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BEFORE THE IDAHO PUBLIC UTILITES COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
INTERMOUNTAIN GAS COMPANY FOR	)	
THE AUTHORITY TO CHANGE ITS RATES	)	Case No. INT-G-16-02
AND CHARGES FOR NATURAL GAS	)	
SERVICE TO NATURAL GAS CUSTOMERS	)	
IN THE STATE OF IDAHO	)	
	)	

EXHIBIT 10

Intermountain Gas Company

Cost Allocation Manual

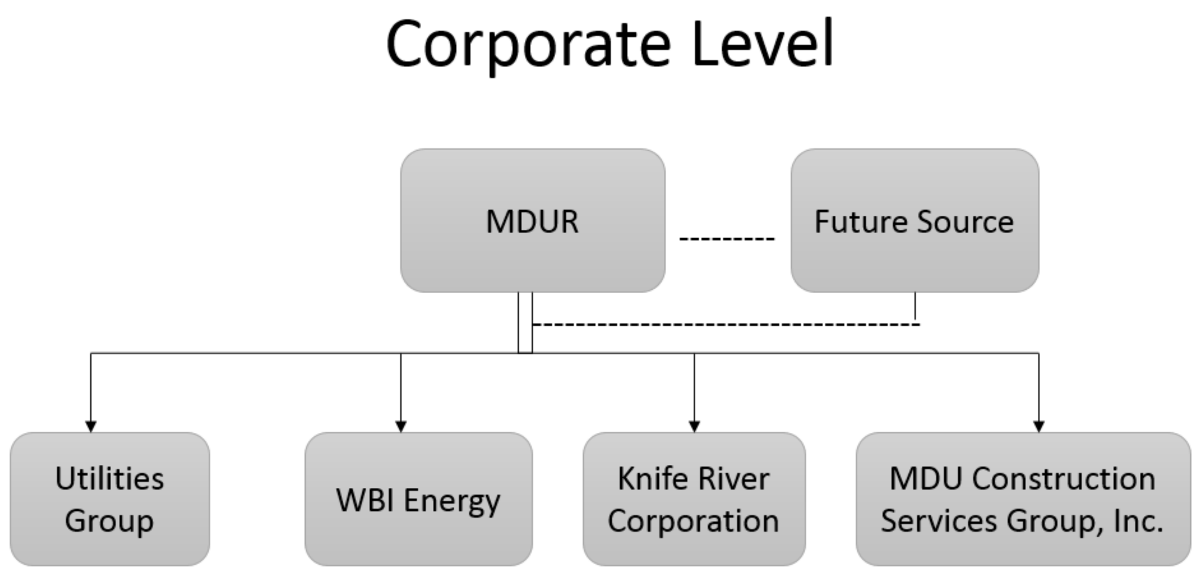
2016

Table of Contents

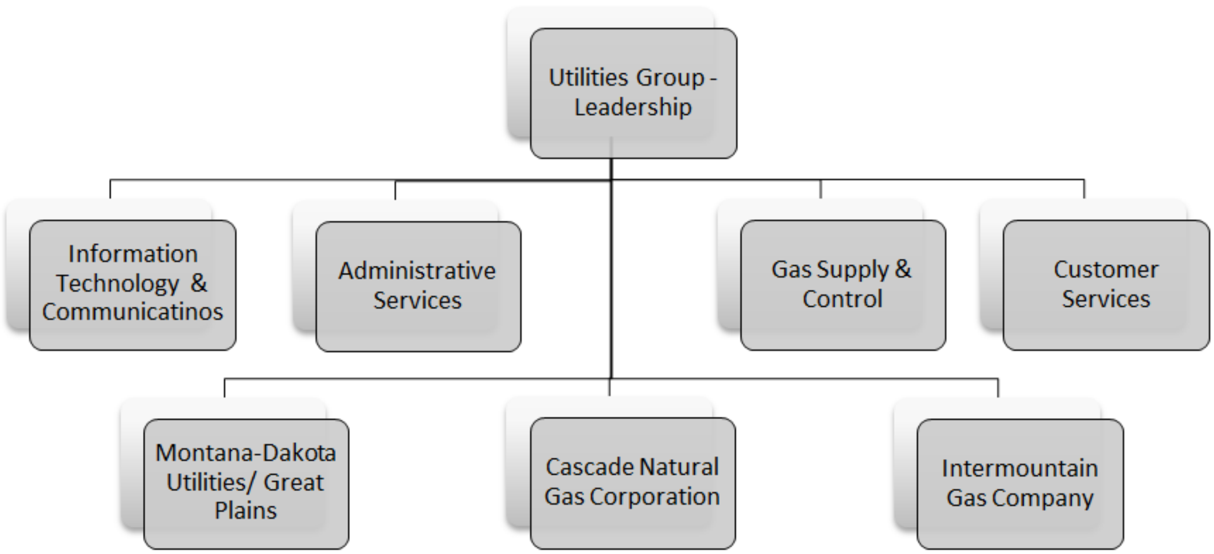
Overview

Intermountain Gas Company (IGC), a subsidiary of MDU Resources Group, Inc. (MDUR), conducts business in Idaho 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.)



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 for Intermountain Gas Company.

This document will discuss the allocations from:

- MDUR and FutureSource to Intermountain Gas Company
- Montana-Dakota/Great Plains (MDU) and Cascade Natural Gas (CNG) to Intermountain Gas Company
- Intermountain Gas to MDU and CNG

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.

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 II) 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 Intermountain Gas Company, the payroll shared services department is also responsible for the accumulation of time entry records and maintenance of employee records. Intermountain Gas Company 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. Intermountain Gas Company 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.

Intermountain Gas Company'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

Intermountain Gas Company 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.

Intermountain Gas Company is reflected as IGC 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
- Montana Dakota/Great Plains – Gas utility segment
- Cascade Natural Gas (CNG)
- Intermountain Gas Company (IGC)
- WBI Energy Transmission
- WBI Midstream
- Knife River Construction (KRC)
- MDU Construction Services Group, Inc. (CSG)

Corporate costs are recorded in the administrative and general (A&G) function for IGC.

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 Company 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 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 III.

Standard Labor Distributions

Labor/Reimbursable expense allocations

The development of standard labor distributions for Intermountain Gas Company 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 when working on capital projects. The employee specifies the proper capital project work order created to track project costs. To account for Operations, Maintenance, and non-productive time, standard payroll labor distributions are established for all 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.

