allocation Manual

**Operations (972)** – Enterprise charges for the operations group are invoiced using three separate factors

(1) 18.12% are direct charges that are costs directly related to the AS/400 computer and are invoiced upon the AS/400 allocation as agreed to by MDU and WBI.

The remaining 81.88% of the costs are based upon the number of servers that are supported for each business unit. These servers are then broken out between full service servers and shared service servers. Full service servers have a greater weighting factor since they require more dedicated time and cost more.

(2) Full Service Servers - 61.41% (81.88% x 75%)

(3) Shared Service Servers 20.47% (81.88% x 25%).

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Direct Charges	4.93%	39.76%	22.80%	23.85%	8.34%				0.32%	100%
Factor- 18.12%	0.90%	7.20%	4.13%	4.32%	1.51%				0.06%	18.12%
Full Service Servers	240	84	1	2	32	5		133	36	533
% of Full Service Servers	45.03%	15.76%	0.19%	0.38%	6.00%	0.94%		24.95%	6.75%	100%
Factor- 61.41%	27.65%	9.68%	0.12%	0.23%	3.69%	0.58%		15.32%	4.14%	61.41%
Shared Service Servers		131	38	92		31	3	49	105	449
% of Full Service Servers		29.18%	8.46%	20.49%		6.90%	0.67%	10.91%	23.39%	100%
Factor- 20.47%		5.97%	1.73%	4.19%		1.41%	0.14%	2.24%	4.79%	20.47%
Total weight allocation factor	28.55%	22.85%	5.98%	8.74%	5.20%	1.99%	0.14%	17.56%	8.99%	100%

**Definition of 972:** This team is responsible for administration of the enterprise servers.

**Security (977)** – Enterprise charges for the security group are distributed via the number of computing devices (90.00%) and mobile devices (10.00%). Costs are invoiced based on the following percentages:

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
Computing Device Counts	313	1,266	509	653	54	309	46	1,885	1,798	6,833
% of Device Factor- 90%	4.12%	16.67%	6.70%	8.60%	0.72%	4.07%	0.61%	24.83%	23.68%	90.0%
Mobile Device Counts	159	561	277	195	207			1,866	2,410	5,675
% of Device Factor- 10%	0.28%	0.99%	0.49%	0.34%	0.36%			3.29%	4.25%	10.0%
Total weighted allocation factor	4.40%	17.66%	7.19%	8.94%	1.08%	4.07%	0.61%	28.12%	27.93%	100%

**Definition of 977:** This team supports the cyber security initiatives.

**ERP (956)** – Enterprise charges for the ERP group are being allocated based on 12 months of the prior year hours worked in JIRA. The costs are invoiced based on the following percentages:

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
12-month work load	927	885	362	196	1,064			277		3,711
% of 12 mon work load	24.98%	23.84%	9.76%	5.29%	28.67%			7.46%		100%

**Definition of 956:** This team supports the accounting software.

**Scada (968)** – Enterprise charges for the SCADA group are being allocated based on 12 months of the prior year of hours worked in JIRA. The costs are invoiced based on the following percentages:

	MDUR	MDU/GP	CNG	IMG	WBIE	WBIT	WBIM	KRC	CSG	Total
12-month work load		444	438	528		2,707				4,117
% of 12 mon work load		10.78%	10.64%	12.83%		65.75%				100%

**Definition of 968:** This team supports the gas SCADA systems.

**Governance (982)** – Costs for the governance and administration group are invoiced based on a weighting of the combined methodologies of the eight previous EIT responsibilities.

	MDUR	MDU/GP	CNG	IGC	WBIE	WBIT	WBIM	KRC	CSG	Total
2019 % of Total Governance & Administration	15.73%	22.88%	9.23%	10.66%	3.24%	7.76%	0.44%	18.66%	11.40%	100%

# Cost Allocation Manual

## Exhibit V- Utility Operations Support Allocation Methodology

### Leadership Group:

**President & CEO (985)** – The payroll allocations will be based on average Utility Group customer and employee counts for the President & CEO and Executive Assistant.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Customer Counts</b>	118,169	245,530	293,376	365,744	1,022,819
<b>% of Factor – 50%</b>	5.75%	12.03%	14.34%	17.88%	50%
<b>Utility Group Employee Counts</b>	431	573	338	242	1,584
<b>% of Factor – 50%</b>	13.60%	18.10%	10.65%	7.65%	50%
<b>Total weighted allocation factor</b>	19.4%	30.1%	25.0%	25.5%	100%

