



e-FILING REPORT COVER SHEET

COMPANY NAME: Cascade Natural Gas Corporation

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION? No Yes If yes, submit a redacted public version (or a cover letter) by email. Submit the confidential information as directed in OAR 860-001-0070 or the terms of an applicable protective order.

Select report type: RE (Electric) RG (Gas) RW (Water) RT (Telecommunications)
 RO (Other, for example, industry safety information)

Did you previously file a similar report? No Yes, report docket number: RG-44

Report is required by: OAR 860-027-0100 and 860-027-0048(6)

Statute

Order

Note: A one-time submission required by an order is a compliance filing and not a report (file compliance in the applicable docket)

Other

(For example, federal regulations, or requested by Staff)

Is this report associated with a specific docket/case? No Yes, docket number: RG-44(7)

List Key Words for this report. We use these to improve search results.

Spring Earnings Review - Statement of Operations

Send the completed Cover Sheet and the Report in an email addressed to PUC.FilingCenter@state.or.us

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8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166
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May 23, 2019

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

Attn: Filing Center

RE: RG-44(7), Cascade Natural Gas Corporation's 2018 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 2018 Affiliated Interest Report and its Cost Allocation Manual.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Parvinen", is written over a light blue rectangular background.

Michael Parvinen
Director, Regulatory Affairs

Enclosures

In the Community to Serve®

CASCADE NATURAL GAS CORPORATION

Affiliated Interest Report for the Calendar Year 2018

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, 2018.

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. 2018 Annual Report.

Construction Materials and Contracting	
Year ended December 31,	2018
Income statement data (Dollars in thousands)	
Operating revenues	\$1,925,185
Intersegment revenues	669
Total Revenue	\$1,925,854
Operating expenses:	
Operation and maintenance	1,679,270
Depreciation, depletion and amortization	61,158
Taxes, other than income	44,000
Total operating expenses	1,784,428
Operating income	141,426
Earnings (Loss) from Equity Method Investments	4
Other Income (Expense)	(139)
Interest expense	17,290
Income (loss) before taxes	121,004
Income taxes	28,357
Earnings (loss) on common stock	\$92,647

Construction Materials and Contracting	
Year ended December 31,	2018
Balance sheet data (000's)	
Property, plant and equipment	\$1,768,006
Less accumulated depreciation, depletion and amortization	967,588
Net property, plant and equipment	800,418
Other assets	707,614
Total identifiable assets	\$1,508,032

MDU Resources Group, Inc. / Montana-Dakota Utilities Co.

Year ended December 31,	2018
Balance sheet data (000's)	
ASSETS	
Current assets:	
Cash and cash equivalents	\$2,271
Receivables, net	92,724
Accounts rec from subsidiaries	36,015
Inventories	13,293
Prepayments and other current assets	14,488
	158,791
Investments	76,202
Investments in subsidiaries	1,790,886
Property, plant and equipment	2,846,715
Less accumulated depreciation, depletion And amortization	836,735
Net property, plant and equipment	2,009,980
Deferred charges and other assets	
Goodwill	4,812
Other	180,473
Total deferred charges and other assets	185,285
Total identifiable assets	\$4,221,144
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Long-term debt due within one year	\$ 200,711
Accounts payable	50,051
Accts pay to subsidiaries	12,438
Taxes payable	24,704
Dividends payable	39,695
Accrued compensation	14,346
Other accrued liabilities	54,099
	396,044
Long-term debt	586,012
Deferred credits and other liabilities:	
Deferred income taxes	165,122
Other	507,191
Total deferred credits and other liabilities	672,313
Stockholders' equity:	
Preferred stocks	-
Common stock	195,565
Other paid-in capital	1,248,576
Retained earnings	1,163,602

Accumulated other comprehensive loss	(38,342)
Treasury stock at cost – 538,921 shares	(3,626)
Total stockholders' equity:	2,566,775
Total liabilities and stockholders' equity	\$4,221,144

Year ended December 31,	2018
Income statement data (000's)	
Operating revenues	\$628,331
Operating expenses	540,125
Operating income	88,206
Other income	1,504
Interest expense	32,761
Income (loss) before taxes	56,949
Income taxes	(4,259)
Dividends declared on preferred stocks	
Net Income	58,208

Intermountain Gas Company

Year ended December 31,	2018
Balance sheet data (000's)	
Property, plant and equipment	\$710,663
Less accumulated depreciation, depletion and amortization	263,797
	446,866
Deferred charges and other assets:	12,019
Total identifiable assets	\$458,885

Year ended December 31,	2018
Income statement data (000's)	
Operating revenues	\$243,204
Operating expenses:	
Purchased natural gas sold	137,070
Operations	51,436
Depreciation and amortization	20,553
Taxes other than income	11,051
Total operating expenses	220,110

Operating income	23,094
Other income (loss)	(723)
Interest expense	4,884
Income (loss) before taxes	17,487
Income taxes	3,369
Net Income	\$14,118

Centennial Holdings Capital LLC

Year ended December 31,	2018
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Balance sheet data

Property, plant and equipment	\$28,108,746
Less accumulated depreciation, depletion And amortization	10,210,118
	17,898,628
Non current investments	
Deferred tax asset	356,351
Total identifiable assets	\$18,254,979

Year ended December 31,	2018
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Income statement data (000's)

Operating revenues	\$11,259,305
Operating expenses:	
Operations	8,970,621
Depreciation	1,954,411
Taxes other than income	107,814
Gain on disp. of property	-
Loss on disp. of property	137,277
Total operating expenses	11,170,122
Operating income	89,183
Interest income	1,630,981
Other income	190,577
Income (loss) before taxes	1,529,587
Income taxes	622,885
Net Income	\$906,701

