BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Request for Approval of the Acquisition by MDU Resources Group, Inc., and its Division, Great Plains Natural Gas Company, of Cascade Natural Gas Corporation

ISSUE DATE: March 23, 2007

DOCKET NO. G-004/PA-06-1585

ORDER APPROVING ACQUISITION, WITH CONDITIONS

PROCEDURAL HISTORY

On November 17, 2006, Great Plains Natural Gas Company (Great Plains) filed a request for approval of the acquisition of Cascade Natural Gas Corporation (Cascade) by MDU Resources Group, Inc. (MDU). Great Plains is a division of MDU.

On December 18, 2006, the Department of Commerce filed comments recommending approval of the acquisition, with conditions.

On December 22, 2006, Great Plains filed comments concurring with the Department's recommendations.

On March 8, 2007, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

A. MDU and Great Plains

Great Plains has natural gas operations in Minnesota and North Dakota. MDU seeks approval of the acquisition of Cascade, which has natural gas operations in Washington and Oregon. The merger is to occur immediately upon regulatory approval from the Minnesota, North Dakota, Washington, and Oregon regulatory commissions.

MDU states that the acquisition and merger will be achieved at no adverse cost to customers and that it is undertaking the merger primarily for strategic reasons. MDU claims that the merger will provide Cascade with enhanced access to capital markets as a result of MDU's size and financial strength. MDU also asserts that Great Plains' customers will not be adversely affected from either a quality or cost of service perspective as a result of the acquisition and merger.

B. The Department of Commerce

The Department's review of MDU and Great Plains' petition concluded that:

- MDU and Great Plains have substantially complied with all of the Minnesota filing requirements;
- no operational changes are planned for Minnesota;
- the acquisition will have no significant effect on market power in Minnesota;
- any changes in Great Plains' costs as a result of the acquisition will be small and in favor of Great Plains customers;
- the Commission's regulatory authority over Great Plains' operations in Minnesota will not be affected by the acquisition;
- the accounting for the acquisition as a purchase is appropriate; and
- the acquisition will not affect Great Plains' capital structure or cost of capital for ratemaking purposes.

The Department recommended that the Commission approve with conditions the acquisition of Cascade by MDU.

C. Commission Analysis and Action

The statute requiring Commission approval of utility property transfers reads in pertinent part:

> No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state . . . without first being authorized so to do by the commission . . . . If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. . . .
>
> Minn. Stat. § 216B.50, subd. 1.

The Commission previously has established that the public interest standard does not require an affirmative finding of public benefit -- just a finding that the transaction does not contravene the public interest, and is compatible with the public interest.[1]

The Commission typically uses a balancing test to determine if a transaction is consistent with the public interest, weighing the relative costs and benefits of the transaction. Here, no operational changes are proposed for Great Plains as a result of the merger. Further, the Department's review concluded that the acquisition should have no significant effect on market power or costs to customers in Minnesota. Finally, the Commission's regulatory authority over Great Plains' operations will not be affected by the acquisition.

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[1] See, e.g., Order Approving Merger, Docket No. G-008/PA-90-604 (1990); Order Approving Merger Subject to Conditions, Docket No. G002/PA-99-1268 (January 10, 2000).

The Commission recognizes that this merger must be approved by the states of Washington, Oregon and North Dakota, as well as Minnesota. To ensure that Minnesota customers are accorded the opportunity to receive the same benefits which the Company may agree to in the other three jurisdictions, the Commission will take the following action. The Commission will reserve the right, after notice to the parties and an opportunity to be heard, to include as an amendment to this Order any condition that the parties agree to in any of the three other jurisdictions that must provide approval of the acquisition of Cascade.

To ensure that there be no adverse effect on Great Plains' customers in Minnesota as an effect of the merger, the Commission will approve the acquisition, but will condition its approval on the following:

A. There shall be no decrease in customer services and service quality for Great Plains' customers;
B. The Company shall hold Minnesota ratepayers harmless from any increase in Great Plains' cost of service resulting from the merger;
C. The acquisition shall have no effect on the capital structure or the cost of capital for rate making purposes of Great Plains:
D. The Company shall file the orders approving the purchase from all other states having jurisdiction over the purchase;
E. The Commission reserves the right to add any conditions that the Company agrees to in any other jurisdiction that must provide approval of the acquisition of Cascade Natural Gas;
F. Transaction and transition costs of the acquisition must be recorded in Account 426.5 as incurred, and not be recovered in Great Plains' rates;
G. MDU and Great Plains shall file the actual accounting entries to record the transaction within 90 days of the transaction closing; and
H. Separate books shall be maintained for Great Plains' Minnesota operations.

Finally, the Commission will grant a variance to Minnesota Rule 7825.1400(I), which requires that opinion letters of counsel with respect to the legality of the transaction be filed at the same time as the petition for approval. The Commission's rules of practice and procedure permit it to vary any of its rules upon making the following findings:

(1) enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

(2) granting the variance would not adversely affect the public interest; and

(3) granting the variance would not conflict with standards imposed by law.

Minn. Rules, part 7829.3200, subp. 1.

In its filing, the Company explained that the opinion letters of counsel will be issued at the time the securities are issued. The Department raised no objections to the timing of the filing of the opinion letters, requesting only that the letters be filed as soon as practical.

The Commission finds that strict enforcement of the timing requirements of Rule 7825.1400(l) would impose an excessive and unnecessary burden on the Company, and that granting a variance to allow the filing of the opinion letters at the time securities are issued will not adversely affect the public interest or conflict with standards imposed by law. The Commission therefore will require MDU and Great Plains to file the required opinion of counsel with respect to the legality of the assumption of liability as soon as practical upon receipt thereof.

ORDER

1. The Commission approves the acquisition of Cascade Natural Gas by MDU Resources subject to the conditions set forth above.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)