BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS CORPORATION,

Respondent.

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF NICOLE A. KIVISTO

September 30, 2021

REVISED
DECEMBER 8, 2021
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# LIST OF EXHIBITS

1. Exh. NAK-2 - Cascade’s Load Study Plan and Staff’s Compliance Letter
I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nicole A. Kivisto. My business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

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

A. I am the President and Chief Executive Officer (“CEO”) of Cascade Natural Gas Corporation (“Cascade” or “Company”), Intermountain Gas Company, and Montana-Dakota Utilities Co. (“Montana-Dakota”), all subsidiaries of MDU Resources Group, Inc. (“MDU Resources”) as well as Great Plains Natural Gas Co. a division of Montana-Dakota, collectively the MDU Utilities Group.

Q. Please describe your duties and responsibilities.

A. I have executive responsibility for the development, coordination, and implementation of strategies and policies related to operations of the above-mentioned companies that, in combination, serve over 1.1 million customers in eight states.

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

A. Yes. I hold a Bachelor’s Degree in Accounting from Minnesota State University Moorhead. I have worked for MDU Resources/Montana-Dakota for twenty-four years and have been employed in my current capacity as President and CEO since January 2015. I was Vice President-Operations of Montana-Dakota and Great Plains from January 2014 until assuming my present position.
Prior to that, I was the Vice President, Controller and Chief Accounting Officer for MDU Resources for nearly four years and held other finance-related positions prior to that.

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

A. Yes, I have previously testified before this Commission in Cascade’s most recent Washington rate cases, Dockets UG-200568, UG-190210, UG-170929, and UG-152286. I have also testified before the Public Utility Commission of Oregon in Cascade’s most recent Oregon rate cases, Dockets UG 390, UG 347 and UG 305.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony provides an overview of Cascade’s corporate profile, followed by a summary of Cascade’s limited issue rate request and a description of the primary drivers leading to this request for rate relief. Finally, I address the issues identified by the Commission in Order 05 of Cascade’s most recent general rate case, Docket UG-200568. This discussion includes updates on (1) The presentation of testimony and evidence, (2) Cascade’s work to design and implement a load study that would verify system usage by class and help inform the allocation of costs between customer classes, and (3) the impact of the COVID-19 global pandemic on Cascade and its customers.
III. OVERVIEW OF CASCADE

Q. Please briefly provide an overview of the Company.

A. Cascade was originally formed in 1953 to serve smaller and predominantly rural communities in the Pacific Northwest. Cascade now provides natural gas distribution service in 96 communities in Washington and Oregon, serving over 305,000 customers, of which 226,703 are in Washington. Cascade’s headquarters are located in Kennewick, Washington. Although Cascade serves 68 communities in Washington, most of the communities are quite small. The largest communities served by Cascade in Washington are Bellingham, Mt. Vernon, Bremerton, Tri-Cities, and Yakima. Cascade serves a non-contiguous service territory with 331 dedicated employees.

IV. CASCADE’S REQUEST FOR A RATE INCREASE

Q. Please summarize Cascade’s requested increase in this filing.

A. With this application, Cascade is seeking to increase revenues by $13.7 million. This represents a margin revenue increase of 11.07\% percent, or an overall revenue increase of 5.11\% percent. The Company is filing this limited issue rate case to address the most significant drivers behind Cascade’s continued under-earning, including actual rate base investment as well as the 2021 wage increase. Because of the limited scope of the case, the Company is proposing two options for a rate effective date. First, Cascade is requesting a compressed hearing schedule to accommodate an effective date eight months from the filing date. Alternatively, if the proceeding can be resolved through settlement, then Cascade requests a rate effective date of April 1, 2022 to coincide with the reversal of significant temporary surcharges currently embedded in sales customer rates. A
comprehensive discussion of the limited issue rate case is included in the testimony of
Company witness Mark Chiles.

