

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

**MONTANA-DAKOTA UTILITIES CO., AND)
GREAT PLAINS NATURAL GAS CO.,)
DIVISIONS OF MDU RESOURCES) CASE NO. PU-08-__
GROUP, INC. ACQUISITION OF)
INTERMOUNTAIN GAS COMPANY)
APPLICATION)**

APPLICATION FOR AUTHORIZATION

I. INTRODUCTION AND SUMMARY

Pursuant to N.D. Century Code § 49-04-06, Montana-Dakota Utilities Co., (“Montana-Dakota”) and Great Plains Natural Gas Co. (“Great Plains”), Divisions of MDU Resources Group, Inc. (“MDU Resources”), request authorization from the North Dakota Public Service Commission (the “Commission”) for the acquisition of the stock of Intermountain Gas Company (“Intermountain”) pursuant to the Stock Purchase Agreement (the “Agreement”) dated July 1, 2008 between MDU Resources and Intermountain Industries Inc. (‘Intermountain Industries’). Approval is required because Montana-Dakota and Great Plains are engaged in public utility operations in North Dakota and Intermountain is engaged in the same or similar business in Idaho.

This acquisition is in the public interest and should be approved. Neither Montana-Dakota’s nor Great Plains’ North Dakota utility operations will be adversely affected by this acquisition. Montana-Dakota’s and Great Plains’ affiliation with a utility in a new and expanding market will strengthen Montana-Dakota’s overall performance. Montana-Dakota and Great Plains respectfully

request approval of the proposed transaction by September 1, 2008 in order to complete the transaction on or about October 1, 2008.

II. THE LEGAL STANDARD FOR REVIEW

N. D. Century Code 49-04-06 governs the Commission's review of this Application. N.D.C.C § 49-04-06 provides a public utility may not acquire the stock of another corporation engaged in the same or a similar business unless authorized by the Commission. The North Dakota Supreme Court has held Commission approval of a transaction controlled by a similar provision governing disposition and merger of works or systems at N.D.C.C § 49-04-05 is mandatory. Fargo Freight Trucking Co. v. North Dakota Public Service Commission, 129 N.W.2d 368 (N.D. 1964). In prior cases, the Commission established the standard for approval does not require an affirmative finding of public benefit, just a finding that the transaction is compatible with the public interest. In Re Minot Telephone Co., Docket No. PU-156-94-11, 1994 WL 135200 at *2 (March 23, 1994). In the Minot Telephone Docket, the Commission found a transfer to be in the public interest in the absence of evidence that "the transfer will be injurious to the rights of the public or adversely affect the utilities." Id.

In this Application, Montana-Dakota and Great Plains will demonstrate the acquisition fully satisfies the test applied in the Minot Telephone Docket. The acquisition is clearly consistent with the public interest. MDU Resources is undertaking this acquisition primarily for strategic, rather than cost-saving reasons. Montana-Dakota's and Great Plains' customers will benefit from this affiliation through the combined utility system. This benefit will be achieved at no

cost to customers and with the potential for some modest cost savings over time through improved efficiencies. Application of the “do not harm” test, therefore, demonstrates the Commission should approve the proposed acquisition.

III. THE PARTIES

Montana-Dakota and Great Plains are Divisions of MDU Resources which is a publicly traded Delaware Corporation with its principal place of business at Bismarck, North Dakota.

Montana-Dakota is an investor-owned gas and electric utility with its headquarters in Bismarck, North Dakota. Its service area includes parts of North Dakota, South Dakota, Wyoming and Montana. Montana-Dakota currently provides natural gas utility service to approximately 235,000 customers in these four states. Montana-Dakota also provides electric utility service to about 122,000 customers in the same states. Montana-Dakota does not own or operate any public utility properties in the state of Idaho.

Great Plains is an investor-owned gas utility with its operational headquarters in Fergus Falls, Minnesota. It is engaged in business as a local natural gas distribution company in 18 communities in Minnesota and in Wahpeton, North Dakota. Great Plains currently provides natural gas utility service to approximately 22,000 customers in North Dakota and Minnesota. Great Plains does not own or operate any public utility properties in the state of Idaho.

Intermountain is a privately owned natural gas utility with its headquarters in Boise, Idaho. It is engaged in business as a local natural gas distribution

company in 74 communities in southern Idaho. Intermountain currently provides natural gas utility service to approximately 302,000 customers with a service territory covering more than 38,000 square miles. Intermountain does not own or operate any public utility properties in North Dakota.

IV. THE TRANSACTION

On July 1, 2008, MDU Resources and Intermountain Industries entered into the Agreement, included as Attachment 1. Pursuant to the Agreement, Intermountain will be a wholly owned subsidiary of MDU Resources, as illustrated in the summary organizational chart included as Attachment 2. This transaction will be accounted for under the "purchase method" of accounting with any amount paid above net book value treated as goodwill. Entering into this Agreement was duly authorized by the Boards of Directors of MDU Resources and Intermountain Industries. Approval by the shareholders of MDU Resources is not required.

