

## SERVICE AREA AGREEMENT

This Service Area Agreement ("Agreement") is entered into by and between Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. ("Montana-Dakota"), and Capital Electric Cooperative, Inc. ("Capital Electric") pursuant to Section 49-03-06 of the North Dakota Century Code to encourage harmony and operational efficiency in the provision of electric distribution service in the area within and around the City of Bismarck described herein; to promote safety and discourage unreasonable duplication of electric facilities; to assure adequate and reliable electric service for all consumers within the area of this Agreement; to obtain anti-trust immunity for the terms and conditions of this Agreement; and to provide both parties with equitable participation in the provision of electric distribution service within undeveloped areas annexed to the City of Bismarck during the term of this Agreement.

### RECITALS

Montana-Dakota and Capital Electric are parties to an Area Service Agreement made in 1973 affecting electric service in the City of Bismarck, North Dakota, and contiguous areas (1973 Agreement).

The 1973 Agreement was modified by a letter agreement made in 1993. In 2002, Montana-Dakota gave notice of agreement cancellation for some areas covered by the 1973 Agreement.

Montana-Dakota and Capital Electric have each been granted a franchise to construct, maintain and operate electric distribution systems in the City of Bismarck, North Dakota. Montana-Dakota's current franchise was granted on December 12, 2006, and Capital Electric's current franchise was granted on May 25, 1993.

In 2005, the North Dakota Legislature enacted 2005 NDSL Ch. 394, codified as North Dakota Century Code Section 49-03-06, to authorize "service area agreements" among "electric providers." Montana-Dakota and Capital Electric are "electric providers" as defined under N.D.C.C. 49-03-01.5.

Montana-Dakota and Capital Electric desire to enter into a new service area agreement in compliance with the provisions of N.D.C.C. 49-03-06 to establish service areas and to designate Service Locations to be served by Montana-Dakota and by Capital Electric within the City of Bismarck and the surrounding area and to cancel the 1973 Agreement upon the effectiveness of the new service area agreement.

## AGREEMENT

In an earnest and sincere effort to avoid misunderstanding and disagreement over areas to be served by each party, to accomplish the legislative intent of N.D.C.C. 49-03-06 to encourage harmony and operational efficiency among electric providers, promote safety, discourage unreasonable duplication of electric facilities, assure adequate and reliable electric service, and to provide both parties with equitable participation in the provision of electric distribution service within undeveloped areas annexed to the City of Bismarck during the term of this Agreement, Montana-Dakota and Capital Electric agree to the following:

1. Montana-Dakota should provide electric service in the service areas and to the Service Locations as further stipulated and identified in this Agreement.
2. Capital Electric should provide electric service in the service areas and to the Service Locations as further stipulated and identified in this Agreement.
3. The parties will avoid unreasonable duplication of facilities in order to provide electric service for all consumers efficiently and economically.
4. The service area of Montana-Dakota will be that area illustrated in yellow on the attached map that is incorporated by reference as integral to this Agreement. All Service Locations in Montana-Dakota's service area are designated to be served by Montana-Dakota, except as otherwise provided in this Agreement or in any amendment to this Agreement. Capital Electric will continue to provide electric service to Service Locations it is presently serving within Montana-Dakota's service area and will provide electric service to new Service Locations within Montana-Dakota's service area only under conditions further stipulated in this Agreement.
5. The service area of Capital Electric will be that area illustrated in green on the attached map. All Service Locations in Capital Electric's service area are designated to be served by Capital Electric, except as otherwise provided in this Agreement or in any amendment to this Agreement. Montana-Dakota will continue to provide electric service to Service Locations it is presently serving within Capital Electric's service area and will provide electric service to new Service Locations within Capital Electric's service area only under conditions further stipulated in this Agreement.
6. If any part of the area illustrated in blue on the attached map is annexed to the City of Bismarck during the term of this Agreement, the annexed area will become the expanded service area of Montana-Dakota, provided that Capital Electric will continue to provide electric service to Service Locations within the expanded service area of Montana-Dakota that Capital Electric was serving on the day preceding the effective date of annexation. If Capital Electric is serving a

subdivision having dedicated public use facilities (roads, easements, etc.) to serve multiple lots prior to annexation within the area illustrated in blue on the attached map, said subdivision, or any replat of said subdivision, shall continue to be served by Capital Electric, provided however, such undeveloped lots shall be considered undeveloped potential load growth of Capital Electric for purposes of determining adjustment of blue or white service areas under paragraph 20. Arrows on the attached map illustrate the direction of potential expansion of Montana-Dakota's service areas when areas illustrated in blue become annexed to the City of Bismarck.