**Executive Vice President of Business Development & Gas Supply (701)** – The payroll allocations will be based on Utility Group customer counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Customer Counts</b>	11.5%	24.0%	28.7%	35.8%	100%

**Vice President of Safety, Process Improvement & Operations Systems (707)** – The payroll allocations will be based on Utility Group meter counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Meter Counts</b>	13.4%	27.1%	26.5%	33.0%	100%

**Executive Vice President of Regulatory Affairs, Customer Service & Administration (919)** – The payroll allocations will be based on meter counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Meter Counts</b>	13.4%	27.1%	26.5%	33.0%	100%

**Vice President of Operations & Engineering Service (960)** – The payroll allocations will be based on Utility Group customer counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Customer Counts</b>	11.5%	24.0%	28.7%	35.8%	100%

# Cost Allocation Manual

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## **Customer Service Group:**

The Customer Service group is made up of four distinct areas and provides service to all four brands within the MDU Utility Group. Those areas are Credit and Collections, Scheduling, Customer Service, and Customer Programs and Support. In addition to these departments, the Customer Service group has a management team, Consumer Specialists, and other administrative positions. Customer Service payroll costs are allocated using five (5) different methodologies: Customer Count, Customer Call Time, Cleared Order Count, Credit To-Dos, and Emails and Web Requests. Costs other than payroll will be allocated based on customer count if they provide benefit for all brands. Costs specific to a brand will be charged directly to that brand and will not go through an allocation process.

### ***Customer Count***

- Based on the average customer count of each utility brand from December to November.
- Uses a customer weighting of 1 for each natural gas or electric only customer and 1.25 for each electric/natural gas combination customer.
- The following positions will be allocated based on customer count ***with nonutility***:
  - Customer Service Director
  - Manager, Customer Service
  - Supervisor, Customer Service
  - Customer Service Trainer
  - Customer Service Team Lead (Support)
- The following positions will be allocated based on customer count ***without nonutility***:
  - Administrative Assistant
  - Customer Service Team Lead (Credit)
  - Customer Project Analyst I and II
  - Supervisor, Scheduling & Customer Support
  - Manager, Customer Service & Credit
  - Customer Communications Coordinator
  - Supervisor, Credit & Collections
  - Manager, Scheduling, Support, Prgm
  - Scheduling Analyst
  - Scheduling Lead

### ***Customer Call Time***

- Based on the total time that Customer Service Agents are handling a call.
  - Includes total talk time and after call work
  - Does not include idle time or auxiliary time
- Uses data for the preceding December to November of each year.
- The following positions will be allocated based on customer call time:
  - Customer Service Rep I, II, III, IV, and IV PT
- ***Cleared Order Count***
  - Based on the number of work orders cleared through the work assignment management system for each brand.
  - Uses data for the preceding December to November of each year.
  - The following positions will be allocated based on cleared order count:
    - Scheduler
- ***Credit To-Do's***
  - Based on three types of completed To-Do's;
    - accounts up for severance

# Cost Allocation Manual

- closed accounts pending write-off
  - broken payment plans
- Uses data for the preceding December to November of each year.
- The following positions will be allocated based on credit to-do's:
  - Credit & Collections Rep I, II, and III
  - Credit Support Rep
  
- **E-mails and web requests**
  - Based on e-mails that include direct inquiries from customers, follow up requests from a CSR phone call, or e-mails generated by the web applications requiring account maintenance.
  - Uses data for the preceding December to November of each year.
  - The following positions will be allocated based on e-mails
    - Customer Support Rep I, II, and III

	MDU Elect	MDU/GP Gas	MDU Nonutility	CNG	IGC	Total
Customer Counts	11.82%	24.51%	.74%	28.1%	34.83%	100%
Customer Counts	12.06%	25.01%	-	28.1%	34.83%	100%
Customer Call Time	12.49%	25.9%	-	27.9%	33.71%	100%
Cleared Order Count	10.48%	21.91%	-	35.88%	31.73%	100%
Credit To-Dos	15.53%	32.21%	-	19.63%	32.63%	100%
Emails	10.05%	20.85%	-	30.92%	38.18%	100%

## **Operations & Engineering Services Group:**

### **Process Improvement & Operations Tech (Dept 703)**

The payroll allocations will be based on the Utility Group employee counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
Utility Group Employee Counts	27.2%	36.2%	21.3%	15.3%	100%

### **Quality Control (Dept 730)**

The Quality Control department provides oversight and post work review of both maintenance and construction work that is performed by both utility group employees and our contractors. The payroll allocations will be based on time studies.