The transaction is subject to customary closing conditions, including without limitation, the receipt of all necessary governmental approvals. As provided in Section 4.4 and Exhibit C of the Agreement, state approvals are required from the regulatory commissions in Minnesota and North Dakota. MDU Resources and Intermountain are also submitting a joint notification and informational filing with the Idaho Public Utilities Commission for its review. Closing of the acquisition is expected to occur, upon receipt of the required regulatory approvals, on or after October 1, 2008. The Agreement also contains typical termination clauses including a conditional provision that the transaction

may be terminated if the acquisition is not consummated by December 31, 2008, subject to a qualified extension.

V. THE RESULTING COMPANY

The transaction will strengthen MDU Resources and the utility operations of Montana-Dakota, Great Plains and Intermountain. There will be no adverse effects associated with this acquisition. The following summary shows the effect/lack of effect on Montana-Dakota's, Great Plains', and Intermountain's operations:

| ISSUE | EFFECT |
|-----------------------------|--|
| A. Headquarters | Montana-Dakota's headquarters will remain in North Dakota. Great Plains' operational headquarters will remain in Minnesota. Intermountain's operational headquarters will remain in Idaho. |
| B. Corporate Structure | Montana-Dakota and Great Plains will remain divisions of MDU Resources Group, Inc. Intermountain will be a subsidiary of MDU Resources. Intermountain's management will report to the CEO of Montana-Dakota. |
| C. Employees | Intermountain employees will remain employees of Intermountain. No significant employment changes are expected at Montana-Dakota and none are anticipated at Great Plains. |
| D. Customer Service | No change. Great Plains and Montana-Dakota customers will continue to be served by Great Plains and Montana-Dakota as divisions of MDU Resources. Intermountain's customers will be served by Intermountain employees. No reductions in customer services will occur. Services will be reviewed for opportunities for improved efficiencies and increased customer services. |
| E. Customer Service (cont.) | |
| E. Gas Purchasing | No change. Montana-Dakota's and |

| | |
|--|--|
| | <p>Great Plains' gas supply and control functions will continue to be performed by Montana-Dakota. Intermountain's gas supply and control functions will be performed by Intermountain. Intermountain does not have any common transmission pipeline supply sources with either Montana-Dakota or Great Plains.</p> |
| F. Rates | <p>Great Plains and Intermountain will be allocated costs for services performed by Montana-Dakota and MDU Resources. Cost allocation to Intermountain from MDU Resources, Montana-Dakota or Great Plains for services performed will be subject to review during the normal regulatory process. Similarly, costs allocated to Montana-Dakota or Great Plains from Intermountain for services performed will be subject to regulatory review. There may be a modest decrease in Montana-Dakota's and Great Plains' net revenue requirement if cost efficiencies can be achieved.</p> |
| G. Effect on Cost of Debt and Equity and Capital Structure | <p>The acquisition will have no effect on the capital structure or the cost of capital for ratemaking purposes for Montana-Dakota or Great Plains. The acquisition is not expected to negatively affect the cost of its debt or equity capital. The acquisition is expected to have a positive effect on, but not change, the existing credit rating for MDU Resources.</p> |
| H. Regulatory Relations | <p>No change. Regulatory relations with the Commission will not be affected by the Intermountain acquisition. The Commission will continue to have access to Montana-Dakota regulatory personnel and all books and records regarding Montana-Dakota's and Great Plains' North Dakota operations.</p> |

VI. REASONS FOR TRANSACTION

A. MDU Resources' Reasons for the Transactions.

Intermountain is a growing utility that fits MDU Resources' plan to grow its utility business to take advantage of operational efficiencies and maintain a balance with the successful growth of its non-regulated business units. Intermountain is engaged in the distribution and sale of natural gas to residential, commercial and industrial customers in Idaho which is strategically located in relation to existing utility operations of MDU Resources. Currently, Intermountain provides services to approximately 302,000 customers in service areas similar in size and type to those currently served by MDU Resources. In the last five years, Intermountain's customer base grew at a pace of three to five percent, which is significantly greater than the national average and higher than the growth rate of MDU Resources' historic service areas. MDU Resources believes Intermountain will continue to experience strong customer growth in the future.

Intermountain's management has focused its efforts on maximizing value to customers by providing superior levels of service at a fair price while operating with high regard for industry standards and government regulations. This is the same organizational culture by which MDU Resources conducts its utility operations. Through steady growth and a commitment to quality service, Intermountain has positioned itself as an excellent natural gas distribution company contributing to the overall economic vitality of the State of Idaho.

B. Intermountain Industries' Reasons for the Transaction.

Intermountain Industries concluded the size of Intermountain in relation to the industry, given the continuing consolidation within the natural gas distribution industry, made the transaction advisable. Intermountain believes MDU Resources will continue Intermountain's history and commitment to providing safe and reliable service to its utility customers along with the continued commitment to be a strong corporate citizen in the communities which Intermountain serves. MDU Resources' size and financial strength will enable Intermountain to have adequate capital for utility operations and gain potential cost efficiencies to meet expansion requirements as well as provide the potential for expanded career paths for its employees and the ability to compete for highly qualified management positions as a part of a larger company.