Q. **Why is the Company filing a limited issue rate case at this time?**

A. Cascade’s cost of doing business in Washington continues to increase, despite the
Company’s measures to control costs and increase efficiency. The years prior to the
purchase of Cascade by MDU Resources Group Inc. in 2007 saw declining investment in
the system and an accumulation of deferred maintenance. Since 2008, the Company has
invested over $453 million, primarily to improve the safety and reliability of its
distribution system in Washington. While much progress has been made over this period,
Cascade must maintain its focus on system improvements and estimates it will invest
more than $178 million to ensure system safety and reliability between 2022 and 2026.
Further, the Company continues to experience increases in labor and personnel costs.
Because Cascade has identified capital expenditures and labor costs as the primary
drivers behind the increasing costs of maintaining a safe and reliable system, the
Company has limited this rate proceeding to recovery of these actual costs. The costs
include capital projects placed into service in 2020 that were used and useful by
December 31, 2020, as well as 2021 wage increases that were known and measurable at
the time of filing.

Q. **Please describe the test year in the Company’s filing.**

A. The Company’s filing uses a historical test year based on the twelve-month period that
ended December 31, 2020. The 2020 test year was selected because it is the most recent,
appropriate, and supportable period to represent the period in which rates will be in
effect. Capital projects that were completed and placed in service by the end of 2020 are
included in the Company’s requested rate base. Company witness Maryalice Gresham provides further discussion of the test period in her Direct Testimony, Exh. MCG-1T.

Q. Are there any other issues included in this filing?

A. The Company has identified the need for a debt issuance in 2022. Because the debt issuance is projected to result in a decrease in the cost of debt, Cascade has included the estimated lower cost of debt of 4.54 percent in the capital structure approved in Commission Order 05. This results in a 6.93 percent rate of return for Cascade as outlined in the testimony of Company witness Tammy Nygard.

Q. What is the average residential customer bill impact resulting from the proposed rate increase?

A. Cascade’s rate filing will result in a bill increase of $2.892.88 per month for the average residential customer using 54 therms per month, or a 5.345.33 percent increase. As a result, the average residential customer’s bill will increase from $54.08 per month to $56.9756.96. The rates for all other customer classes would increase as a result of this filing as well. The testimony of Company witness Pamela Archer details the proposed rate changes to all customer classes.

V. REASONS FOR RATE INCREASE REQUEST

Q. Please describe the factors influencing Cascade’s decision to seek a rate increase at this time.

A. Cascade’s need for a rate increase at this time is primarily the result of the progressive and significant impact of regulatory lag on cost recovery, and therefore earnings. In Cascade’s recent general rate case (“GRC”), Docket UG-200568, I testified that the
combination of significant rate base investments, increased pressures on operating and
maintenance ("O&M") expenditures, and the impacts of regulatory lag will likely require
the Company to file sequential rate cases in future years. This rate case reflects that
continued expectation and represents Cascade’s efforts to mitigate the impacts of
regulatory lag by recovering only actual test year costs – bridging the gap – until a more
comprehensive rate proceeding can be filed in late 2022 or 2023. Company witness Mark
Chiles discusses the limited issue rate case, including the multiyear rate plan requirement,
in his testimony.

Q. Has Cascade made all reasonable efforts to control costs in order to avoid the need
to file a new rate case?
A. Yes. Cascade’s management takes seriously the need for efficiency and cost-
effectiveness when making decisions that increase the safety and reliability of Cascade’s
system. Cascade acknowledges the issues raised by the Commission in Final Order 05 in
Cascade’s 2020 GRC, and the Company has executed cost saving measures in addition to
implementing the reduced rates established in the 2020 GRC. Since the acquisition of
Cascade by MDU Resources, the Company has been part of a One Vision, One Utility
process that has resulted in synergistic savings in the form of joint senior management, a
unified customer service center, joint billing and payment processing, uniform accounting
systems, combined engineering support, and shared information technology resources.
Even with these economies, however, Cascade has never met its authorized Rate of
Return, and earnings have been below target for the last six years. The testimony of
Company witness Mark Chiles further addresses the Company’s underearning.
Q. Please discuss the impact of capital expenditures on the need for a rate increase.