II. Service Payments by Cascade to an Affiliate

MDU Resources Group, Inc.			
Account	Description	Total Company	Total Oregon
	MDU/MDUR Consulting-Cap Exp	\$ 905,672.23	227,776.57
426.1	Donations	\$ 97,646.56	24,558.12
426.2	Life Insurance	\$ 341,549.90	85,899.80
426.4	Political Activities	\$ 163,612.54	41,148.55
813	Other Gas Supply Expenses	\$ 140,750.24	35,398.69
870	Operation Supervision and Engineering	\$ 37,773.49	9,500.04
875	Measuring & Regulating Station Expenses General	\$ 100,805.64	25,352.62
880	Other Expenses	\$ 330,627.73	83,152.92
885	Maintenance Supervision and Engineering	\$ 5,315.24	1,336.79
887.1	Pipeline Integrity	\$ 279.46	70.31
894	Maintenance of Other Equipment	\$ 1,909.97	480.36
901	Supervision	\$ 42,213.43	10,616.63
902	Meter Reading Expenses	\$ 221,386.78	55,678.83
903	Customer Records & Collection Expenses	\$ 525,8124.18	1,322,418.30
904	Uncollectible Accounts	\$ 866,122.01	171,038.07
909	Informational & Instructional Advertising Expenses	\$ 11,361.99	2,857.54
910	Miscellaneous customer service and informational expenses	\$ 169,614.20	42,658.00
913	Promotional Advertising	\$ 2.50	0.63
920	Administrative & General Salaries	\$ 5,598,734.83	1,408,081.66
921	Office Supplies & Expenses	\$ 3,172,648.34	797,921.08
922	Administrative Expenses Transferred Credit	\$ (162,833.95)	(40,952.78)
923	Outside Services Employed	\$ 379,208.74	95,371.02
925	Injuries & Damages	\$ 2,173.28	546.60
926	Employee Pensions & Benefits	\$ 24,637.99	6,196.41
930.1	General Advertising Expenses	\$ 24,239.81	6,096.31
930.2	Misc. General Expenses	\$ 548,180.69	137,867.42

931	Rents	\$ 332,788.16	83,696.26
932	Maintenance of general plant	\$ 985.61	247.88
	Other Svc (Intercompany)	\$ 1,583,934.03	502,882.01
	Grand Total	\$ 20,199,465.62	\$ 5,137,896.64

Affiliate/Subsidiary	Description	Total Company	Total Oregon
Future Source Capital Corp.	921 Office Supplies & Expenses	\$13,695.67	\$3,444.46
Knife River Corporation	931 Rent/Various Tariff Distribution	\$157,373.54	\$157,373.54
Montana-Dakota Utilities Co.	Various Intercompany Services	\$16,328,713.24	\$4,106,671.38
Intermountain Gas Company	Various Intercompany Services	\$1,695,537.12	\$426,427.59
Centennial Holdings Capital LLC	928 Injuries & Damages	\$1,430,595.60	\$359,794.79

SERVICE PAYMENTS BY THE AFFILIATE TO THE UTILITY			
Name	Description	Total Company	Total Oregon
Knife River Corporation	887 Maint. Of Mains	\$ 17,730.78	\$ 17,730.78

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 2018, and no affiliate loaned Cascade money in 2018.

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

**2018 Affiliated Interest Report
Attachments**

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Cascade Natural Gas Corporation

Primary Address

8113 West Grandridge Boulevard
Kennewick, Washington 99336-7166

Directors

	<u>Title</u>
David L. Goodin	Director
Nicole A. Kivisto	Director
Daniel S. Kuntz	Director
Jason L. Vollmer	Director

Officers

	<u>Title</u>
Mark A. Chiles	Vice President - Regulatory Affairs and Customer Service
Patrick C. Darras	Vice President – Engineering and Operations Services
Hart Gilchrist	Vice President – Safety, Process Improvement and Operations Technology
David L. Goodin	Chair of the Board
Anne M. Jones	Vice President - Human Resources
Nicole A. Kivisto	President and Chief Executive Officer
Julie A. Krenz	Assistant Secretary
Daniel S. Kuntz	General Counsel and Secretary
Karl A. Liepitz	Assistant Secretary
Margaret (Peggy) A. Link	Chief Information Officer
Scott W. Madison	Executive Vice President - Western Region Operations, Business Development and Strategy
Eric P. Martuscelli	Vice President – Field Operations

Tammy J. Nygard	Controller
Garret Senger	Executive Vice President – Regulatory Affairs, Customer Service and Gas Supply
Jason L. Vollmer	Treasurer

Montana-Dakota Utilities Co.

