

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-15_____

CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF NICOLE A. KIVISTO

December 1, 2015

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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. I am also the President and CEO of Montana-Dakota
8 Utilities Co. (Montana-Dakota) and Great Plains Natural Gas Co., Divisions of MDU
9 Resources Group, Inc.

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

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

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

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

21 Prior to that, I was the Vice President, controller and Chief Accounting
22 Officer for MDU Resources for nearly four years, and held other finance related

1 positions prior to that.

2 II. SCOPE AND SUMMARY OF TESTIMONY

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

3 A. I will provide an overview of Cascade. I will also summarize the Company's rate
4 request in this filing, the primary drivers of the need for rate relief, and provide some
5 background on increasing costs facing the Company. My testimony will also
6 describe measures the Company has taken to control costs and increase operating
7 efficiencies that have allowed us to stay out of rate cases for over nine years. I will
8 also introduce the other witnesses providing testimony on the Company's behalf.

9 **Q. Would you please summarize Cascade's requested increase in this filing?**

10 A. Yes. Increasing rate base and operating expenses require Cascade to request an
11 increase of \$10,514,548 or 4.17 percent. This increase is based on an overall rate of
12 return of 7.65 percent with a capital structure common equity component of 50
13 percent and a return on equity of 10.00 percent. The Company is using a historical
14 test year based on the twelve months ended June 30, 2015. The test year was selected
15 as the most recent, appropriate, and supportable to represent the period in which rates
16 will be in effect. Michael Parvinen provides further discussion of the test period in
17 his testimony. The Company is using the results of an embedded cost of service
18 study as a starting point in the proposed spread of the requested increase to the
19 various rate schedules. The results of the cost of service study show that the
20 residential customer class is highly subsidized by the other rate classes; therefore the
21 proposed increase is being assigned all to the residential class in order to bring rates

1 more in line with the cost of service study. Ron Amen provides testimony supporting
2 the cost study and rate spread issues.

3 Based on an average usage level of 54 therms per month, the average
4 residential customer will see a bill increase of \$4.87 per month from \$54.47 to
5 \$59.34. This equates to an average increase of 8.93 percent.

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

7 A. Cascade's last filed general rate case in Washington was in 2006 and prior to that it
8 was 1995. The 2006 rate case resulted in a 2.7 percent increase or \$7 million in
9 additional revenue.

10 Q. **What was the average residential use per customer in the last general rate case?**

11 A. The average residential customer used 57 therms per month as opposed to 54 in this
12 case. This reduction in use per customer is a primary driver for requesting decoupling
13 in this case.

14 Q. **Please provide a brief description of the proposed Decoupling Mechanism.**

15 A. Cascade's proposed Decoupling Mechanism is a full decoupling mechanism based
16 upon a "revenue-per-customer" approach. Under the Decoupling Mechanism, the
17 Company will annually establish a rate applied to bills for bundled gas service that
18 will either credit or charge the incremental difference between Actual Revenues and
19 the Authorized Revenue per customer. Ms. Gross provides further support and
20 explanation of the proposed mechanism.

21 Q. **You state above that a residential customer's average bill will be \$59.34 with the**
22 **implementation of the requested increase. What was the average residential bill**
23 **after the conclusion of last general rate case?**

1 A. The average residential bill was \$71.49. On average, customers today are using fewer
2 volumes than ten years ago, and the cost of gas is significantly lower than it was ten
3 years ago. As a result, customers' bills will be significantly lower after this case than
4 they were when the last rate case was completed.

III. OVERVIEW OF CASCADE

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

6 A. Cascade provides natural gas distribution services in 96 communities in Washington
7 and Oregon. Cascade's headquarters are located in Kennewick, Washington.
8 Cascade is wholly owned by MDU Resources Group, Inc., located in Bismarck,
9 North Dakota. Cascade has 272,249 customers, of which 203,865 are in Washington.
10 Although Cascade serves approximately 50 communities in Washington, the largest
11 of those communities are Bellingham, Mt. Vernon, Bremerton, Tri-Cities, and
12 Yakima.

13 Cascade was originally formed in 1953 to serve smaller communities in the
14 Pacific Northwest. Cascade serves a non-contiguous service territory with 321
15 dedicated employees. Cascade became a subsidiary of MDU Resources in 2007.

IV. REASONS FOR RATE INCREASE REQUEST

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

18 A. There is not one primary factor causing the rate increase, but rather a combination of
19 increased rate base additions and increased pressures on operating and maintenance
20 (O&M) expenditures. Over the past several years, the Company has made substantial
21 investments to assure the safety and reliability of its system. The rate base included

1 in this filing is \$58 million (25%) more than in the last rate case. On the other hand,
2 even though rate base has increased significantly, customer growth has slowed.