Common Facilities

Customer Service Center

The Utility Group operates a Customer Service Center in Meridian, Idaho for the purpose of providing telephone customer service to customers served by Montana Dakota Utilities (MDU), Intermountain Gas Co. (IGC), and Cascade

Natural Gas Corp. (CNG). Operating expense allocations of the Customer Service Center are described on Page 6 – Allocations to other Utility Companies; Customer Services.

Capital costs of the Customer Service Center are recorded on IGC's books. Allocable costs of the facility and equipment include depreciation expense, a return on the invested capital of the facility using Cost of Capital, and income taxes associated with the return on invested capital (net of cost of debt associated with the facility). The allocable costs are billed monthly to CNG and MDU.

The cost driver for the allocations is customers served by each utility.

Boise General Office

The Boise General Office provides office facilities for administrative and general functions of Intermountain Gas Co.. In addition to IGC corporate staff in the General Office, the facility is also utilized by Information Technology (IT) and Geographic Informations Systems (GIS) staff that serve the Utility Group. A cost recovery process exists for the Boise General Office that is identical to the Customer Service Center process, however also includes occupancy expenses of the facility in addition to depreciation expense, a return on the invested capital of the facility, and income taxes associated with the return on invested capital (net of cost of debt associated with the facility). The allocable costs are billed monthly to CNG and MDU.

The cost driver for the allocations is customers served by each utility.

Exhibit I- MDUR Corporate Overhead factor

Montana-Dakota Utilities Co.
CORPORATE OVERHEAD ALLOCATION FACTORS
January-June 2016

	.1	.2	.68	.61		.60	.63	.64	.62	.67	
	MONTANA-DAKOTA ELECTRIC	GAS DIST	CNG	IGC	TOTAL UTILITY	WBI	FIDELITY EXPLOR. & PROD.	WBI NON-REGULATED	KRC	CSG	
Corporate factor	17.1	11.8	13.5	8.9	51.3	7.5	0.0	8.5	24.2	8.5	100.00

Exhibit No. 10
Case No. INT-G-16-02
T. Dedden, IGC

Exhibit II- MDUR Shared Services Pricing Methodology

MDU Resources Shared Services
Pricing Methodology - Effective for 2016

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 paycard 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
- $ 0.75 per check for the next 500 checks
- $ 0.15 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
- $ 0.75 per check for the next 500 checks
- $ 0.15 per check for each additional check