7. If any part of the area illustrated in white on the attached map is annexed to the City of Bismarck during the term of this Agreement, the annexed area will become the expanded service area of Capital Electric, provided that Montana-Dakota will continue to provide electric service to Service Locations within the expanded service area of Capital Electric that Montana-Dakota was serving on the day preceding the effective date of annexation. Arrows on the attached map illustrate the direction of potential expansion of Capital Electric's service areas when areas illustrated in white become annexed to the City of Bismarck.
8. Except as otherwise provided in this Agreement or in any amendment to this Agreement, Capital Electric shall not provide retail electric service in Montana-Dakota's service area and Montana-Dakota shall not provide retail electric service in Capital Electric's service area.
9. For purposes of paragraphs 4 and 5 of this Agreement, existing Service Location identification shall be from the books and records of each of the parties as of the date of signing of this Agreement. For purposes of paragraphs 6 and 7 of this Agreement, existing Service Location identification shall be from the books and records of each of the parties as of the day preceding the effective date of annexation. "Service Location" shall mean the structures, facilities, or improvements on a parcel of real property to which electric service may be provided. A Service Location includes expansions, improvements, or additions to the structures, facilities, and other improvements on the property made after the real property is included within a designated service area. A Service Location does not include replacement of single phase family/farm use to: three phase commercial/industrial or three phase high density residential (18 or more units) use; nor does it include replacement of single phase commercial/industrial use to three phase commercial/industrial use of 2 MW or greater of connected load.
10. This Agreement shall apply only to the areas described in this Agreement and shown on the attached map that is incorporated by reference as integral to this Agreement.
11. If either party to this Agreement is requested to provide electric service to a Service Location in the other party's service area, such service may be supplied

on either a temporary or permanent basis only with the written consent of the other party, provided that such individual exception shall not in any way alter the basic intentions of the parties, that each shall not provide electric service to any Service Location in the other party's service area.

12. If an exchange of Service Locations can be agreed upon by both parties, such an exchange can be made. The parties may negotiate to exchange or sell and purchase equipment, plant or facilities located in one another's service areas. To the extent applicable, a sale, exchange, transfer or lease of equipment, plant, or facilities made under this section of this Agreement is subject to N.D.C.C. 49-04-05 and 10-13-08.1.
13. If either party terminates service to a Service Location in the other party's service area, and facilities are not acquired by the other party, such facilities may be abandoned or removed by the party that owns the facilities at its expense.
14. Notwithstanding the generality of other provisions of this Agreement, it is specifically agreed that Montana-Dakota will not continue to serve any Service Locations in Boulder Ridge First Addition to the City of Bismarck, Promontory Point Third and Fourth Additions to the City of Bismarck or Sonnet Heights Addition to the City of Bismarck.
15. This Agreement does not affect Montana-Dakota's or Capital Electric's rights to construct transmission or distribution line facilities or to maintain existing transmission or distribution line facilities in the other party's service area for the purpose of providing adequate electric power in any area it serves.
16. This Service Area Agreement is subject to approval of the North Dakota Public Service Commission and the Bismarck Board of City Commissioners and the continuing jurisdiction of the North Dakota Public Service Commission to settle Service Location disputes arising under the Agreement. Upon execution of the Agreement, it shall be promptly filed with the North Dakota Public Service Commission and the City of Bismarck. Both parties will file written statements with and appear before the North Dakota Public Service Commission and the Bismarck Board of City Commissioners supporting unconditional approval of this Agreement. If this Agreement is disapproved by either the North Dakota Public Service Commission or the Bismarck Board of City Commissioners, or if the Bismarck Board of City Commissioners does not grant franchises consistent with the terms of this Agreement, all before January 31, 2008, this Agreement shall be void ab initio, and the 1973 Agreement as modified in 1993 and 2002 shall remain in force.
17. Substantially concurrent with the filing of this Agreement with the City of Bismarck, the parties shall request the City of Bismarck to issue new 20-year electric utility franchises to each party authorizing service in the service areas

and service locations provided in this Agreement and otherwise consistent with the terms of this Agreement and substantially in the form attached hereto.

18. After the Public Service Commission's approval of this Agreement, in all cases under the provisions of N.D.C.C. Chapter 49-03, when Montana-Dakota applies to the Commission for a certificate of public convenience and necessity to extend its electric service to a Service Location that is within its service area illustrated in yellow on the attached map as provided in this Agreement, including any amendment to the service area illustrated in yellow, Capital Electric shall not object to Montana-Dakota's application.
19. After the Public Service Commission's and the Bismarck Board of City Commissioner's approval of this Agreement, the parties will report to the Public Service Commission and the City of Bismarck any transactions under paragraphs 11 or 12.
20. It is realized that this Agreement will not cover all conditions which may arise, but if followed in good faith by both parties, will serve as a guide to future developments and growth for both parties. The parties shall meet on an annual basis to review the operation of this Agreement and the parties' respective growth in electric service in areas annexed to the City of Bismarck since the effective date of this Agreement. The boundaries of the areas under paragraphs 6 and 7 and illustrated in blue and white on the attached map may be adjusted on an informal basis at any time upon written agreement of the parties so as to provide each party with a reasonable opportunity to serve approximately fifty percent (50%) of the undeveloped potential electric service growth annexed to the City of Bismarck during the term of this Agreement. After the tenth calendar year following the effective date of this Agreement, each party has one opportunity to request a formal review and adjustment of the boundaries of the areas under paragraphs 6 and 7 and illustrated in blue and white on the attached map if the number of new lots annexed by the City of Bismarck within that party's designated service area, but excluding lots served by the other party, since the effective date of this Agreement was less than forty percent (40%) of the total number of new lots annexed by the City of Bismarck during such time period. Upon a proper request, the boundaries of the areas under paragraphs 6 and 7 and illustrated in blue and white on the attached map shall be adjusted to provide both parties a reasonable opportunity to serve approximately fifty percent (50%) of the undeveloped potential load growth annexed to the city during the entire historic and prospective term of this Agreement; provided, however, the party requesting adjustment has the burden of showing it does not have a reasonable opportunity to serve approximately fifty (50%) percent of the undeveloped potential load growth annexed to the City of Bismarck based on the considerations stated below.