### **Engineering Services (Dept 769)**

The Engineering Services department duties include gas modeling, working with district personnel, engineering design of capital projects, creation of cost estimates, creation of design and work plans, budget planning, etc. The payroll allocations will be based on time studies.

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## Construction Services (Dept 863)

The Construction Services (CS) department provides construction management and inspection for large and high-pressure projects, as well as for projects generated by TIMP, DIMP, and MAOP Validation Plans. CS creates and manages programs and procedures for welding and fusion programs. Fabrication standards and a majority of fabrication are done by CS. The payroll allocations will be based on time studies.

## Operation Systems (Dept 864)

This department supports Operations compliance systems as well as supporting other systems that Operations and Engineering utilize. The group not only supports these efforts but also works as a liaison group between the business and enterprise information technology (EIT). The payroll allocations will be based on time studies. Costs specific to a brand will be charged directly to that brand and will not go through an allocation process.

## System Integrity (Dept 865)

The System Integrity department is responsible for the Utilities Distribution and Transmission Integrity Management Programs, Integrity Projects, Cascade's MAOP Validation Project, and Corrosion Control. The payroll allocations will be based on time studies.

## Safety Management System & Quality Assurance (Dept 866)

The Safety Management System and Quality Assurance (SMS/QA) department is responsible for the implementation of the utility group's safety management system. The team is responsible for reviewing, documenting, and developing processes to ensure compliance with the industry recommend practice 1173. Key objectives of our current plan include the development of an operational risk management program, SMS/QA program oversight and metrics, and completion of risk-based process audits. The payroll allocations will be based on Utility Group gas customer count.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Gas Customer Counts</b>	-	31.2%	30.6%	38.2%	100%

## Operations Policies & Procedures (Dept 923)

This department is responsible for aligning new Utility Group procedures as well as maintaining all previous company specific procedures. Each company was and is required to have and maintain these procedures per federal code 192. The payroll allocations will be based on an equal share across the gas segments.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Allocation %</b>	-	34.0%	33.0%	33.0%	100%

## Operation Services (Dept 958)

The Operation Services department provides compliance, damage prevention, and public awareness across the Utility Group. The payroll allocations will be based on time studies.

# Cost Allocation Manual

## **Information Technology and Communications Group:**

### **Enterprise Network & Telecommunications (Dept 721)**

This department processes bill payment files, provides scheduled and Ad Hoc reporting, and monitors nightly batch file updates. The payroll allocations will be based on Utility Group Capitalization Factor.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Capitalization Factor</b>	34.3%	23.7%	25.2%	16.8%	100%

### **Enterprise Management, Enterprise Development and Integration, Field Automation (Dept 723, 926, 964)**

These teams support business and technical functions that are common to all brands. Provides support to the business through data requests and augments the system by developing programs and technical solutions to accommodate business and field needs as well as regulatory requirements. The payroll allocations will be based on Utility Group meter counts.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Meter Counts</b>	13.4%	27.1%	26.5%	33.0%	100%

### **Enterprise GIS (Dept 951)**

This department provides gas, electric and fiber pipeline and facilities mapping services for the Utility Group. The payroll allocations will be based on Utility Group meter counts or time studies.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Meter Counts</b>	13.4%	27.1%	26.5%	33.0%	100%

### **Environmental (Dept 889)**

The Environmental Department provides environmental regulatory compliance guidance and assistance to MDU Utilities Group facilities and operations in accordance with the company environmental policy: The Company will operate efficiently to meet the needs of the present without compromising the ability of future generations to meet their own needs. Our environmental goals are:

- To minimize waste and maximize resources.
- To support environmental laws and regulations that are based on sound science and cost-effective technology; and
- To comply with or exceed all applicable environmental laws, regulations and permit requirements.

The payroll allocations will be based on time studies.

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## Safety & Technical Training (Dept 720, 901)

The Safety and Technical Training department provides oversight for all things safety and technical training for the entire utility group. The payroll allocations will be based on Utility Group or Montana-Dakota employee counts or time studies, depending on the employee's job functions.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Employee Counts</b>	27.2%	36.2%	21.3%	15.3%	100%
<b>Montana-Dakota Utilities Employee Counts</b>	42.9%	57.1%	-	-	100%

## Business Development (Dept 918)

The payroll allocations will be based on time studies.

