Exhibit No. __ (TJN-1T)
Docket No. UG-20____
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-20______

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF TAMMY J. NYGARD

JUNE 19, 2020

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I. OVERVIEW

Q. Please state your name, business address and position.

A. My name is Tammy J. Nygard and my business address is 400 North Fourth Street, Bismarck, ND 58501. I am the Controller for Cascade Natural Gas Corporation ("Cascade" or "Company"), a wholly-owned subsidiary company of MDU Resources Group, Inc. ("MDU Resources"). I am also the Controller of Montana-Dakota Utilities Co. ("Montana-Dakota"), Great Plains Natural Gas Co. ("Great Plains"), and Intermountain Gas Company ("Intermountain"), subsidiaries of MDU Resources.

Q. Would you please describe your duties?

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

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

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

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

A. My testimony supports the Company's overall cost of capital recommendation in this case. To that end, I explain and support the Company's recommended cost of debt, capital structure, and rate of return.

Q. What is the Company's overall recommended cost of capital for this case?

A. Cascade proposes an overall rate of return ("ROR") of 7.544 percent, which provides a reasonable return for Cascade's investors at a fair cost to Cascade's customers. The recommended ROR is based on a 50.4 percent common equity ratio with a return on equity of 10.3 percent and a debt cost of 4.745 percent.

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

Q. How does Cascade finance its regulated utility operations?

A. Cascade finances its regulated utility operations with a mix of debt and common equity capital.

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

A. Confidential Exhibit No. __ (TJN-2C) details Cascade's currently outstanding debt and the associated maturity dates. Total outstanding debt as of December 31, 2019, was valued at $289,214,000 with maturity dates beginning in 2020. All the debt is unsecured term notes with tenors ranging from twelve years to forty years. Each issuance of debt requires either semi-annual or quarterly interest payments.

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

A. The average annualized cost of debt of 4.956 percent, which is calculated based on the weighted average outstanding debt as of December 31, 2019, inclusive of the annual amortization of the costs associated with the financing of the debt. The associated amortization has been computed on a straight-line basis over the remaining life of the issues. Cascade uses the same methodology for book accounting purposes. In 2020, the Company plans to retire $15 million of debt and has issued $50 million of additional long-term debt, which reduces the cost of debt in this case to 4.745 percent. Since 2006, the Company has been able to reduce its average annualized cost of debt from approximately 7.58 percent to 4.745 percent.

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

A. Yes. As shown in the attached confidential Exhibit No. __ (TJN-2C), one long-term note will mature in September 2020 in the amount of $15,000,000. The Company replaced this amount with new long-term debt issued on June 15, 2020.

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

A. Yes. As I mentioned above, the Company issued $50 million of additional long-term debt on June 15, 2020. As shown in confidential Exhibit No. __ (TJN-3C), this is the only new long-term debt issuance planned for the next five years.

Q. What is the overall ROR and capital structure that Cascade is requesting in this case?

A. The Company is requesting an ROR of 7.544 percent, which is based on a capital structure of 50.4 percent equity and 49.6 percent debt. The components and calculation of the proposed ROR are shown in the following table:

Table 1. Proposed Rate of Return

Proposed Rate of Return			
	Capital Structure	Cost	Component
Common Equity	50.4%	10.300%[1]	5.191%
Total Debt	49.6%	4.745%	2.353%
	100%		7.544%

[1] See, Exh. No.__(AEB-1T)

Q. You testified that the Company is proposing a capital structure of 50.4 percent equity and 49.6 percent debt. Why is a 50.4 percent equity ratio appropriate for the Company?

A. The Company's requested capital structure is based upon Cascade's actual (and targeted) average capital structure for the last two years. Consistent with our approach in the last general rate case, the Company's 2018 equity ratio was adjusted for an unanticipated $17.5 million short-term debt increase from higher gas costs in November and December resulting from the Enbridge incident.[2] As a result of the Enbridge incident, Cascade is recovering the increased gas costs over a three-year period rather than the normal one-year period. These increased costs, resulted in a non-current Purchased Gas Adjustment ("PGA") balance of $46.4 million at December 31, 2019. This resulted in a $46.4 million capital structure adjustment in 2019, as the Company does not finance gas costs with equity.[3]

As a regulated public utility, Cascade has the responsibility to provide safe and reliable service to customers across its service territory. This requires on-going investment in new plant for mains, services, meters, and other support facilities. As part of the planning process, Cascade determines the amount of new financing needed to support the capital expenditure program with a target of 50 percent debt and 50 percent equity. The Company is committed to maintaining a healthy capital ratio, which is in the

[2] The Company received $30 million of equity in September 2018, which was anticipated to result in a 50 percent equity ratio at December 31, 2018. However, the Enbridge incident caused increased gas costs in November and December 2018, and therefore higher unrecovered purchased gas costs. As a result, the Company incurred higher short-term debt costs than anticipated, which resulted in year-end equity percentage of slightly over 49 percent.

[3] The Company received $44 million of equity in 2019, which would result in a 50 percent equity ratio at December 31, 2019, excluding the PGA balance that is not expected to be recovered over the next year. Due to the Enbridge incident, which caused significantly higher gas costs, the Commission ruled to allow Cascade to recover those gas costs over a three-year period.

best interest of the Company's customers and shareholders, and also reduces financial risk for Cascade's debt obligations.

Table 2 provides a summary of Cascade's actual capital structure supporting the requested capital structure of 50.4 percent equity and 49.6 percent debt.

Table 2. Cascade's Actual Capital Structure

Capital Structure					
	12/31/2018	Adjusted 12/31/2018	12/31/2019	Adjusted 12/31/2019	Average
Total Debt	50.9%	49.2%	53.4%	49.9%	49.6%
Common Equity	49.1%	50.8%	46.6%	50.1%	50.4%

Q. Why is the Company proposing a 10.3 percent return on equity?

A. Ms. Ann E. Bulkley calculated a range for the cost of common equity capital for Cascade's Washington natural gas distribution operations based on multiple analytical methods, including the Discounted Cash Flow model, the Capital Asset Pricing Model, the Risk Premium Approach, and the Expected Earnings Analysis.[4] Ms. Bulkley then compared the range of results produced by these methods with the returns on equity for a group of proxy companies that have risks similar to those of Cascade's Washington gas distribution operations.[5] Finally, Ms. Bulkley considered the impact of current capital market conditions—including the current market volatility in response to the COVID-19 pandemic—on the results produced by the various analytical tools, using this review to further inform her opinion. In the end, Ms. Bulkley's multi-faceted and balanced approach produced the Company's requested 10.3 percent return on equity. Ms. Bulkley's comprehensive cost of capital analysis is detailed in her testimony.[6] The

[4] See, Exh. No.__AEB-1T, at 3:5-16.
[5] Ibid., at 8:1-9.
[6] Ibid.

Company agrees with the information presented and with the conclusion reached by Ms. Bulkley that a 10.3 percent ROE represents a fair return for both the Company and its customers.

III. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.