Exhibit No. __ (TJN-4T)
Docket No. UG-170929
Witness: Tammy J. Nygard

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-170929

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF TAMMY J. NYGARD

March 23, 2018

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I. INTRODUCTION AND SUMMARY

Q. Are you the same Tammy J. Nygard who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation ("Cascade" or "Company")?

A. Yes, as Exhibit No. __ (TJN-1T).

Q. What is the purpose of your rebuttal testimony?

A. In my testimony, I provide support regarding the capital structure Cascade requested in this case and respond to Staff witness David Parcell's comments regarding the Company's proposed capital structure. I also provide support for the reasonableness of the MDU rent expenses and respond to the adjustment to MDU rent expense proposed by Public Counsel witness Donna Ramas.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. The capital structure from the 2018 Financial Plan is provided with my testimony as Confidential Exhibit TJN-5C.

II. CAPITAL STRUCTURE

Q. What is Cascade's proposed capital structure?

A. As described in my direct testimony, Cascade is requesting a 50 percent equity and 50 percent debt capital structure.[1]

Q. Why does Cascade believe a capital structure with 50 percent equity and 50 percent debt is appropriate?

A. Cascade's proposal is based on the Company's five-year average actual capital structure. Additionally, the Company intends to remain at a 50 percent equity ratio going forward,

[1] Direct Testimony of Tammy J. Nygard, Exhibit TJN-1T.

thus the proposed capital structure reflects Cascade's anticipated capital structure for the rate period.

Table 1. Cascade's Actual Capital Structure, 2012-2016

Capital Structure						
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	Average
Total Debt	46%	52%	49%	53%	52%	50%
Common Equity	54%	48%	51%	47%	48%	50%

Q. Did Staff propose a different capital structure for the Company?

A. Yes. Staff witness David Parcell proposes a capital structure with 47.31 percent common equity.[2]

Q. What is Staff's rationale for its proposed capital structure?

A. Staff states that the Company has not provided support for the use of a hypothetical capital structure, and Staff's proposal is instead based on the actual capital structure as of December 31, 2016.[3] Specifically, Staff claims that the Company has not demonstrated that its capital structure during the rate year will be substantially different than it was at the end of 2016, and that the Company has failed to provide documentation of a commitment by the Company to make specific capital injections during the rate year.[4] Additionally, Staff indicates that Cascade's actual equity ratios have decreased over the

[2] Response Testimony of David C. Parcell, Exhibit DCP-1T at 24:11-13.
[3] Response Testimony of David C. Parcell, Exhibit DCP-1T at 25-1:3.
[4] Response Testimony of David C. Parcell, Exhibit DCP-1T at 26:9-12.

past five years, and the proposed capital structure is similar to that approved for other natural gas utilities.[5]

Q. Do you agree with Staff's proposal?

A. No. In particular, I disagree with the statement that the 50 percent equity ratio is hypothetical, as we have demonstrated that our proposal is based on our actual five-year average. Staff also states that the Company does not have a commitment of specific capital injections, which is inaccurate. I also disagree with the statement that the Company's equity ratio has declined over the past five years. Furthermore, I disagree with Mr. Parcell's statement that Staff's recommendation of a 47.31 percent equity is similar to that approved for other natural gas utilities.

Q. Can the Company demonstrate a commitment by MDU Resources to make capital injections intended to allow it to attain and maintain a 50 percent equity ratio?

A. Yes. In 2017 alone, the Company received $32 million in capital injections from its parent in order to remain at the targeted 50 percent equity ratio. And, Cascade's current 2018 Financial Plan shows Cascade receiving capital injections from its parent in 2018 totaling $30 million which results in a 50.2 percent equity ratio by year end. The 2018 Financial Plan is provided with my testimony as Confidential Exhibit TJN-5C. This is consistent with the Company's overall goal to attain and maintain a 50 percent equity ratio.

Q. Do you agree with Mr. Parcell's proposal to use Cascade's actual capital structure as of December 31, 2016?

[5] Response Testimony of David C. Parcell, Exhibit DCP-1T at 25:4-8.

