

Exhibit No. __ (NAK-1T)
Docket No. UG-17____
Witness: Nicole A. Kivisto

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-17_____

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF NICOLE A. KIVISTO**

August 31, 2017

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I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Nicole A. Kivisto. My business address is 400 North Fourth Street,
3 Bismarck, North Dakota 58501. My e-mail address is nicole.kivisto@mdu.com.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the President and Chief Executive Officer (“CEO”) of Cascade Natural Gas
6 Corporation (“Cascade” or “Company”) and Intermountain Gas Company; subsidiaries of
7 MDU Resources Group, Inc. (“MDU Resources”). I am also the President and CEO of
8 Montana-Dakota Utilities Co. (“Montana-Dakota”) and Great Plains Natural Gas Co.,
9 divisions of MDU Resources.

10 **Q. Please describe your duties and responsibilities.**

11 A. I have executive responsibility for the development, coordination, and implementation of
12 strategies and policies relative to operations of the above-mentioned companies that, in
13 combination, serve over one million customers in eight states.

14 **Q. Would you briefly describe your educational and professional background?**

15 A. Yes. I hold a Bachelor’s Degree in accounting from Minnesota State University
16 Moorhead. I have worked for MDU Resources/Montana-Dakota for twenty-two years
17 and have been employed in my current capacity as President and CEO since January
18 2015. I was Vice President-Operations of Montana-Dakota and Great Plains Natural Gas
19 Co. from January 2014 until assuming my present position.

20 Prior to that, I was the Vice President, Controller and Chief Accounting Officer
21 for MDU Resources for nearly four years, and held other finance-related positions prior
22 to that.

1 **Q. Have you previously written or presented testimony on behalf of Cascade before the**
2 **Washington Utilities and Transportation Commission (“Commission”) or any other**
3 **commission?**

4 A. Yes, I have previously testified before this Commission in Cascade’s most recent
5 Washington rate case, Docket No. UG-152286, and before the Public Utility Commission
6 of Oregon in Cascade’s most recent Oregon rate case, Docket No. UG 305.

II. SCOPE AND SUMMARY OF TESTIMONY

7 **Q. What is the purpose of your testimony in this docket?**

8 A. I will provide an overview of Cascade, summarize the Company’s rate request in this
9 filing, describe the primary drivers of the need for rate relief, and provide some
10 background on increasing costs facing the Company. My testimony will also describe
11 measures the Company has taken to control costs and increase operating efficiencies that
12 have allowed us to reduce the impact of this request. I will also introduce the other
13 witnesses providing testimony on the Company’s behalf.

14 **Q. Would you please summarize Cascade’s requested increase in this filing?**

15 A. Yes. Increasing rate base and operating expenses require Cascade to request an increase
16 of \$5,884,984 or 2.71 percent. This increase is based on an overall rate of return of 7.60
17 percent with a capital structure common equity component of 50 percent and a return on
18 equity of 9.9 percent. The Company is using a historical test year based on the twelve
19 months ended December 31, 2016. The 2016 test year was selected as the most recent,
20 appropriate, and supportable to represent the period in which rates will be in effect. Mr.
21 Michael Parvinen provides further discussion of the test period in his testimony. The
22 Company is using the results of an embedded cost of service study as a starting point in

1 the proposed spread of the requested increase to the various rate schedules. The results of
2 the cost of service study show that the residential customer class is highly subsidized by
3 the other rate classes; therefore, the proposed increase is being assigned primarily to the
4 residential class, bringing rates more in line with actual costs to provide service. Mr.
5 Ronald Amen provides testimony supporting the cost study and rate spread issues.

6 Based on an average usage level of 54 therms per month, the average residential
7 customer will see a bill increase of \$2.09 per month from \$47.45 to \$49.54. This equates
8 to an average increase of 4.41 percent.

9 **Q. When was the Company's last general rate increase?**

10 A. Cascade's last filed general rate case in Washington was in December 2015, docketed as
11 UG-152286. Prior to 2015, Cascade had not filed a rate case since 2006 in Docket No.
12 UG-060256. The 2015 rate case resulted in a 1.6 percent increase, or \$4 million in
13 additional revenue.