Primary Address

400 North Fourth Street
Bismarck, North Dakota 58501-4092

Officers

	<u>Title</u>
Mark A. Chiles	Vice President - Customer Service
Patrick C. Darras	Vice President – Engineering and Operations Services
Hart Gilchrist	Vice President – Safety, Process Improvement and Operations Technology
Kirsti B. Hourigan	Assistant Secretary
Anne M. Jones	Vice President - Human Resources
Nicole A. Kivisto	President and Chief Executive Officer
Julie A. Krenz	Assistant Secretary
Daniel S. Kuntz	General Counsel and Secretary
Karl A. Liepitz	Assistant Secretary
Margaret (Peggy) A. Link	Chief Information Officer
Scott W. Madison	Executive Vice President - Business Development and Strategy
Eric P. Martuscelli	Vice President – Field Operations
Tammy J. Nygard	Controller

Garret Senger Executive Vice President – Regulatory Affairs,
Customer Service and Gas Supply

Jay Skabo Vice President – Electric Supply

Committee Members

	<u>Title</u>
David L. Goodin	Managing Committee Chair
Nicole A. Kivisto	Managing Committee Member
Daniel S. Kuntz	Managing Committee Member
Jason L. Vollmer	Managing Committee Member

Intermountain Gas Company

Primary Address
555 South Cole Road
Boise, Idaho 83709

Directors

	<u>Title</u>
David L. Goodin	Director
Nicole A. Kivisto	Director
Daniel S. Kuntz	Director
Jason L. Vollmer	Director

Officers

	<u>Title</u>
Mark A. Chiles	Vice President - Regulatory Affairs and Customer Service
Patrick C. Darras	Vice President – Engineering and Operations Services
Hart Gilchrist	Vice President – Safety, Process Improvement and Operations Technology
David L. Goodin	Chair of the Board

Anne M. Jones	Vice President – Human Resources
Nicole A. Kivisto	President and Chief Executive Officer
Julie A. Krenz	Assistant Secretary
Daniel S. Kuntz	General Counsel and Secretary
Karl A. Liepitz	Assistant Secretary
Margaret (Peggy) A. Link	Chief Information Officer
Scott W. Madison	Executive Vice President - Western Region Operations, Business Development and Strategy
Eric P. Martuscelli	Vice President – Field Operations
Tammy J. Nygard	Controller
Garret Senger	Executive Vice President – Regulatory Affairs, Customer Service and Gas Supply
Jason L. Vollmer	Treasurer

Centennial Holdings Capital LLC

Officers

	<u>Title</u>
David L. Goodin	Chair of the Board, President and Chief Executive Officer
Daniel S. Kuntz	General Counsel and Secretary
Jason L. Vollmer	Vice President and Treasurer

Managers

	<u>Title</u>
David L. Goodin	Manager
Daniel S. Kuntz	Manager
Jason L. Vollmer	Manager

FutureSource Capital Corp.

Primary Address

P.O. Box 5650
Bismarck, North Dakota 58506-5650
1200 West Century Avenue
Bismarck, North Dakota 58503

Directors

	<u>Title</u>
David L. Goodin	Director
Daniel S. Kuntz	Director
Jason L. Vollmer	Director

Officers

	<u>Title</u>
David L. Goodin	Chair of the Board, President and Chief Executive Officer
Julie A. Krenz	Assistant Secretary
Daniel S. Kuntz	General Counsel and Secretary
Jason L. Vollmer	Vice President and Treasurer

Knife River Corporation

Primary Address

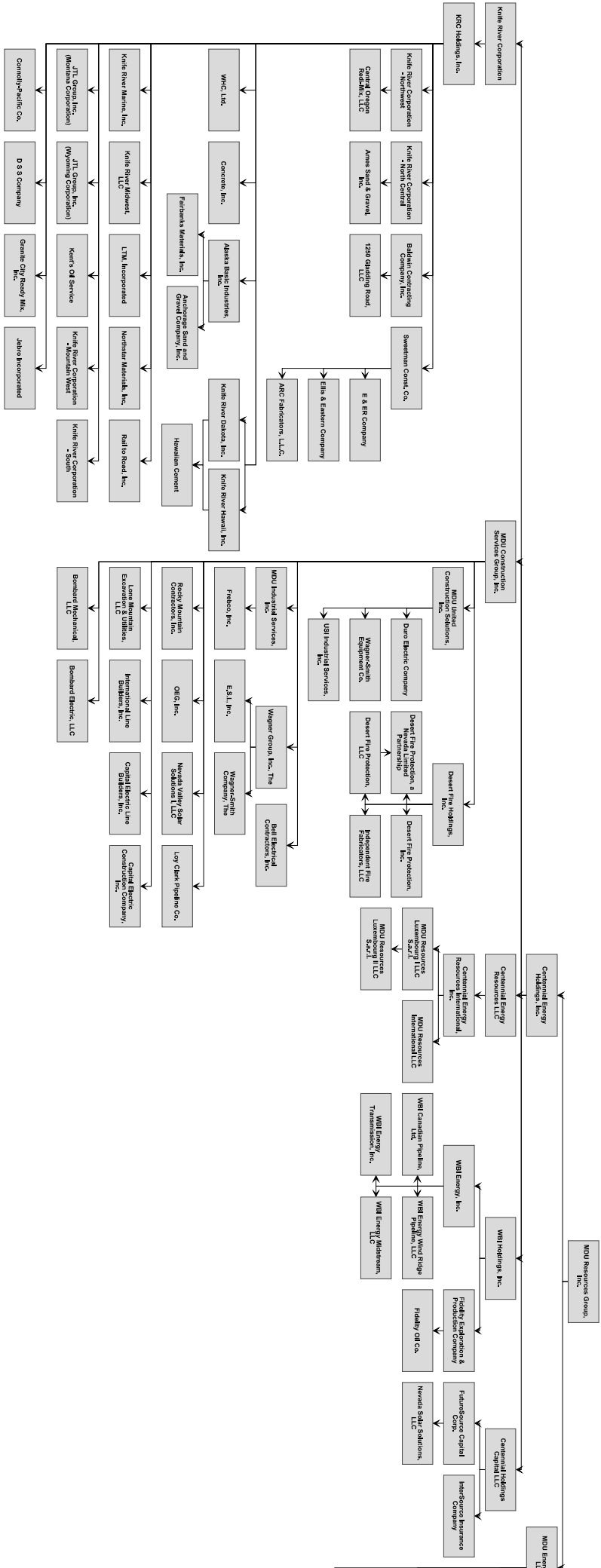
P.O. Box 5568
Bismarck, North Dakota 58506-5568
1150 West Century Avenue
Bismarck, North Dakota 58503