## Gas Supply (Dept 931, 933)

The payroll allocations will be based on two methodologies: Utility Group meter count and time studies. There are employees focused on Montana-Dakota Utilities functions, which will be allocated 100% to Montana-Dakota Utilities gas segment.

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
<b>Utility Group Meter Counts</b>	-	40.5%	26.5%	33.0%	100%

## Utility Group Controller (Dept 941)

The Controller Department provides various accounting services to the Utility Group: Fixed Assets Accounting, Revenue Accounting, Internal Controls Coordination, and Management. The payroll allocations are based on these methodologies: Utility Group customer count, Utility Group meter count, number of employees, Montana-Dakota customer factor, Utility Group corporate factor, Montana-Dakota corporate factor, and specific shared services methodologies.

- **Utility Group customer count**
  - The following positions will be allocated based on Utility Group customer count based on job duties/functions:
    - Business Analyst I and II (Revenue Accounting)
- **Utility Group meter count**
  - The following positions will be allocated based on Utility Group meter count based on job duties/functions:
    - Business Analyst II and Sr. (Customer Accounting)
- **Number of employees**
  - The following positions will be allocated based on number of employees under their supervision:
    - Controller – Utility Group
    - Director, Finance
    - Manager, Revenue Administration
- **Montana-Dakota customer factor**
  - The following positions will be allocated based on MDU customer factor
    - Financial Analyst I, II (Revenue Accounting)
    - Financial Specialist (Revenue Accounting)
    - Financial Technician (Revenue Accounting)
    - Manager, Revenue Accounting

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- **Utility Group corporate factor**
  - The following position will be allocated based on Utility Group corporate factor
    - Internal Controls Coordinator
- **Montana-Dakota corporate factor**
  - The following positions will be allocated based on MDU corporate factor
    - Financial Analyst I, II, III, IV (Gen Acctg, Reporting & Planning)
    - Financial Systems Analyst (Gen Acctg)
    - Financial Technician (Gen Acctg)
    - Manager, Accounting & Finance
    - Manager, Financial Reporting & Planning
    - Manager, General Accounting

	MDU Elect	MDU/GP Gas	CNG	IGC	Total
Utility Group Customer Counts	11.5%	24.1%	28.7%	35.7%	100%
Utility Group Meter Counts	13.4%	27.1%	26.5%	33.0%	100%
Number of Employees: Controller*	34.75%	24.0%	22.5%	18.75%	100%
Number of Employees: Director, Finance*	32.4%	22.4%	25.8%	19.4%	100%
Number of Employees: Manager, Revenue Administration**	19.1%	39.4%	22.0%	19.5%	100%
Montana-Dakota Customer Factor	32.6%	67.4%	-	-	100%
Utility Group Corporate Factor	34.4%	23.6%	25.1%	16.9%	100%
Montana-Dakota Corporate Factor	59.2%	40.8%	-	-	100%

\* MDU electric/gas split is based on the MDU Corporate Factor.

\*\* MDU electric/gas split is based on the MDU Customer Factor.

- **Utility Group Fixed Assets Accounting methodology**
  - The following positions will be allocated based on time study:
    - Financial Analyst I, II, III, IV (Fixed Assets Accounting)
    - Supervisor, Fixed Assets Accounting
    - Manager, Fixed Assets Accounting

Costs for the Financial Analysts in the MDU Utility Group Fixed Asset Accounting group are invoiced based upon three separate methodologies based on the three major types of work performed in the department. The three major work types of work are:

1. Capital Expenditure Support (21.5% of workload)-Allocated to capital overhead (ES/GA) accounts based on 3-year average of capital expenditures.
2. Fixed Asset Life Cycle Support (63.5% of workload)-Allocated to capital overhead (ES/GA) accounts based on 3-year average of capital work orders weighted by a difficulty factor.
3. All Other Fixed Asset Accounting (15.0% of workload)-Allocated to expense (O&M) accounts based on estimate of time spent on non-project related tasks (Depreciation, ARO, Data Requests, etc.).