A. Cascade continues to correct years of declining investment that occurred before the purchase of the Company by MDU Resources. These investments are a necessary part of the Company’s obligation to deliver safe, reliable, and efficient service to its customers. Projects such as the Walla Walla Gate Project, which eliminates bypass during cold weather events and addresses supply issues, are critical in providing excellent service to customers. The capital expenditures outlined in this filing are also critical as we work toward a clean energy future. New energy sources such as renewable natural gas (“RNG”) and hydrogen that will be vital in reaching our state’s climate goals will be delivered to customers through our safe, reliable energy distribution system. Company witness Patrick Darras provides detailed information on 2020 capital investments in his testimony.

Q. Please elaborate on Cascade’s Clean Energy plans.

A. Cascade is reviewing opportunities to invest in RNG projects, which will enable the Company to acquire RNG for its customers. The Company works to fuel the Pacific Northwest with natural gas every day, and its commitment is to do that in a sustainable way to meet the demands of the region’s growing population. RNG is produced from organic materials like food, agricultural and forestry waste, landfills, and wastewater. As these materials decompose, they produce methane that can be captured, conditioned to pipeline quality, and delivered in the existing pipeline system to homes and businesses where it can be used in existing appliances and equipment. It can also be used in natural gas vehicles. This process closes the loop on waste and provides a renewable energy option for the natural gas system, in the same way that wind and solar are used to
generate renewable electricity. There is also the ability to create renewable hydrogen, through the power to gas process, from wind and solar energy that would otherwise go to waste and distribute the clean hydrogen gas through Cascade’s pipeline network. This turns the problem of waste into a powerful climate solution using Cascade’s pipeline network already in place.

Q. Please provide an overview of the Company’s efforts to maintain a safe and reliable system through a high-quality, skilled workforce.

A. Put simply, to ensure safe and reliable service, Cascade must provide fair compensation to attract and maintain a high-quality workforce. While many of Cascade’s personnel have been able to work remotely during the COVID-19 pandemic, the Company’s essential employees have continued reporting to work onsite (with increased safety measures) to ensure the provision of safe and reliable service. We are proud of the dedication that Cascade’s employees have shown during this difficult time to ensure that the quality, safety, and security of essential gas service remains unaffected by the broader economic disruptions.

However, the region was facing a tight labor market even before the pandemic, and COVID-19 has amplified many of those challenges. Cascade must compete for labor with companies that now allow remote work from anywhere.
VI. ISSUES FROM THE FINAL ORDER IN CASCADE’S 2020 GRC

Q. How does Cascade respond to the issues raised by the Commission in the Final Order of the Company’s 2020 GRC?

A. The Executive Team heard the Commission loud and clear, and the Company is working to correct the issues raised by the Commission in its Final Order. Specifically, this rate case addresses feedback regarding three major concerns: (1) the presentation of testimony and evidence, (2) Cascade’s load study, and (3) the impact of the COVID-19 global pandemic on Cascade and its customers.

A. Presentation of Evidence

Q. Please explain how the Company will address the issue regarding the presentation of testimony and evidence:

A. Cascade acknowledges that it is necessary to provide clear evidence presented in a timely manner such that all parties can understand, evaluate, and respond to the Company’s rate request. The Company takes to heart the Commission’s characterization of Cascade’s 2020 GRC testimony and exhibits as “haphazard”, and has taken steps to ensure it presents complete, clear and accurate information in this proceeding. Also, in this rate case Cascade has limited the scope of its rate recovery to actual costs, presented in a comprehensive but clear manner, and supported by relevant and cogent evidence.

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1 WUTC v. Cascade Natural Gas Corporation, Docket UG-200568, Order 05 at ¶ 204 (May 18, 2021).
B. Customer Class Load Study

Q. Please provide some background on the Customer Class Load Study process.

A. Cascade participated in the 2017 cost of service collaborative, which evolved into a cost of service study rulemaking in Dockets UE-170002 and UG-170003 (consolidated). The cost of service study rulemaking concluded in July 2020, with the adoption of final rules codified in WAC 480-85-010 through WAC 480-85-070. Cascade was active throughout the rulemaking and supports the final rules, which establish the cost of service study ("COSS") methodology designed to streamline, improve, and promote efficiency in analyzing rate cases, clarity of presentation, and ease of understanding.

