

Memo

To: Darrell Nitschke, Director of Administration and Executive Secretary
From: Mike Diller
Date: September 11, 2008
Re: MDU's Acquisition of Intermountain Gas (Case No. PU-08-490)

Staff has reviewed the above mentioned case and sees no reason to investigate further and recommends that MDU's request be granted.

On July 9, 2008, MDU Resources Group, Inc. (MDU) and its Divisions, Montana-Dakota Utilities Co. and Great Plains Natural Gas Co., filed an application seeking authorization to acquire Intermountain Gas Company (Intermountain).

On August 27, 2008, the commission issued a Notice of Opportunity for Hearing. As stated in the Notice of Opportunity for Hearing, the applicant contends that the acquisition is in the public interest; will not adversely affect its North Dakota utilities operations; will provide an opportunity for growth in a new and expanding market; will have no impact on North Dakota rates and tariffs; provides for a sharing of expertise and administrative costs between MDU and Intermountain; and will not affect MDU's credit rating.

The staff's review focused on potential impacts the acquisition would have on North Dakota ratepayers. Even though a premium will be paid to acquire Intermountain, North Dakota ratepayers will not pay for it. Further, the premium will not be reflected in the books and records of Montana-Dakota Utilities Company or Great Plains Natural Gas Co.

While the transaction is not expected to affect MDU's cost of capital, staff believes that North Dakota ratepayers will benefit from a wider allocation of corporate costs and consolidation. Both Montana-Dakota Utilities Co.'s gas operations and Great Plains Natural Gas Co. have been earning returns on equity of less than 10% for the last 3 years. Staff will continue to monitor MDU's gas operations post-acquisition earnings but does not anticipate a significant change in earnings. Due to current earnings levels, staff sees no reason to argue for rate decreases as part of this proceeding.

In MDU's last acquisition application of Cascade Natural Gas, the commission required that the Company file acquisition orders from its other regulatory jurisdictions so that the commission staff could review the orders for potential issues to be explored in future rate cases. Staff does not believe such is necessary in this case. Intermountain is a privately owned natural gas utility doing business in the southern portion of the State of Idaho. The Idaho PUC has concluded that it shall not exert jurisdiction over the purchase transaction and shall not impose conditions on the transaction.

Aside from potential cost savings, ratepayers will not be affected by this merger. North Dakota customers will be served by the same people, the same company and at the same price. Staff recommends approval.

Acquisition of Intermountain Gas Company

By

MDU Resources Group, Inc.

Just the Facts

Agreement to Acquire Intermountain was Reached on July 1, 2008

Application to Approve was Filed on July 9, 2008

Number of Gas Customers:

MDU	228,000
Great Plains	23,000
Cascade	235,000
Intermountain	302,000

About Intermountain:

- Headquartered in Boise, Idaho
- Serves 74 communities in Southern Idaho
- Territory covers 38,000 square miles
- Customer growth rate of three to five percent

Reasons for Acquisition:

- Growth Opportunities
- To Share Expertise and Capture Operational Efficiencies
- Expanded Career Paths for Employees
- Transparent to Customers
- Spread the Cost of Administration over a Larger Organization
- Leverage MDU's Size and Financial Strength