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	MDUR*	MDU	WBIE**	KRC**	CSG**	CNG	IGC	Total
3-Year Average Capital Expenditures (Millions)		249.4				50.6	38.6	338.6
% of 3-Year Average Capital Expenditures		73.66%				14.94%	11.40%	100.00%
Capital Expenditure Support-21.5% Weight		15.84%				3.21%	2.45%	21.50%
3-Year Average Capital Work Orders		1,930				1,949	862	4,741
Difficulty Factor		68.29%				25.00%	25.00%	
Weighted % of 3-Year Average Capital WO's		65.22%				24.11%	10.67%	100.00%
Fixed Asset Life Cycle Support-63.5% Weight		41.41%				15.31%	6.78%	63.50%
% of Non-Project Related Task Time		62.64%				18.68%	18.68%	100.00%
All Other Fixed Asset Accounting-15% Weight		9.40%				2.80%	2.80%	15.00%
<b>Totals</b>		<b>66.65%</b>				<b>21.32%</b>	<b>12.03%</b>	<b>100.00%</b>
Total Allocated to ES/GA		57.25%				18.52%	9.23%	85.00%
Total Allocated to O&M		9.40%				2.80%	2.80%	15.00%

\* Time devoted to CHCC companies deemed immaterial and is included in MDU amounts.

\*\* No service provided to WBIE, CSG or CSG

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Costs for the Manager of the Utility Group Fixed Asset Accounting group are invoiced based upon the company workload split of the “Other Fixed Asset Accounting” time spent by the Lead Financial Analyst in charge of depreciation, ARO’s, data requests, etc. No portion of these costs is allocated to capital overhead (ES/GA) as they are deemed to be non-direct construction support costs.

	MDUR*	MDU	WBIE**	KRC**	CSG**	CNG	IGC	Total
Other Fixed Asset Acct. Workload of Lead Non-Project Support F/A		50.00%				10.00%	10.00%	70.00%
% Allocation of UGFA Manager Costs to O&M		71.42%				14.29%	14.29%	100.00%
<b>Totals</b>		<b>71.42%</b>				<b>14.29%</b>	<b>14.29%</b>	<b>100.00%</b>

\* Time devoted to CHCC companies deemed immaterial and is included in MDU amounts.

\*\* No service provided to WBIE, CSG or CSG

- **Utility Group Payment Processing methodology**
  - Payment Processor (Revenue Accounting)
  - Payment Processor, Lead (Revenue Accounting)

Payment Processing has been allocated by utility brand based on the number of customer payments posted to utility accounts in the 12 month period ending June 30, 2018.

	CNG	IGC	MDU/GPNG	Total
# of Payments Processed	957,174	1,057,909	1,876,189	3,891,272
% of Payments Processed by Brand	24.6%	27.2%	48.2%	100%

# Cost Allocation Manual

## Exhibit VI- Utility Operations Allocation Factors

Cascade Natural Gas Corporation State Allocation Formulas 2018			
	Washington	Oregon	Total
Customers	74.30%	25.70%	100.00%
Employees	73.72%	26.28%	100.00%
Gross Plant	77.49%	22.51%	100.00%
3-Factor Formula	75.17%	24.83%	100.00%
Rate Base Ratio	75.54%	24.46%	100.00%

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Cascade Natural Gas Corporation				
Average No. of Employees				
2018				
Source: Customers Per Employee report		Washington District	Oregon District	
	Mo-Yr	Employees (1)	Employees (1)	
	Dec-17	172	62	
	Jan-18	173	62	
	Feb-18	173	60	
	Mar-18	173	60	
	Apr-18	172	60	
	May-18	172	59	
	Jun-18	179	62	
	Jul-18	179	63	
	Aug-18	177	63	
	Sep-18	169	63	
	Oct-18	170	63	
	Nov-18	176	65	
	Dec-18	174	65	
		2,259	807	
Average of Monthly Averages		174	62	236
	Percentage	73.72%	26.28%	100.00%
(1) Excludes Interstate employees				

# Cost Allocation Manual

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Cascade Natural Gas Corporation Gross Plant Percentage 2018			
	Washington Incl. CCNC	Oregon Incl. CCNC	Total
Avg. of Mo. Avg.s	780,275,999	226,716,210	1,006,992,209
Percentage	77.49%	22.51%	100.00%



# Cost Allocation Manual

Cascade Natural Gas Corporation  
Rate Base Ratio  
2018

The following percentages are used for allocating interest on debt:

	2018 Average Rate Base	Plant Formula
Washington	302,980,258	75.54%
Oregon	98,079,245	24.46%
	401,059,503	100.00%