Q. Is the Company submitting a cost of service study in this proceeding?

A. No. In its Final Order in Cascade’s 2020 GRC, the Commission referenced the recently-concluded COSS rulemaking and acknowledged that the Company cannot file a COSS until it first completes a load study that shows daily estimates of customers’ natural gas use. The Commission then established specific deadlines for Cascade to complete its load study.

Q. Please provide a status update for the Company’s Customer Class Load Study.

A. Cascade has made significant progress in the complex process of developing a load study that will serve as a basis for the Company’s future COSS. The Company is committed to completing and filing a load study by September 21, 2022, as directed by the Commission in its Final Order in the 2020 GRC. On August 20, 2021, the Company filed a progress report and written plan for completing the load study, and Commission Staff

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2 Id. at ¶ 381.
3 Id. at ¶ 385-86.
agreed that Cascade is prioritizing the completion of the load study and recommended
that the Commission find Cascade in compliance with Order 05. In addition, Cascade
held a meeting on September 10, 2021, with all intervenors from its 2020 GRC to discuss
the written plan, share preliminary findings based on Cascade’s February 2021 winter
event, and acquire feedback about the load study plan and preferred methodology. See
Exh NAK-2 for both Cascade’s Load Study Plan and Staff’s Compliance Letter.

C. COVID-19 and Other Customer Assistance Programs

Q. How is the COVID-19 pandemic continuing to impact Cascade and its customers?
A. COVID-19, and the rise of the Delta variant, continues to influence Cascade’s operations
and impact our customers. Cascade’s employees are taking appropriate measures to
operate safely and within recommended health guidelines, so the Company’s customers
continue to receive essential gas service. Last year the Company temporarily suspended
the collection of late payment charges for its customers and voluntarily implemented a
moratorium on service disconnections for non-payment related to customer hardships
resulting from the COVID-19 pandemic. Most of these measures are set to be lifted on
October 1, 2021. The collection of late payment charges will continue to be waived for
180 days following the resumption of service disconnections. Cascade is currently
conducting a vast outreach campaign to educate all Washington customers and inform
them of available financial assistance opportunities and payment plan options.

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Q. How has the Company responded to the needs of vulnerable customers during the pandemic?

A. The Company recognizes the impact COVID-19 has had on both the overall economy and the Company’s most vulnerable customers, and we understand the economic impact of COVID-19 was a significant consideration in the Commission’s Final Order in Docket UG-200568. In approving the Company’s request for End of Period rate treatment, the Commission stated, “Without EOP rate base treatment, Cascade will likely continue to under-recover in the rate effective period due to the extreme economic volatility caused by the COVID-19 pandemic, which remains ongoing.” Additionally, the Commission recognized that COVID-19 has had a significant impact on the ability of many customers to pay their bills.

The Company has implemented several customer support programs aimed at lessening the burdens caused by COVID-19 and easing the financial impact of increased rates. For example, the Commission approved Cascade’s proposed Hardship Economic Assistance Receivable Temporary (“Big HEART”) program, which helps customers who have lost their income due to the pandemic receive energy assistance.

Q. What is the Big HEART grant program?

A. The Big HEART grant program is a temporary COVID-19 bill assistance program. Residential natural gas customers having trouble paying their bills may apply for Big HEART hardship grants of up to $2,500 per account.
Q. What other steps has the Company taken in response to the COVID-19 pandemic?

A. Cascade provides additional assistance through its Washington Energy Assistance Fund ("WEAF") program for eligible low-income customers that can receive aid up to $500 per program year per household. Further, Cascade has been active in the Commission’s Docket U-200281, *In the Matter of the Response to the COVID-19 Pandemic*. As part of that proceeding, and as directed by the Commission in its 2020 GRC Final Order,\(^8\) Cascade is in consultation with its WEAF Advisory Group to develop a Disconnection Reduction Program to be filed with the Commission by May 18, 2022. Cascade plans to present a draft proposal of the Disconnection Reduction Program at an upcoming WEAF Advisory Group meeting. The Company strongly supports the goal of minimizing disconnections, and the Disconnection Reduction Program will help keep customers connected to vital services.

