

Exhibit No. __ (TJN-1T)
Docket No. UG-17____
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-17_____

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF TAMMY J. NYGARD**

August 31, 2017

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I. OVERVIEW

1 **Q. Would you please state your name, business address and position?**

2 A. Yes. My name is Tammy J. Nygard and my business address is 400 North Fourth Street,
3 Bismarck, ND 58501. I am the Controller for Cascade Natural Gas Corporation
4 (“Cascade” or “Company”), a wholly-owned subsidiary company of MDU Resources
5 Group, Inc. (“MDU Resources”). I am also the Controller of Montana-Dakota Utilities
6 Co. and Great Plains Natural Gas Co., Divisions of MDU Resources, as well as
7 Controller for Intermountain Gas Company, a subsidiary of MDU Resources Group.

8 **Q. Would you please describe your duties?**

9 A. As Controller, I am responsible for providing leadership and management of the
10 accounting and the financial forecasting/planning functions, including analysis and
11 reporting of all financial transactions for Cascade, Intermountain, Montana-Dakota and
12 Great Plains.

13 **Q. Would you please outline your educational and professional background?**

14 A. I graduated from the University of Mary with a Bachelor of Science degree in
15 Accounting and Computer Information Systems. I have over 15 years of experience in the
16 utility industry. During my tenure with the Company, I have held positions of increasing
17 responsibility, including Financial Analyst for Montana-Dakota Utilities Co., Director of
18 Accounting and Finance for Cascade, and my current position, Controller.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. I explain and support the cost of debt, capital structure and rate of return requested in this
21 proceeding.

22 In brief, I provide information that shows:

- 23 • Cascade’s proposed rate of return (“ROR”) of 7.598 percent provides a
24 reasonable return for Cascade’s investors at a fair cost to Cascade’s

1 customers. The ROR is based on a 50.0 percent common equity ratio with a
2 Return on Equity of 9.9 percent and a debt cost of 5.295 percent.

II. COST OF DEBT, CAPITAL STRUCTURE, AND RATE OF RETURN

3 **Q. How much debt is currently held at Cascade and what are the maturity dates of the**
4 **existing debt?**

5 A. Confidential Exhibit No. __ (TJN-2C) details Cascade's currently outstanding debt and
6 the associated maturity dates. Total outstanding debt as of December 31, 2016, was
7 valued at \$214,471,000 with maturity dates beginning in 2020. All the debt is unsecured
8 term notes with tenors ranging from twelve years to forty years. Each issuance of debt
9 requires either semi-annual or quarterly interest payments.

10 **Q. What is the average annualized interest rate of Cascade's debt and how is this**
11 **calculated?**

12 A. The average annualized cost of debt of 5.295 percent is calculated based on the weighted
13 average outstanding debt at December 31, 2016, inclusive of the annual amortization of
14 the costs associated with the financing of the debt. The associated amortization has been
15 computed on a straight-line basis over the remaining life of the issues. Cascade uses the
16 same methodology for book accounting purposes. Since 2006, the Company has been
17 able to reduce its average annualized cost of debt from approximately 7.598 percent to
18 5.295 percent.

19 **Q. What has the Company done in recent years to reduce the cost of long-term debt?**

20 A. The Company has taken advantage of the current market's low interest rates by securing
21 new long-term debt corresponding with the anticipated life of the new plant currently
22 being constructed throughout Cascade's service territory. The interest rate spreads
23 between the recently retired debt and newly acquired debt has allowed Cascade to lower
24 average interest rate costs by over 200 basis points.

1 **Q. Will any of the debt included in this filing come due within the next five years?**

2 A. Yes. As shown in the attached confidential Exhibit No. __ (TJN-2C), one long-term note
3 will mature in September 2020 in the amount of \$15,000,000. The Company anticipates
4 this amount will be replaced through a new long-term debt offering.

5 **Q. Does Cascade plan to issue any other debt in the next five years?**

6 A. Any long-term debt issuances planned for the next five years are provided in confidential
7 Exhibit No. __ (TJN-3C).

8 **Q. What is the rate of return and capital structure that Cascade is requesting in this**
9 **case?**

10 A. The Company is requesting a rate of return of 7.598 percent with a capital structure of 50
11 percent equity and 50 percent debt. The components and calculation of the proposed rate
12 of return are shown in the following table:

13 **Table 1. Proposed Rate of Return**

Proposed Rate of Return			
	<u>Capital Structure</u>	<u>Cost</u>	<u>Component</u>
Common Equity	50%	9.90%	4.950%
Total Debt	<u>50%</u>	5.295%	<u>2.648%</u>
	<u>100%</u>		<u>7.598%</u>

1 **Q. The Company is proposing a capital structure of 50 percent equity and 50 percent**
2 **debt. Why does the Company feel this is the appropriate capital structure?**

3 A. The requested capital structure is based upon Cascade’s actual average capital structure
4 for the last five years. As a regulated public utility, Cascade has the responsibility to
5 provide safe and reliable service to customers across its service territory. This requires
6 on-going investment in new plant for mains, services, meters, and other support facilities.
7 As part of the planning process, Cascade determines the amount of new financing needed
8 to support the capital expenditure program with a target of 50 percent debt and 50 percent
9 equity. The Company is committed to maintaining a healthy capital ratio, which Cascade
10 believes is in the best interests of its shareholders and customers, and reduces financial
11 risk for Cascade’s debt obligations. The following Table 2 provides a summary of
12 Cascade’s actual capital structure supporting the requested capital structure of 50 percent
13 equity and 50 percent debt.

14 **Table 2. Cascade’s Actual Capital Structure**

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

15 **Q. Why is the Company proposing a 9.90 percent return on equity?**

16 Dr. J. Stephen Gaske calculated a range for the cost of common equity capital for
17 Cascade’s Washington natural gas distribution operations based on a Discounted Cash
18 Flow (“DCF”) analysis of a group of proxy companies that have risks similar to those of
19 Cascade’s Washington gas distribution operations. Dr. Gaske then placed the Company
20 within the range of reasonableness established by the DCF analysis by comparing the

1 risks of Cascade's Washington natural gas distribution operations to those of the proxy
2 gas distribution companies and by considering several alternative benchmark analyses.
3 The basis for the requested 9.90 percent return on equity contained within the overall
4 requested rate of return is explained in further detail in the testimony of Dr. J. Stephen
5 Gaske. The Company agrees with the information presented and conclusion reached by
6 Dr. Gaske that a 9.90 percent ROE represents a fair return for both the company and its
7 customers.

III. CONCLUSION

8 **Q. Does this conclude your testimony?**

9 **A. Yes, it does.**