VII. IMPACT ON MONTANA-DAKOTA, GREAT PLAINS AND THEIR CUSTOMERS

The transaction will be transparent to customers of Montana-Dakota and Great Plains. The transaction will not significantly change the operations of Montana-Dakota or Great Plains or negatively impact the provision of service to North Dakota customers. The acquisition will have no immediate impact on the rates and other tariffs of Montana-Dakota or Great Plains on file with and approved by the Commission. No rate changes for either Company are proposed as a result of the acquisition. Revenues and expenses of Montana-Dakota and Great Plains will continue to be accounted for separately, thus

ensuring that North Dakota regulators have unimpeded access to information needed to fulfill their statutory responsibilities.

As evidenced, the acquisition will be consistent with the public interest and the impact of the acquisition on Montana-Dakota, Great Plains and their North Dakota customers will be neutral at the onset and positive over the long term. Montana-Dakota and Great Plains provide the following information regarding: (A) long-term strategic customer benefits of the acquisition; (B) capital structure/cost of capital; (C) cost allocations; and (D) local operations.

A. Long-Term Strategic Customer Benefits.

In addition to increased financial strength, combining the growth potential and expertise of Intermountain with the size and expertise of Montana-Dakota and Great Plains will allow the companies to be more efficient and effective participants in their markets, directly benefiting Montana-Dakota's and Great Plains' customers.

The acquisition helps prepare the companies for the future by sharing expertise and spreading corporate, administrative and support costs over a larger organization. Consequently, North Dakota customers will ultimately benefit from the strategic advantage of the acquisition.

B. Capital Structure/Cost of Capital.

MDU Resources maintains a separate capital structure for its regulated activities, targeting a capital structure of 50 percent equity and 50 percent debt. The acquisition will have no effect on Montana-Dakota's and Great Plains' capital structure or cost of capital for ratemaking purposes.

Intermountain Industries, the sole shareholder of Intermountain, will be paid cash upon the closing of the transaction for the purchase of its shares of Intermountain stock. Intermountain will maintain its existing debt or an equivalent amount of replacement debt. Funds for the purchase of the Intermountain stock are expected to be provided by a short term bridge financing. The bridge financing will be replaced after closing with approximately \$165 million from MDU Resources internal funds or funds raised by MDU Resources through the issuance of common stock and through the issuance of approximately \$80 million of long term debt. MDU Resources anticipates the transaction will strengthen but not change its credit ratings and does not anticipate an impact on its cost of capital.

C. Cost Allocations.

The cost allocation impact of the transactions is expected to ultimately provide a modest benefit to Montana-Dakota and Great Plains. MDU Resources anticipates Montana-Dakota, Great Plains and Intermountain will consolidate certain functions. The total costs of these functions are expected to be somewhat less than the total of the Montana-Dakota, Great Plains and Intermountain pre-acquisition stand-alone costs. Given the early stage of the transaction and the limited access that MDU Resources will have to Intermountain's business prior to closing, MDU Resources' has not had the opportunity to fully determine or quantify the potential savings, however, the savings to Montana-Dakota and Great Plains are estimated to be modest even before factoring in costs incurred to achieve the savings. Realized savings will

be reflected in reduced costs of operations which will directly benefit customers of Montana-Dakota and Great Plains by reducing the need for future rate increases.

D. Local Operations.

As previously discussed, the Parties are undertaking this transaction primarily for strategic rather than cost-saving reasons. Therefore, Montana-Dakota's and Great Plains' North Dakota customers will not see any operational changes as a result of the acquisition.

Decision-making regarding Montana-Dakota's and Great Plains' North Dakota operations will remain with existing management. As is currently the case, Montana-Dakota and Great Plains will continue to conduct their own planning and budgeting subject to corporate approval. All books and records regarding Montana-Dakota's and Great Plains' North Dakota operations will be available in North Dakota, ensuring that regulators have unimpeded access to information required to meet their statutory responsibilities.

Therefore, from the local operation perspective, the impact of the acquisition on Montana-Dakota and Great Plains will be neutral.

VIII. APPLICATION OF THE LEGAL STANDARD

From the information provided in this Application, the Commission can apply the legal standard to the acquisition to determine its consistency with the public interest. As discussed above, the transaction will provide benefits or the opportunity for benefits to Montana-Dakota, Great Plains and their customers,


with no heightened risk. Consequently, the Commission should approve the acquisition under N.D. Century Code § 49-04-06.

IX. REQUESTED COMMISSION ACTION

Based on all of the information provided in this Petition, the Commission should find the acquisition is consistent with the public interest and should be approved. The Parties desire to close the transaction on or after October 1, 2008 and request approval by September 1, 2008 in order to complete the transaction on or about October 1, 2008 within the terms of the Agreement.

Respectfully submitted,

MDU Resources Group, Inc.

By: 
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