III. OVERVIEW OF CASCADE

14 **Q. Please briefly provide an overview of the Company.**

15 A. Cascade provides natural gas distribution service in 96 communities in Washington and
16 Oregon. Cascade's headquarters is located in Kennewick, Washington. Cascade is
17 wholly owned by MDU Resources, which is located in Bismarck, North Dakota.
18 Cascade has 282,186 customers, of which 210,000 are in Washington. Although Cascade
19 serves approximately 50 communities in Washington, most of the communities are quite
20 small. The largest of the communities served by Cascade in Washington are Bellingham,
21 Mt. Vernon, Bremerton, Tri-Cities, and Yakima.

1 Cascade was originally formed in 1953 to serve smaller and predominantly rural
2 communities in the Pacific Northwest. Cascade serves a non-contiguous service territory
3 with 339 dedicated employees. Cascade became a subsidiary of MDU Resources in
4 2007.

IV. REASONS FOR RATE INCREASE REQUEST

5 **Q. What is the primary factor causing Cascade's request for a rate increase in this**
6 **filing?**

7 A. There is not one primary factor causing the rate increase, but rather a combination of
8 increased rate base additions and increased pressures on operating and maintenance
9 ("O&M") expenditures. In fact, depreciation expense alone is nearly \$2 million higher
10 than the last rate case, as a result of the Company's substantial investments to assure the
11 safety and reliability of its system. Notably, the 2017 capital budget for Washington
12 includes over \$47 million for planned investments. Of the \$47 million in planned
13 investments, \$11 million will be used to replace segments of our highest risk pipeline and
14 is included in the annual pipeline Cost Recovery Mechanism ("CRM"). The rate base
15 included in this filing includes only \$18 million of the remaining \$36 million of
16 investment. Mr. Parvinen provides support for the inclusion of this investment in his
17 direct testimony. Revenue producing investment is anticipated to be \$15 million. Of the
18 Company's planned investments, approximately \$3 million will not be used and useful in

1 time to allow for recovery in this case or have other offsetting factors, and accordingly
2 those planned investments are not included in this request for recovery.

3 **Q. How has Cascade controlled costs in order to mitigate the need for rate cases?**

4 A. Cascade has a history of mitigating increased cost pressures in order to avoid filing rate
5 cases. Since the acquisition by MDU Resources, Cascade has found synergy savings in
6 the form of joint senior management, a unified customer service center, a joint billing
7 facility and process, and uniform accounting and customer information system software.
8 The utility group continues to look for ways to acquire such synergies including a new
9 Gas Management System (“GMS”) and centralization of other functions. In fact,
10 Administrative and General (“A&G”) costs in the current test year are less than one
11 percent higher than the previous rate case test year a year and a half later.

V. CUSTOMER SUPPORT PROGRAMS

12 **Q. Does Cascade offer its customers any bill assistance programs to help mitigate the
13 effect of necessary rate increases?**

14 A. Cascade provides a number of programs to assist customers in meeting their energy bill
15 obligations. Cascade has its Washington Energy Assistance Fund (“WEAF”) and its
16 Winter Help program to provide bill assistance to low-income customers. Cascade also
17 offers a program called the Budget Payment Plan to customers, which serves to reduce
18 bill volatility associated with seasonal fluctuations in usage.

19 Cascade also provides conservation programs for all customers, as well as
20 conservation programs through community action agencies specifically designed for low-
21 income customers.

1 Both the WEAFF and conservation programs were updated in the last rate case to
2 better serve low-income customers. The WEAFF program has been so successful that the
3 Company has recently filed a petition seeking to lift the funding cap placed on the
4 program which was approved by order on June 28, 2017.

5 The Commission approved significant modifications to the low-income
6 conservation program in December 2016, which were designed to remove barriers to
7 success and serve more customers. It is too early to evaluate the success of these
8 modifications, however, similar changes in Oregon allowed participation levels to
9 increase to previous American Recovery and Reinvestment Act-funded levels.