Directors

	<u>Title</u>
David C. Barney	Director
David L. Goodin	Director
Daniel S. Kuntz	Director
Jason L. Vollmer	Director

Officers

	<u>Title</u>
David C. Barney	President and Chief Executive Officer
Nancy K. Christenson	Vice President – Administration and Treasurer
Christopher B. Ford	Chief Accounting Officer
David L. Goodin	Chairman of the Board
Daniel S. Kuntz	General Counsel and Secretary
Karl A Liepitz	Assistant Secretary
Nathan W. Ring	Vice President – Business Development and Operations Support



Cascade Natural Gas

Cost Allocation Manual

2017



In the Community to Serve®

Cost Allocation Manual

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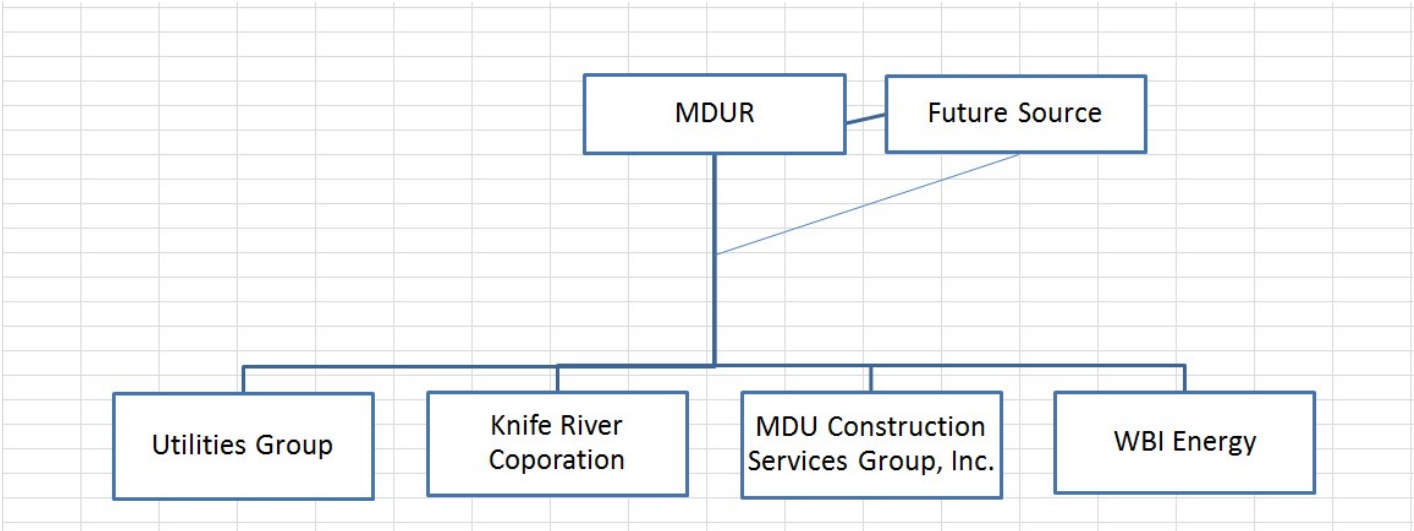
Cost Allocation Manual

Overview

Cascade Natural Gas Corporation (Cascade), a subsidiary of MDU Resources Group, Inc. (MDUR), conducts business in two states with regulated gas distribution operations.

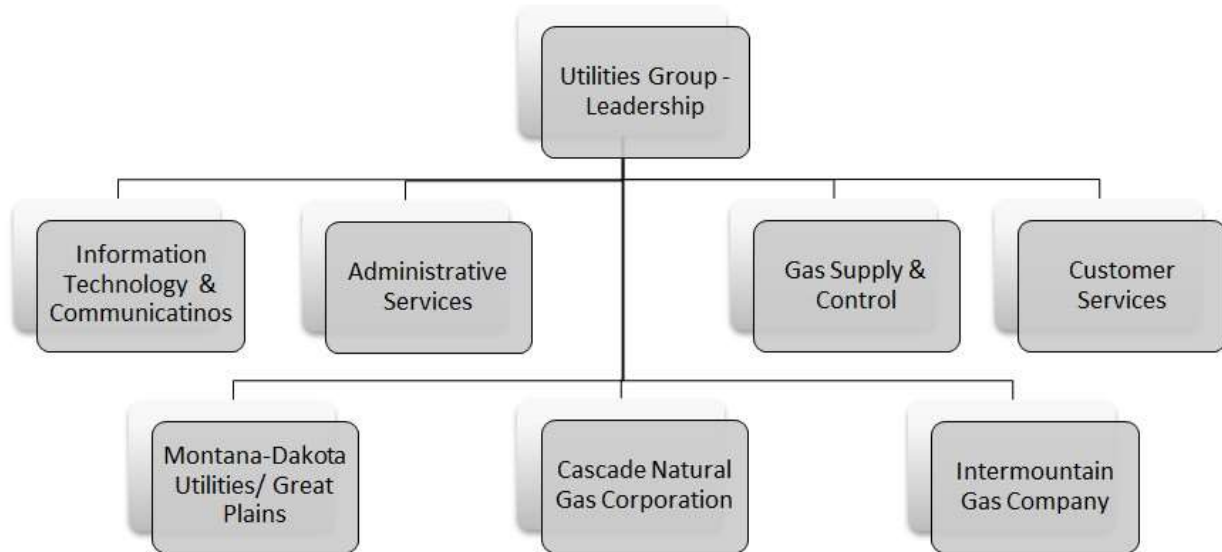
Below is an overview of the operational structure for the purpose of assigning costs. The diagrams presented are intended to provide an overview for cost allocation only and are not intended to represent the legal structure of the Corporation. Note that costs from MDUR and FutureSource are directly assigned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

Corporate Level



Cost Allocation Manual

Utility Group Level



This document is intended to provide an overview of the different types of allocations and the processes employed to direct costs to the proper utility and state jurisdiction for Cascade.