A. No. As discussed in my direct testimony, Cascade targets a 50 percent equity ratio. It is true that there are fluctuations in this ratio year over year, based on timing of debt and equity issuances. However, it is for this reason that a five-year average is a better tool to establish a forward looking capital structure than a snapshot from the end of the test year—particularly when the historic test period is 2016 and will be used to set rates beginning in August 2018. Additionally, the 2017 year-end capital structure was 49.2 percent equity, and the 2018 year-end capital structure in the 2018 Financial Plan is 50.2 percent equity, further demonstrating that a 50 percent equity ratio is appropriate for setting rates going forward.

Q. In his testimony, Mr. Parcell states that Cascade's equity ratio has declined over the past five years. Is this accurate?

A. No. While I agree that the Company's current equity ratio is lower than the 2012 level, I do not agree that the overall trend in equity ratio represents a decline. As you can see from the Table 1 above, the equity ratio fluctuates over time, and in the last five years the equity ratio decreased, increased, and then decreased. The ratio increased again in 2017, with a year-end equity ratio of 49.2 percent.[6] Importantly, however, Cascade expects that it will end 2018—the period in which rates will be in effect—with an equity ratio of 50.2 percent.

[6] The year-end 2017 equity ratio was actually closer to 50 percent, until the Company booked the one-time earnings reduction related to tax reform, which reduced the percentage slightly from the targeted 50 percent.

Q. Mr. Parcell states his proposed capital structure of 47.31 percent equity is similar to that approved for other natural gas utilities. Is that an accurate statement?

A. No. In Mr. Parcell's testimony,[7] he provided the average common equity ratios cited in United States state-regulated natural gas rate proceedings as follows:

2012	51.13%
2013	50.60%
2014	51.11%
2015	49.93%
2016	50.06%
2017	49.88%

The six-year average of the data provided by Mr. Parcell is 50.45 percent equity. Therefore, the Company's requested 50 percent equity ratio is more consistent with the average over time than Mr. Parcell's 47.31 percent.

Q. Do any other Cascade witnesses address capital structure?

A. Yes. Dr. J. Stephen Gaske also addresses capital structure, and notes that Mr. Parcell's own evidence demonstrates the reasonableness of Cascade's proposed common equity ratio of 50 percent, because the Company's proposed equity ratio is below the average for the proxy group companies at the holding company level and at the low end of the range of authorized returns for gas distributors of the past six years.[8]

Q. What is your conclusion regarding capital structure?

A. Cascade's proposed capital structure is reasonable and appropriate for setting rates on a forward-looking basis.

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[7] Response Testimony of David C. Parcell, Exhibit DCP-1T at 23:14.
[8] *See* Rebuttal Testimony of J. Stephen Gaske, Exhibit JSG-4T.

III. MDU RENTAL CHARGES

Q. In discovery, parties requested information about MDU rental charges that are allocated to Cascade. Please provide an overview of the corporate allocations Cascade receives from its parent, MDU, and explain why MDU rental charges are allocated to Cascade.

A. Cascade receives a cost of service charge from its parent, MDU Resources – which is located in Bismarck, North Dakota – for corporate shared services. These shared services include those provided by support personnel from the following departments: information technology, accounts payable, credit and collections, tax, risk management, treasury, business services, payroll, legal, communications, internal audit, and corporate governance and management. The costs for shared services that are allocated to Cascade (and other subsidiaries of MDU Resources) include the costs of office buildings and related land, maintaining the property (i.e., utilities, repairs, janitorial, etc.), depreciation, as well as an amount to recover a cost of capital charge. Cascade's customers benefit from the synergies achieved by the sharing of these costs and services. If such services were not provided by a corporate parent, Cascade would need to bear all of the costs to provide support services and would be deprived of the synergies the Company has achieved under the current structure.