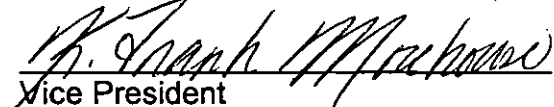
- a. The number of undeveloped lots, including replatted new lots after annexation, annexed to the City of Bismarck within each party's designated service area since the effective date of this Agreement including generally the type (residential, commercial, or industrial) of potential Service Locations and the relative electric load size and characteristics of such potential Service Locations.
- b. Barriers that prevent the expansion of a party's service area under paragraphs 6 or 7 or limit a party's ability to develop Service Locations in the areas illustrated in blue and white on the attached map.
- c. Announced or reasonably anticipated plans for development of new Service Locations in the areas illustrated in blue and white on the attached map during the remaining term of this Agreement, including generally the type of Service Locations and the relative electric load size and characteristics of such Service Locations.
- d. Announced or reasonably anticipated plans for other development within the areas illustrated in blue and white on the attached map that can reasonably be expected to promote or limit the development of new Service Locations within those areas including generally the type of Service Locations and the relative electric load size and characteristics of such Service Locations.

If a party requests adjustment of the boundaries of the areas under paragraphs 6 and 7 and illustrated in blue and white on the attached map and the parties are unable to agree upon such adjustment, a party may request the dispute be submitted to mediation with a mediator mutually agreeable to the parties. If the parties are unable to select a mediator or are unable to resolve the dispute through mediation, the party requesting an adjustment may request the dispute be resolved by arbitration in accordance with the Rules of the American Arbitration Association by a panel of three arbitrators. Within fifteen days of a request for arbitration, each party shall select one person to act as an arbitrator and the two shall select a third neutral arbitrator within ten days of their appointment. If the arbitrators selected by the parties are unable to agree upon the third arbitrator, the third arbitrator shall be selected by the American Arbitration Association. The costs and expenses of any mediation or arbitration shall be borne equally by the parties.

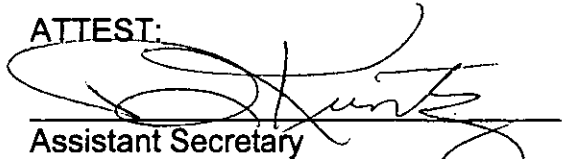
Unless otherwise agreed by the parties, review and adjustment of the boundaries of the areas under paragraphs 6 and 7 and illustrated in blue and white on the attached map shall not affect the boundaries of the service areas under paragraphs 4 and 5 and illustrated in yellow and green on the attached map, including amendment thereof by annexation.

21. This Agreement shall become effective on the first day of the month following approval by the North Dakota Public Service Commission and the Bismarck Board of City Commissioners and shall continue in effect through December 31, 2027. This Agreement shall remain in force after December 31, 2027, until canceled by either party by giving twelve months written notice after December 31, 2026, of such cancellation to the other party and to the North Dakota Public Service Commission and the City of Bismarck.
22. This Agreement, including the attached map that is incorporated by reference as integral to this Agreement, constitutes the parties' entire agreement, and upon approval of the North Dakota Public Service Commission and the Bismarck Board of City Commissioners, this Agreement supersedes the 1973 Agreement as modified in 1993 and 2002. This Agreement is the result of good faith negotiations between the parties, each having equal bargaining status and each having participated in the drafting of this Agreement to express the parties' intentions. Accordingly, each party waives the benefit of any rule of contract interpretation premised on the other party's responsibility for drafting the Agreement or the other party's bargaining status.

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

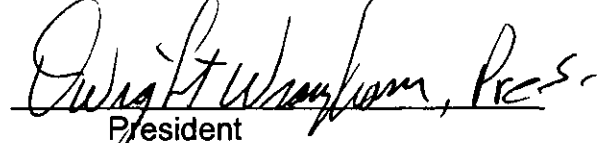
  
Vice President

ATTEST:

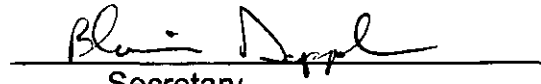
  
Assistant Secretary

Date: NOV 16<sup>TH</sup> 2007

CAPITAL ELECTRIC COOPERATIVE, INC.

  
President

ATTEST:

  
Secretary

Date: NOV 16<sup>th</sup> 2007