This document will discuss the allocations from:

- MDUR and FutureSource to Cascade Natural Gas
- Montana-Dakota/Great Plains (MDU) and Intermountain Gas Company (IGC) to Cascade Natural Gas
- Cascade to MDU and IGC
- 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, procurement and enterprise technology) and administrative and general departments.

Cost Allocation Manual

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 III)

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 Cascade, the payroll shared services department is also responsible for the accumulation of time entry records and maintenance of employee records. Cascade does not have any departments that provide these payroll related services.

Procurement Shared Services

Procurement Shared Services 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 of the Corporation's operating companies. National accounts, or preferred vendor agreements, typically are negotiated at the corporate level rather than at the local company level. Procurement Shared Services also is responsible for monitoring the level of services, quantities, discounts and rebates associated with established national accounts. Cascade has a single procurement department that places specific purchase requests for materials and services required to conduct business with approved vendors.

Enterprise Technology Service

Enterprise Technology Services (ETS) provides policy guidance, infrastructure related IT functions and security-focused governance. ETS seeks to increase the return on investment in technology through consolidation of common IT systems and services, while eliminating waste and duplication. ETS 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.

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Cascade's IT department consists of Montana-Dakota/Great Plains employees physically located in Kennewick, Washington, Boise, Idaho, and Bismarck, North Dakota. This Department is responsible for supporting applications specific to the utility group such as the Customer Care & Billing System, the JD Edwards financial software, Scada and mobile applications, Enterprise GIS, and PowerPlan which is the project and fixed asset accounting software. In addition the utility group IT department develops business continuity plans in the case of disaster recovery.

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
- Travel
- Treasury services

Cascade receives an allocation of these corporate costs. Corporate Policy No. 50.9 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. 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 is reflected as CNGC 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

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- 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.

The corporate costs allocated to Cascade are subsequently allocated to the state jurisdictions. Corporate costs are recorded in the administrative and general (A&G) function for Cascade. (See state jurisdictional allocation discussion on page 8.)

Montana-Dakota/Great Plains 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. The costs are allocated based on the number of customers served by each utility.

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

Certain Cascade owned assets, such as the portion of the General Office facility used for Shared Services (i.e. Gas Control, IT), located at the utility headquarters in Kennewick, 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

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maintenance costs, depreciation, income tax and property tax expenses. The resulting revenue requirement is billed to the other MDUR operating companies, including MDU and IGC, as a monthly fee. The costs are allocated based on the number of customers served by each utility.

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)
- Information Technology and Communications- (Management Information Systems, Technology and Compliance)
- Administrative Services - (Procurement, Office Services, Fleet Operations)
- Gas Supply & Control

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 IV.

Standard Labor Distributions

Labor/Reimbursable expense allocations

The development of standard labor distributions for Cascade 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.

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

Union Employees

Time tickets are required for productive time. The employee specifies the proper location and FERC account based on work performed. To account for non-productive time, standard payroll labor distributions are established for all

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employees. These standard labor distributions are calculated for union employees based on the historical actual charges.

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 based on an expected ratio of work. 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 periodically.

Cascade Allocations to State Jurisdictions

Cascade 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. The allocation process creates a Journal Entry to the JD Edwards jurisdictional ledgers established by state.

The allocation methodology is as follows:

The JD Edwards (JDE) software is used by Cascade 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 (i.e. gas regulator station), or department (i.e. human resources, engineering).

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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 (2 represents gas) 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. It is the combination of the business unit, 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), 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) 47041 represents the geographic location of the Bend, Oregon District. The Bend District is therefore directly assigned to Oregon for all FERC accounts.

Another example is location 4767000, representing the Credit and Collections Department. The allocation of costs is based on the FERC range of accounts. The location may also be a responsibility, or department. An allocation code is used to split the costs between the states. The most common allocation factor is the 3-factor formula (customer, employee and plant). However, the customer ratio, employee ratio, gross plant ratio, and rate base ratio are also used. See Exhibit II for the allocation factor calculations.