Q. Are there other ways Cascade supports customers that have difficulty paying for the natural gas service provided to them by the Company?

A. With the support of the Commission, Cascade currently provides its customers with several bill assistance and conservation programs designed to assist customers in meeting their energy bill obligations.

Regarding bill assistance, Cascade’s WEAF and its Winter Help programs provide needed bill assistance to low-income customers. Cascade also offers its customers a program called the Budget Payment Plan, which serves to reduce bill volatility associated with seasonal fluctuations in usage.

\(^8\) *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 at ¶ 204 (May 18, 2021).
The WEAF program has been successful and was updated to better serve low-income customers. To this end, the Commission approved the Company’s request to maintain the program’s spending cap at 2020-2021 levels. As a result, the program’s 2021-2022 funding was set at $1,467,400, which is allowed an incremental 5% soft cap should additional funds be needed. Cascade plans to file a status report on the WEAF program on April 1, 2022.

The Budget Payment Plan allows customers to opt in and make a flat payment for a period of time, thus flattening or leveling their monthly bill. Cascade has found that this plan makes it easier for customers to budget for their payments. As of July 31, 2021, there were 21,874 Washington customers participating in the Budget Payment Plan, comprising approximately 9.7% percent of Cascade’s customer base.

Finally, Cascade provides conservation programs for all customers, as well as conservation programs through community action agencies specifically designed for low-income customers. The Company’s conservation program budgets have seen a marked increase in the past few years, as shown in Table 1 below:

**Table 1. Conservation Program Budgets, 2017-2021**

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$3.8 million</td>
</tr>
<tr>
<td>2018</td>
<td>$5.1 million</td>
</tr>
<tr>
<td>2019</td>
<td>$6.1 million</td>
</tr>
<tr>
<td>2020</td>
<td>$7.6 million</td>
</tr>
<tr>
<td>2021</td>
<td>$8.5 million</td>
</tr>
</tbody>
</table>
The program budget has increased by more than one hundred percent in the last four years. It includes program delivery costs, the incentives offered to customers, and work with the Company’s regional partner, the Northwest Energy Efficiency Alliance.

Q. Have customers responded positively to the programs and services offered by the Company?

A. Yes. Cascade has consistently scored in the top tier of natural gas utilities in the J.D. Power annual surveys over the last several years and finished first in J.D. Power’s 2019 Gas Utility Residential Customer Satisfaction Survey for not only mid-size gas utilities but for all participating utilities. Cascade continued its tradition of superior customer service in 2020 finishing in second place behind Intermountain Gas Company. Cascade was also recognized by Escalent in 2021 as the “Easiest to Do Business With” of all utilities in the U.S. Escalent also ranked Cascade First in the “Environmental Champion” category and Second in “Most Trusted Brand”. The Company’s outstanding achievements are due to the exceptional work of our employees and Cascade’s focus on providing safe, reliable and efficient service to our customers.

VII. OTHER COMPANY WITNESSES

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

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

Ms. Tammy Nygard, Controller, will review the Company’s capital structure and address the Company’s cost of debt and the overall rate of return.
Mr. Patrick Darras, Vice President – Engineering & Operations Services, will support the Company’s 2020 actual capital expenses.

Mr. Mark Chiles, Vice President – Regulatory Affairs & Customer Service, will describe the details and bill impacts of this Limited Issue Rate Case as well as the Company’s request for End of Period (EOP) rate base.

Mr. James Kaiser, Director of Human Resources, will discuss the Company’s proposed wage adjustments related to retaining a high quality, well-trained workforce.

Ms. Pamela Archer, Senior Regulatory Analyst, will discuss the proposed tariff changes.

Ms. Maryalice Gresham, Regulatory Analyst, will discuss the Company’s proposed revenue requirement and supporting calculations.

Mr. Isaac Myhrum, Regulatory Analyst, will describe the details and provide support for the Company’s proof of revenue.

Mr. Brian Robertson, Supervisor – Resource Planning, will discuss the weather normalization adjustment and methodology behind the calculation.

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

A. Yes.