Q. How are the rental charges allocated to Cascade?

A. MDU Resources allocates corporate overhead – including the rent charges – based on each of its business unit's corporate allocation factor. The corporate allocation factor is determined by the relative capitalization of each business unit as a percentage of the overall capitalization of MDU Resources. These allocation factors are calculated twice per year, with new rates calculated and applied in January and July each year. Cascade's corporate allocation factor – which reflects the Company's capitalization relative to MDU Resources' other business units – was 13.5 percent at the beginning of 2016. As of January 2016, the MDU Utilities Group accounted for 51.3 percent of overall capitalization.

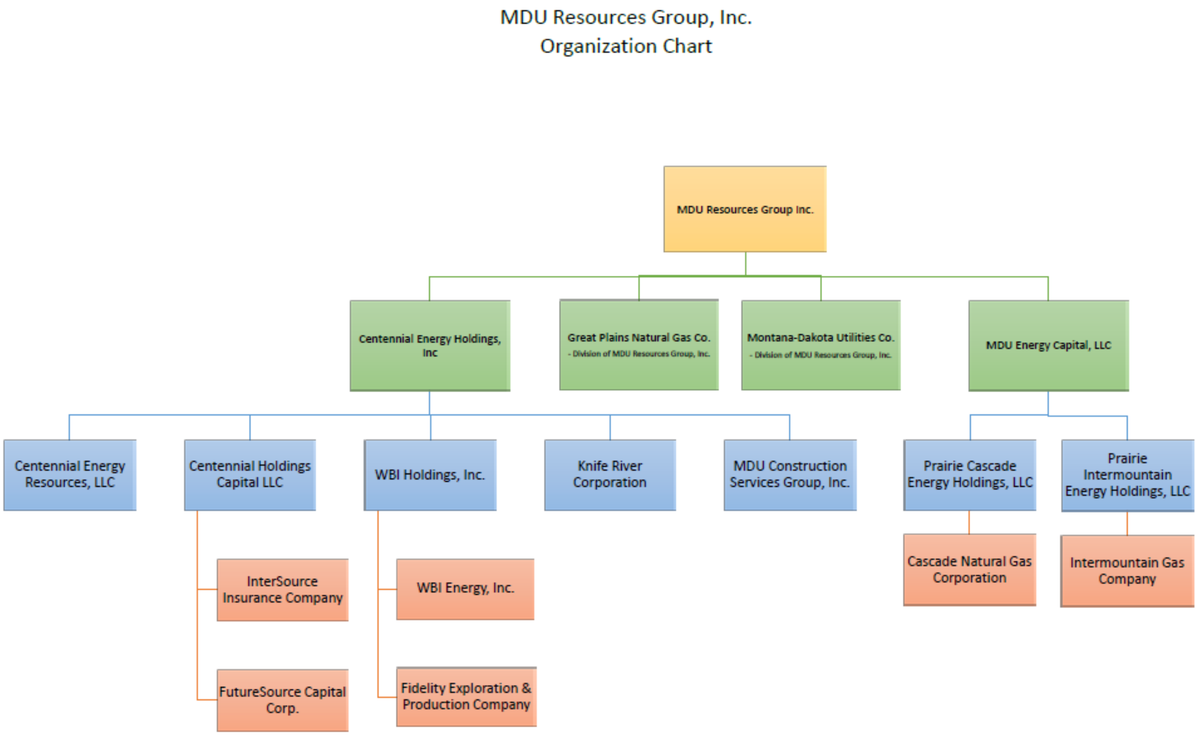
Q. Did the MDU rental charge to Cascade increase during the test year?

A. Yes.

Q. What caused the increase?

A. In the second quarter of 2015, MDU Resources announced its plan to market Fidelity, its exploration and production subsidiary, and exit that line of business. In 2016, MDU Resources completed the sale of its oil and natural gas assets associated with Fidelity. In the second quarter of 2016, MDU Resources sold all the outstanding membership interest in Dakota Prairie Refining and exited that line of business. With the sale of these businesses, Cascade's capitalization increased relative to all other MDU Resources' businesses. Specifically, in January 2016, Cascade's corporate factor increased from 10.7 percent to 13.5 percent, thus increasing Cascade's share of the MDU Resources shared services expenses. Fidelity Exploration and Production is under WBI Holdings in the below table.