10 **Q. Please briefly describe the Budget Payment Plan.**

11 A. The Budget Payment Plan is an option for customers to make a flat payment for a period
12 of time, thus flattening or levelizing their bill, making it easier for customers to budget
13 their payments. Under the plan, winter bills will be lower than if billed based on actual
14 usage, and summer bills will be higher than if billed based on actual usage. Once a year,
15 the account will be reset based on the previous year's usage and residual balance.

16 **Q. How many of Cascade's customers take advantage of the Company's Budget
17 Payment Plan?**

18 A. As of December 31, 2016, there are 19,180 Washington customers participating in the
19 Budget Payment Plan, or 9.1 percent of Cascade's Washington customers.

VI. GENERAL COMMENTS

20 **Q. Do you have any general comments in regards to Cascade's recent interactions with
21 the Commission?**

1 A. Yes. Cascade’s 2014 Integrated Resource Plan (“IRP”) was not well received by the
2 Commission. The Company seriously and carefully considered the feedback provided by
3 the Commission and has made a concerted effort to not only provide adequate staffing
4 resources to develop the 2016 plan, including two new full-time personnel and the
5 addition of services from an outside consultant, but also to incorporate IRP planning
6 considerations into the day to day operations of the Company. Cascade filed its 2016 IRP
7 on December 14, 2016, in Docket No. UG-160453, and Cascade believes the 2016 IRP
8 was a significant improvement over the 2014 IRP as noted in the Commission’s
9 acknowledgement letter dated July 14, 2017.

10 **Q. Do you have another example?**

11 A. Yes. I want to ensure that the Commission understands that the company has also taken
12 the Maximum Allowable Operating Pressure (“MAOP”) complaint case in Docket No.
13 PG-150120 very seriously. As a result of the complaint, the resulting settlement, and the
14 commitments from management and the board of directors, Cascade will have a
15 verifiably safe system and industry leading asset management processes to assure
16 continuation of adequate and appropriate documentation. Mr. Eric Martuscelli and Mr.
17 Ryan Privratsky provide further details on this process. Mr. Parvinen describes the
18 accounting and rate recovery sought in this proceeding regarding MAOP deferred costs.

19 The Company has made substantial efforts and commitments to perform to the
20 standards expected from the Commission.

VII. OTHER COMPANY WITNESSES

1 **Q. Would you please introduce and provide a brief description of each of the witnesses**
2 **filing testimony on behalf of Cascade in this proceeding?**

3 A. Yes. The following additional witnesses are presenting direct testimony on behalf of
4 Cascade.

5 Ms. Tammy Nygard, Controller, will address the Company's capital structure, the
6 proposed cost of embedded debt, and the overall rate of return.

7 Dr. Stephen Gaske, Senior Vice President – Concentric Energy Advisors, will
8 discuss the requested overall return on equity for Cascade.

9 Mr. Michael Parvinen, Director – Regulatory Affairs, will discuss the overall
10 revenue requirement, including the proposed adjustments, and will also address the status
11 of commitments from the settlement in the last general rate case, Docket No. UG-152286.

12 Ms. Jennifer Gross, Regulatory Analyst, will discuss the proposed tariff changes.

13 Mr. Ronald J. Amen, Director – Management Consulting at Black & Veatch, has
14 been retained to prepare and present the Company's embedded cost of service study for
15 the Washington service territory. Mr. Amen discusses his study results and how each
16 schedule's present and proposed rate compares to the indicated cost.

17 Ms. Maryalice Rosales, Regulatory Analyst, discusses the test year revenue proof
18 and proposed revenue adjustments.

19 Mr. Brian Robertson, Senior Resource Planning Analyst, will discuss the weather
20 normalization adjustment and method behind the calculation as well as a status update on
21 Cascade's commitment to initiate a load study arising from the settlement in Docket No.
22 UG-152286.

1 Mr. Eric Martuscelli, Vice President Operations, will provide an overview of the
2 MAOP settlement from Docket No. PG-150120 as well as provide a discussion of the
3 benefits and justification for recovery of deferred costs associated with MAOP validation.

4 Mr. Ryan Privratsky, Director of System Integrity, provides a description of work
5 being performed to provide MAOP validation, timelines, and identification of third party
6 costs.

7 **Q. Does this conclude your pre-filed direct testimony?**

8 A. Yes.