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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
<input checked="" type="radio"/>	00047	47041		2870	29359999	200601	203512	Central OR District	00002	2	00038
<input type="radio"/>	00047	47041		4261	42659999	201208	203512	Bend District-BTL	00002	2	00038
<input type="radio"/>	00047	47041	4081	0	99999999	200601	203512	Central OR District-4081	00002	2	00038
<input type="radio"/>	00047	47041	5981	4261	4261	200902	201207	Central OR District	00002	2	00038
<input type="radio"/>	00047	47041	5984	4263	4263	201111	201207	OR 5984	00002	2	00038

Code 00038 = 100% allocated to Oregon

	*Co	*Location	*Obj Acct	*FERC Sub 1	*FERC Sub 2	*Start Date	Stop Date	Description	Utility Alloc Code	Utility 01	Allocation Code 01
<input checked="" type="radio"/>	00047	4767000		0000	99999	201101	203512	Customer Service Allocated C...	00002	2	00100
<input type="radio"/>	00047	4767000	5211	4264	4264	201101	203512	Labor Rel & Comp	00002	2	00100
<input type="radio"/>	00047	4767000	5984	4263	4263	201108	203512	Corporate 5984	00002	2	00100
	*Co	*Location	*Obj Acct	*FERC Sub 1	*FERC Sub 2	*Start Date	Stop Date	Description	Utility Alloc Code	Utility 01	Allocation Code 01
<input checked="" type="radio"/>	00047	47042		2870	29359999	200601	203512	Pendleton District	00002	2	00038
<input type="radio"/>	00047	47042		4261	42659999	200601	203512	Pendleton District-BTL	00002	2	00038
<input type="radio"/>	00047	47042	4081	0	99999999	200601	203512	Pendleton District-4081	00002	2	00038

Allocation Code 01 Represents the code used to allocate to a Jurisdiction
00038 = Oregon
00048 = Washington
00100 = 3 Factor Formula (customer, employee, plant)
00101 = Customer Ratio
00102 = Employee Ratio
00103 = Gross Plant Ratio

	Co	Juris Alloc Code	Juris Start Date	Juris Stop Date	Description 10	State 01	Percent 01	State 02	Percent 02
<input checked="" type="radio"/>	00047	00100	201501	201512	3 Factor formula -(customer, employee, plant)	OR	24.270000	WA	75.730000
<input type="radio"/>	00047	00101	201501	201512	Customer Ratio	OR	24.940000	WA	75.060000
<input type="radio"/>	00047	00102	201501	201512	Employee Ratio	OR	25.440000	WA	74.560000
<input type="radio"/>	00047	00103	201501	201512	Gross Plant Ratio	OR	22.420000	WA	77.580000
<input type="radio"/>	00047	00104	201501	201512	Rate Base Ratio	OR	23.540000	WA	76.460000

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Exhibit I- MDUR Corporate Overhead factor

MDU Resources Group Inc.

Corp Overhead Alloc Factors Jan-Jun 2017

	MONTANA-DAKOTA ELECTRIC	GAS DIST	CNG	IGC	TOTAL UTILITY	WBI	FIDELITY EXPLOR. & PROD.	WBI NON- REGULATED	KRC	CSG	
Corporate factor	19.8	13.2	13.6	9.4	56.0	7.4	0.0	5.6	22.3	8.7	100.00

Average Capitalization - 12 months ended 09/30/2015 for Corporate Overhead Factors Effective January 1, 2016

	Utility Group	WBI Energy	Knife River	Construction Services	Total
Debt and Equity					
Short-term borrowings	---	6,583,333.33	---	---	6,583,333.33
LTD due within one year	51,215,181.58	43,416,666.66	75,482,018.10	35,014,109.04	205,127,975.38
Long-term debt	944,553,238.29	265,383,037.36	295,332,700.51	75,297,579.08	1,580,566,555.24
Total Debt	995,768,419.87	315,383,037.35	370,814,718.61	110,311,688.12	1,792,277,863.95
Stockholders' equity:					
Preferred stocks	15,000,000.00	---	---	---	15,000,000.00
Common stock	195,212,981.75	---	800,000.00	1,000.00	196,013,981.75
Other paid-in capital	1,654,872,956.62	---	489,889,551.81	134,623,649.93	2,279,386,158.36
Retained earnings	1,492,116,748.63	---	122,708,512.63	93,237,371.98	1,708,062,633.24
Accumulated other comprehensive loss	(40,262,509.76)	---	(23,497,919.69)	(2,496,243.34)	(66,256,672.79)
Treasury stock	(3,625,812.59)	---	(3,625,812.59)	---	(7,251,625.18)
<i>Equity at WBI - Equity components provided in total</i>	---	316,551,619.60	---	---	316,551,619.60
Total common stockholders' equity	3,298,314,364.65	316,551,619.60	586,274,332.16	225,365,778.57	4,426,506,094.98
Total stockholders' equity	3,313,314,364.65	316,551,619.60	586,274,332.16	225,365,778.57	4,441,506,094.98
Total liabilities and stockholders' equity	4,309,082,784.52	631,934,656.95	957,089,050.77	335,677,466.69	6,233,783,958.93
IC investment in subsidiaries	2,280,176,898.63	---	---	---	2,280,176,898.63
Capitalization	2,028,905,885.89	631,934,656.95	957,089,050.77	335,677,466.69	3,953,607,060.30
	51.3%	16.0%	24.2%	8.5%	100.0%

	9/30/2016 Capitalization	Share of Corp. Allocation	Corporate Allocation
Montana-Dakota	1,366,017	58.9%	33.0%
Cascade	565,055	24.3%	13.6%
Intermountain	389,942	16.8%	9.4%
Total Utilities Group	2,321,014	100.0%	56.0%

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Exhibit II- Cascade Allocation Factors

Cascade Natural Gas Corporation CY 2016 Allocation Factors			
Cascade Natural Gas Corporation State Allocation Formulas 2016			
	Washington	Oregon	Total
Customers	74.68%	25.32%	100.00%
Employees	72.99%	27.01%	100.00%
Gross Plant	77.45%	22.55%	100.00%
3-Factor Formula	75.04%	24.96%	100.00%
Rate Base Ratio	77.16%	22.84%	100.00%