Additionally, there will be a $4.00 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 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 8/1/15
- Total Visa Spend for 2014
- National Account Spend for 2014
- Number of Construction Equipment Acquisitions in 2014
- Number of Fleet Acquisitions in 2014

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
# VISA cards	152	853	493	955	721	303	116	3,593
% of VISA cards	4.23%	23.74%	13.72%	26.58%	20.07%	8.43%	3.23%	100%
VISA spend	1,800,832	7,180,723	5,027,712	11,336,841	9,504,352	2,765,773	1,415,939	39,032,172
% of Total VISA spend	4.61%	18.40%	12.88%	29.04%	24.35%	7.09%	3.63%	100%
National Account Spend	10,807,047	21,243,800	7,343,785	83,067,624	43,281,702	5,163,992	3,135,070	174,043,020
% of National Account Spend	6.21%	12.20%	4.22%	47.73%	24.87%	2.97%	1.80%	100%

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
# Construction Equip Acquisitions	0	55	13	86	111	22	7	294
% of Construction Equip Acquisitions	0.00%	18.71%	4.42%	29.25%	37.76%	7.48%	2.38%	100%
# Fleet Acquisitions	0	65	33	119	266	36	23	542
% of Fleet Acquisitions	0.00%	11.99%	6.09%	21.96%	49.08%	6.64%	4.24%	100%
Total weighted allocation factor	3.01%	17.01%	8.27%	30.91%	31.22%	6.52%	3.06%	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) – Two factors are used in the invoicing of the enterprise costs associated with customer relations. Those costs 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 2015. The remaining costs are for costs specific to the IPT are invoiced upon the IPT allocation.

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
Device Counts	266	1,057	496	1,810	1,277	457	658	6,021
% of Device Counts	4.42%	17.55%	8.24%	30.06%	21.21%	7.59%	10.93%	100%
Totals	4.42%	17.55%	8.24%	30.06%	21.21%	7.59%	10.93%	100%
IPT Allocation	217	527	341	1,382	66	297	275	3,078
% of IPT Allocation	7.0%	17.0%	11.0%	44.5%	2.0%	9.6%	8.9%	100%
Totals	7.0%	17.0%	11.0%	44.5%	2.0%	9.6%	8.9%	100%

Communications & Security (971)

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 (20%)
2. Internet/Firewall Access – Number of user accounts (30%)
3. Security (50%)

The costs are invoiced based on the following percentages:

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
WAN/LAN/MAN	2	52	128	203	57	17	13	472
% of Business Unit Locations	0.42%	11.02%	27.12%	43.01%	12.08%	3.60%	2.75%	100%

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
Internet Access/Firewall	266	1,057	496	1,810	1,277	457	658	6,021
% of User Accounts	4.42%	17.55%	8.24%	30.06%	21.21%	7.59%	10.93%	100%
Security								
% of Handsets	20.00%	10.34%	20.00%	20.00%	20.00%	5.82%	3.84 %	100%
Totals	11.41%	12.63%	17.90%	27.62%	18.78%	5.91%	5.75%	100.00%

Operations (972) – Enterprise charges for the operations group are invoiced using two separate factors. 95.1% 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. 4.9% 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 - (75%)
2. Shared Service Servers – (25%)

	MDUR	MDU	WBIE	KRC	CSG	CNG	IGC	Total
Full Service Servers	252	147	43	90	20	0	0	552
% of Full Service Servers	45.65%	26.64%	7.79%	16.30%	3.62%	0.00%	0.00%	100%
Shared Service Servers	0	95	38	59	66	32	88	378
% of Full Service Servers	0.00%	25.13%	10.05%	15.61%	17.46%	8.47%	23.28%	100%
Totals	34.24%	26.25%	8.36%	16.13%	7.08%	2.12%	5.82%	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	26.41%	16.64%	12.42%	21.52%	13.01%	4.29%	5.71%	100%

Exhibit III- Utility Operations Support Allocation Methodology

Utility Operations Support
Labor Distribution Allocation Methodology

<u>Leadership Group:</u>

- 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.

<u>Customer Services:</u>

- Director
  - 35% to CNG, 30% to IGC, 35% Montana-Dakota/Great Plains [1] (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 Plains [1] (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 Plains [1] (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

        - 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 Plains[1] allocated to gas and electric based on meter count.
        - Team Leads 25% IGC, 25% CNG, 50% Montana-Dakota/Great Plains[1] 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

        - 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 Plains[1] (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.