Table 2. MDU Resources Organization Chart



Q. Do the increased rental costs reflect rising administrative and general ("A&G") costs?

A. No. As a condition of the acquisition of Cascade by MDU Resources, Cascade committed that "for Washington regulatory purposes, that commencing with the closing of the Transaction and through December 31, 2012, the allocated shared corporate costs, as well as its allocated and assigned utility division costs, will not exceed the costs the Cascade customers would otherwise have paid absent the acquisition, as adjusted for changes in the Consumer Price Index."[9] In that case, the Company established a benchmark for A&G expenses of $21,642,845 as of December 31, 2006. Since that time, the Company

[9] *In the Matter of the Joint Application of MDU Resources Group, Inc. and Cascade Natural Gas Corp. for An Order Authorizing Transaction*, Docket UG-061721, Stipulation, App. A at 4-5 (Commitment 10(a)).

has and continues to aggressively manage its A&G costs. As shown below in Table 3, the A&G benchmark per UG-061721 adjusted to the 2016 test year is $25.8 million in 2016, yet the Company's actual A&G costs for 2016 were held to $22.1 million. Cascade is well below the A&G benchmark threshold.

Table 3. A&G Benchmark

Cascade Natural Gas Corporation
UG-061721 A&G EXPENSE ADJUSTMENT
State of Washington

Line No.	Description	CY 16 Amount
	(a)	(b)
1	2006 A&G Benchmark (per UG-061721)	$ 21,642,845
2	CPI Increase (2006 to 2016)	19.05%
3	2016 A&G Benchmark	$ 25,765,807
4	Cascade Actual CY16 A&G Expense	$ 22,109,816
5	Commission Basis Adjustments	
6	Cascade Adjusted CY16 A&G Expense	$ 22,109,816
7	Below Threshold (Yes/No)	Yes
8	A&G Adjustment (if line 7 is Yes then no adjustment)	$ -

Q. Do the increased rent costs correlate into increased affiliated interest costs?

A. No. The affiliated interest reports filed with the Commission for 2015 and 2016 had total Washington costs of $13.9 million and $13.7 million, respectively.[10] Although the rental costs were up slightly from 2015 to 2016, there were other A&G costs that decreased over the same time period.

Q. Did any party propose an adjustment based on the increase in MDU rental expense?

A. Yes. Public Counsel proposes an adjustment to Cascade's allocation of MDU rental charges on the basis that the increase in rent charges in the test year was a result of a one-

[10] Docket UG-170303, Cascade's 2016 Affiliated Interest and Subsidiary Transactions Report (Apr. 27, 2017); Docket UG-160438, Cascade's 2015 Affiliated Interest and Subsidiary Transactions Report (Apr. 25, 2016).

time entry and the amount for rent will decrease in future years.[11] Specifically, Public Counsel proposes an adjustment to reduce expense by $145,014.[12]

Q. Is Public Counsel's characterization of the increase in rent charges accurate?

A. No. The one-time entry was a correction for the same fiscal year which was made mid-year 2016 to properly reflect the change in Cascade's corporate allocation factor in 2016, resulting from the sale of these businesses. Therefore, the amount for 2016 is a true depiction of costs going forward.

Q. Please explain why it is appropriate to use Cascade's 13.5 percent corporate factor in this rate case.

A. This corporate allocation factor is consistent with, or slightly lower, than the rate applied in 2017 and to be applied in future periods. Cascade's corporate factor in January 2017 was 13.6 percent and in January 2018 was 14.9 percent.

Q. Were the MDU rent charges in this case representative of ongoing expenses?

A. Yes. The monthly charge in this case from 2016 was $75,000. In January 2018, the monthly MDU rent charge was $72,000.

Q. Does this conclude your reply testimony?

A. Yes.

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[11] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 40:7-18.

[12] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 40:15-18.