Cascade Natural Gas Corporation Average No. of Employees 2016			
Source: Customers Per Employee report	Mo-Yr	Washington District Employees (1)	Oregon District Employees (1)
	Dec-15	171	62
	Jan-16	171	62
	Feb-16	175	66
	Mar-16	180	65
	Apr-16	180	66
	May-16	181	65
	Jun-16	182	64
	Jul-16	191	71
	Aug-16	191	72
	Sep-16	190	73
	Oct-16	189	73
	Nov-16	185	70
	Dec-16	186	67
		2,372	876
Average of Monthly Averages		183	68
Percentage		72.99%	27.01%
			100.00%

(1) Excludes Interstate employees

Cascade Natural Gas Corporation Gross Plant Percentage 2016				Cascade Natural Gas Corporation Average Number of Customers 2016			Cascade Natural Gas Corporation Rate Base Ratio 2016		
Avg. of Mo. Avg.s	Washington Incl. CCNC	Oregon Incl. CCNC	Total	Washington	Average No. of Customers	Percentage	Washington	2016 Average Rate Base	Plant Formula
		677,494,189	197,221,697		874,715,886	Oregon		207,869	74.68%
					70,484	25.32%		78,897,061	22.84%
				Total	278,353	100.00%			
Percentage	77.45%	22.55%	100.00%					345,442,474	100.00%

The following percentages are used for allocating interest on debt:

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Exhibit III- MDUR Shared Services Pricing Methodology

MDU Resources Shared Services

Pricing Methodology - Effective for 2017

Note: MDU Resources' use of Shared Services – MDU Resources costs for each shared services function is charged based 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

\$ 0.50 per check for the next 500 checks

\$ 0.25 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

\$ 0.50 per check for the next 500 checks

\$ 0.25 per check for each additional check

Additionally, there will be a \$4.65 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

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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.

762 –Procurement Shared Services:

Procurement Shared Services costs are invoiced based on five separate factors, all carrying an equal weight of 20%. The factors are:

- Number of Visa Cards as of 8/1/16
- Total Visa Spend for 2015
- National Account Spend for 2015
- Number of Construction Equipment Acquisitions in 2015
- Number of Fleet Acquisitions in 2015

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
# VISA cards	187	1,173	558	1,518	1,288	446	157	5,327
% of VISA cards	3.51%	22.02%	10.47%	28.50%	24.18%	8.37%	2.95%	100%
VISA spend	1,581,487	7,131,765	3,873,021	12,438,266	8,886,906	2,634,527	1,280,514	37,826,486
% of Total VISA spend	4.18%	18.86%	10.24%	32.88%	23.49%	6.96%	3.39%	100%
National Account Spend	1,891,207	17,506,783	8,234,912	95,811,922	28,575,267	7,336,137	4,365,242	163,721,470
% of National Account Spend	1.16%	10.69%	5.03%	58.52%	17.45%	4.48%	2.67%	100%
	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
# Construction Equip	0	53	11	78	34	23	7	206

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Acquisitions								
% of Construction Equip Acquisitions	0.00%	25.73%	5.34%	37.86%	16.50%	11.17%	3.40%	100%
# Fleet Acquisitions	0	70	27	189	146	33	31	496
% of Fleet Acquisitions	0.00%	14.12%	5.44%	38.10%	29.44%	6.65%	6.25%	100%
Total weighted allocation factor	1.77%	18.28%	7.31%	39.17%	22.21%	7.53%	3.73%	100.00%

766 –Time Entry Shared Services:

Service provided 100% to the MDU Utility Group.

Enterprise Technology Services (ETS):

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

Application Services (765) 100% of these costs are based on the corporate factor.

Customer Relations (965) – The enterprise costs associated with customer relations are invoiced based upon the number of devices supported by customer relations. The metric used to determine device counts is devices that have checked into active directory during a 60 day period in the summer of 2016.

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
Device Counts	284	1,181	406	2,007	1,525	469	656	6,528
% of Device Counts	4.35%	18.10%	6.22%	30.74%	23.36%	7.18%	10.05%	100%
Totals	4.35%	18.10%	6.22%	30.74%	23.36%	7.18%	10.05%	100%

Communications & Security (971)

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

1. Wide Area Network/Local Area Network/Metropolitan Area Network- Number of business unit locations (40%)
2. Internet/Firewall Access – Number of user accounts (40%)
3. Security (20%)

The costs are invoiced based on the following percentages:

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
WAN/LAN/MAN	3	55	131	203	59	18	13	482
% of Business Unit Locations	0.62%	11.41%	27.18%	42.12%	12.24%	3.73%	2.70%	100%
Internet Access/Firewall	284	1,181	406	2,007	1,525	469	656	6,528
% of User Accounts	4.35%	18.10%	6.22%	30.74%	23.36%	7.18%	10.05%	100%
Voice	225	571	311	1,435	68	318	308	3,236
% of Handsets	6.95%	17.65%	9.61%	44.34%	2.10%	9.83%	9.52%	100%
Totals	3.38%	15.34%	15.28%	38.01%	14.66%	6.33%	7.00%	100.00%

Operations (972) – Enterprise charges for the operations group are invoiced using two separate factors. 95.9% of the costs are based upon the number of servers that are supported for a particular business unit. These servers are then broken out between full service servers and shared service servers. 4.1% of the costs are for costs specific to the AS/400 are invoiced upon the AS/400 allocation as agreed to by MDU and WBI.