3 Starting in 2013 the Cost Recovery Mechanism (CRM) began providing
4 accelerated recovery of investments made to insure safety. Over the last two years,
5 the CRM has provided recovery of and on approximately \$16.3 million of the rate
6 base increase. However, not all of the investment made by the Company since the last
7 rate case has been included in the CRM. Specifically, investment required to meet
8 the reliability needs of our customers is also requiring a substantial amount of
9 investment, which in turn creates increased rate pressure.

10 **Q. Can you elaborate further regarding drivers of the proposed rate increase?**

11 A. As an offset to the twenty-five percent increase in rate base since the last rate case,
12 there has only been an eleven percent increase in margin revenue. Total expenses
13 since the last rate case have increased \$11 million or 15.5% which is only about 1.5%
14 per year. Operating and Maintenance (O&M) costs account for 78% of the increased
15 expenses. O&M increases since the last rate case are primarily due to increased
16 requirements such as additional leak surveys and other requirements to provide safe
17 reliable service.

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

19 A. Cascade has a history of mitigating increased cost pressures in order to avoid filing
20 rate cases. Since the acquisition by MDU Resources, Cascade has found synergy
21 savings in the form of joint senior management, a unified call center, a joint billing
22 facility and process, and uniform accounting and customer information system
23 software. The utility group continues to look for ways to acquire such synergies

1 including a new Gas Management System (GMS). In fact, Administrative and
2 General (A&G) costs are lower in this case than the previous rate case.

3 Cascade has performed an A&G expense study to evaluate not only how
4 Cascade compares to its peers, but also how Cascade has been able to manage A&G
5 costs over the years particularly since the acquisition. Mr. Chiles presents the results
6 of the study.

V. CUSTOMER SUPPORT PROGRAMS

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

9 A. Cascade provides a number of programs to assist customers in meeting their energy
10 bill obligations. Cascade has its Low Income Rate Assistance Program (LIRAP) and
11 its Winter Helps program to provide bill assistance to low-income customers.
12 Cascade also offers a program called the Budget Payment Plan to customers, which
13 serves to reduce bill volatility associated with usage.

14 Cascade also provides conservation programs for all customers, as well as
15 conservation programs through community action agencies specifically designed for
16 low-income customers.

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

18 A. The Budget Payment Plan is an option for customers to make a flat payment for a
19 period of time thus flattening or levelizing their bill. The plan makes it easier for
20 customers to budget their payments. Under the plan, winter bills will be lower than if
21 billed based on actual usage, and summer bills will be higher than if billed based on
22 actual usage. Once a year, the account will be reset based on the previous year's

1 usage and residual balance.

2 **Q. How well received is the Company's Budget Payment Plan?**

3 A. As of December 31, 2014, there are 20,487 or 10.0 percent of Washington customers
4 participating in the Budget Payment Plan.

VI. OTHER COMPANY WITNESSES

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

7 A. Yes. The following additional witnesses are presenting direct testimony on behalf of
8 Cascade.

9 Mr. Mark Chiles, Vice President and Chief Accounting Officer – Western
10 Region, will address the Company's capital structure, the proposed cost of embedded
11 debt, and the overall rate of return. He will also discuss the results of the A&G cost
12 study to explain how Cascade's A&G costs compare to those of other companies as
13 well as the annual verification of actual A&G costs compared to what costs may have
14 looked like absent the acquisition by MDU Resources.

15 Mr. Stephen Gaske, senior Vice President – Concentric Energy Advisors, will
16 discuss the requested overall return on equity for Cascade.

17 Mr. Michael Parvinen, Director – Regulatory Affairs, will discuss the overall
18 revenue requirement, including the proposed adjustments, and will also explain the
19 Company's philosophy underlying its basic charge requests in this case.

20 Ms. Jennifer Gross, Regulatory Analyst, discusses the proposed decoupling
21 mechanism.

22 Mr. Ronald J. Amen, Director – Management Consulting at Black & Veatch,

1 has been retained to prepare and present the Company's embedded cost of service
2 study for the Washington service territory. Mr. Amen discusses his study results and
3 how each schedule's present and proposed rate compares to the indicated cost.

4 Ms. Pamela Archer, Supervisor – Regulatory Analysis, discusses the test year
5 revenue proof and the proposed tariff changes.

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

7 A. Yes.