The costs that are based upon the number of servers are based on the following percentages:

1. Full Service Servers- (61.49%)
2. Shared Service Servers – (38.51%)

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	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
Full Service Servers	305	152	35	103	31	0	0	626
% of Full Service Servers	48.72%	24.29%	5.59%	16.45%	4.95%	0.00%	0.00%	100%
Shared Service Servers	18	97	39	52	73	34	79	392
% of Full Service Servers	4.59%	24.75%	9.95%	13.27%	18.62%	8.67%	20.15%	100%
Totals	31.73%	24.45%	7.27%	15.23%	10.22%	3.34%	7.76%	100%

Finance and Administration (982) – Costs for the finance and administration group are invoiced based upon the combined methodologies of the four previously identified ETS groups.

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
% of Total Finance & Administration	18.40%	17.93%	9.50%	26.05%	15.10%	5.34%	7.68%	100%

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Exhibit IV- Utility Operations Support Allocation Methodology

Utility Operations Support Labor Distribution Allocation Methodology

Leadership Group:

- Includes Executive Vice Presidents & Directors
- Oversees all shared, utility specific functions in the following areas:
 - Customer Services
 - Administrative Services
 - Information Technology & Communications
 - Engineering and Operations Procedures
 - Gas Supply and Gas Control
- Allocation methodology:
 - Equal portion allocated to each utility company, or brand
 - For portion allocated to Montana-Dakota/Great Plains, if there is involvement with non-utility work allocate 1% (including 0.25% for Great Plains) to non-utility based on historical estimates, with remainder allocated to gas and electric based on meter count.
 - For portion allocated to Montana-Dakota/Great Plains, if there is no involvement with non-utility work, allocate between gas and electric based on meter count.

Customer Services:

- Director
 - 35% to CNG, 30% to IGC, 35% Montana-Dakota/Great Plains¹ (1% to non-utility) and remainder split between gas and electric meter count.
- Management team
 - Supervisors: Front line supervision for Customer Service Center
 - 30% to CNG, 30% to IGC, 40% Montana-Dakota/Great Plains¹ (2% to non-utility) and remainder allocated to gas and electric based on the estimate of time required to supervise
 - Manager: Customer service
 - 30% CNG, 20% IGC, 50% Montana-Dakota/Great Plains¹ (2% to non-utility) and remainder allocated to gas and electric meter count.
- Credit
 - Responsible for credit and collections for the Utility Group
 - Allocation Methodology
 - Most agents only handle credit activity for one brand, they charge all time to that brand
 - For agents that handle multiple brands, time is charged based on how much time is spent on each brand

¹ Based on estimated time using history

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- For agents that only handle credit activity for Montana-Dakota/Great Plains:
 - Allocated to gas and electric based on meter count

For agents that handle credit for Montana-Dakota/Great Plains and another brand, the portion is allocated to each utility based on average time spent in each utility with the Montana-Dakota/Great Plains portion allocated to gas and electric based on meter count.

- Scheduling
 - Responsible for scheduling field work for employees performing work in the field for the Utility Group
 - Responsible for emergency response 24/7
 - Allocation Methodology:
 - Management team:
 - Manager 20% IGC, 30% CNG, 50% Montana-Dakota/Great Plains¹ allocated to gas and electric based on meter count.
 - Team Leads 25% IGC, 25% CNG, 50% Montana-Dakota/Great Plains¹ allocated to gas and electric based on meter count.
 - For employees that only schedule one brand, charge time to that brand
 - For employees that schedule both IGC and CNG, split time 50/50 based on estimated time required
 - For employees who schedule all brands, split evenly
 - For employees that only schedule Montana-Dakota/Great Plains:
 - Allocated between gas and electric based on meter count
 - For employees that schedule credit for Montana-Dakota/Great Plains and another brand, the portion is allocated to each utility based on the shared utility. The Montana-Dakota/Great Plains allocation is based on the gas and electric meter count.
- Customer Service
 - Responsible for handling all inbound calls during regular operating hours
 - Allocation Methodology:
 - Teams leads and Customer Care Representatives (CCR's) when only responsible for one brand, charge all that time to one brand
 - For employees covering multiple brands, estimates are routinely made for allocations for the pay period
 - For employees responsible for Montana-Dakota/Great Plains:
 - 3% (including 0.5% for Great Plains) is charged to non-utility for credit activity associated with non-utility charges, based on best estimate of time required
 - Remainder is allocated between gas and electric based on meter count

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- For employees responsible for Montana-Dakota/Great Plains and another brand, the portion allocated to non-utility is reduced accordingly to 3% (including 0.5% for Great Plains) of the total associated with Montana-Dakota/Great Plains.
- Customer Programs & Support
 - Responsible for inbound self-service, web help, customer program transactions, and analytical support for the Utility Group
 - Allocation Methodology:
 - Manager
 - 30% IGC, 30% CNG, 40% Montana-Dakota/Great Plains¹ (allocate to gas and electric based on meter count)
 - Based on additional time for Montana-Dakota/Great Plains on social media updates & Credit Dept. responsibilities
 - Supervisor, Team Lead, and Support Staff
 - Equal portion allocated to each brand
 - For portion allocated to Montana-Dakota/Great Plains, if there is involvement with non-utility work allocate 1% (including 0.25% for GPNG) to non-utility, based on historical estimates, with remainder allocated to gas and electric based on meter count.
 - For portion allocated to Montana-Dakota/Great Plains, if there is no involvement with non-utility work, allocated to gas and electric based on meter count.
- Note: Exceptions may be made on an individual basis from these guidelines
 - Employees may be assigned special projects, and allocation methodology may be changed accordingly.
 - Labor allocation may always be made on an actual time spent basis rather than these guidelines.
 - Supervisors may alter these guidelines based on their individual scenario.