Exh. SAS-1T
Docket UG-240008
Witness: Stephanie A. Sievert

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-240008

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF STEPHANIE A. SIEVERT

March 29, 2024

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I. INTRODUCTION

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

A. My name is Stephanie A. Sievert and my business address is 1200 West Century Avenue, Bismarck, ND 58503. I am the Vice President, Chief Accounting Officer, and Controller for MDU Resources Group, Inc. ("MDU Resources"), the indirect ultimate parent company of Cascade Natural Gas Corporation ("Cascade" or "Company").

Q. Would you please describe your duties?

A. As Vice President, Chief Accounting Officer, and Controller, I am responsible for providing leadership and overall direction for the corporation's SEC and other financial reporting; taxation; and corporate, employee benefits and regulated operational accounting functions of MDU Resources. In addition, I am also responsible for leading the efforts of the corporation's sustainability reporting.

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

A. I graduated from the University of North Dakota with a Bachelor of Accountancy degree. I am a certified public accountant. I worked in public accounting for approximately one year before being employed with the MDU Resources' family of companies. I have over 25 years of experience in the energy industry. During my tenure with MDU Resources, I have held positions of increasing responsibility, including Accountant, Transportation Services Coordinator, Financial Analyst, and Controller for WBI Energy Transmission, in addition to Controller and my current position at MDU Resources.

Q. Are you sponsoring any exhibits in support of your direct testimony?

A. No, I am not presenting exhibits for this testimony.

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

A. My testimony supports the Company's overall pension expense recommendation in this case. To that end, I explain and support the Company's pension plan and recommended pension expense.

II. CASCADE'S MANAGEMENT AND FUNDING OF ITS PENSION PLAN IS REASONABLE AND APPROPRIATE

Q. Please describe Cascade's pension plan.

A. The pension plan provides a monthly pension benefit to eligible employees hired prior to December 31, 2006. Benefit accruals were frozen as of September 30, 2012, so no additional benefits are being earned under the plan and no new employees are allowed to enter the plan.

Q. Is Cascade's pension plan consistent with other utilities' plans?

A. The plan provisions for Cascade's pension plan are typical of most pension plans that were started prior to 1980. The plan has evolved over time to reduce benefit accruals. Since pension plans are only one component of a company's retirement program, differences can vary from company to company depending on the total retirement program offered.

Q. How much pension cost did the Company recognize in Washington for the 2023 test year related to Cascade's pension plan?

A. The total company 2023 annual expense for the plan was ($694,737), with ($521,539) allocated to Washington. The expense was negative so there was income related to the pension plan.

Q. What are the projected annual pension costs for 2024 and 2025?

A. Projected total company annual pension costs for 2024 and 2025 are $405,915 and $1,696,000, respectively. Of these amounts, the Company estimates $304,639 and $1,272,848 will be allocated to Washington. Company witness Jacob Darrington addresses the impact of these increases on the revenue requirement calculation in his direct testimony.

Q. What is the main driver of the increase in Cascade's pension costs in 2024 and 2025 from the amount recognized in 2023?

A. The plan experienced a large loss in 2022. The plan uses a three-year smoothing method for determining the Market Related Value of Assets, which is used for determining the expected return on assets component of the pension expense. As a result of the smoothing method, the full amount of the loss is not recognized immediately, but rather over a three-year period. As the loss is recognized, the Market Related Value of Assets is decreasing, which lowers the expected return component and increases the amount subject to loss amortization.

Q. How did the Company determine the annual pension costs for 2024 and 2025?

A. The annual costs were compiled by an outside actuarial consultant and used the most recent discount rates available as well as expected return assumptions. The projections considered minimum funding requirements and estimated administrative expenses in determining the expected expenses in future years. Gain/loss amortization periods reflect expected future data movement.

Q. Is Cascade's method for determining annual pension costs for 2024 and 2025 different from past years?

A. No. There have been no changes to Cascade's method for determining annual pension costs.

Q. Is Cascade's methods for determining annual pension costs consistent with the industry standard?

A. Yes. Cascade follows the pension related accounting standards published by the Financial Accounting Standards Board.

Q. How has Cascade controlled pension costs in the past?

A. In 2012, the plan froze benefit accruals. In 2016, the Company purchased an annuity buy-out for certain retirees. In 2017, the Company offered a lump sum to certain vested terminated participants. The Company has allocated assets in an effort to reduce interest rate volatility and has committed to fund the plan above minimum required contribution levels when necessary.

Q. Have these steps been effective in controlling pension costs?

A. Yes, these steps have been effective in controlling pension costs and reducing risk. Freezing benefit accruals has reduced the service cost associated with the plan. The annuity purchase removed longevity risk from the plan and reduced Pension Benefit Guaranty Corporation ("PBGC") fixed-rate premiums. The lump sum window removed interest rate and longevity risk from the plan as well as reducing the PBGC premiums. Both the annuity purchase and lump sum window were targeted to smaller annuities, which limited the liability losses of such transactions. Allocating significant assets to reduce interest rate volatility has offset gains and losses on liabilities by having similar impact on asset returns.

Q. What is Cascade doing to control pension benefit costs and risks in the future?

A. The Company meets annually to consider options to reduce the risk in the pension plan as well as ways to save costs. All risks to the pension fund are carefully considered. Each option is analyzed closely to consider all impacts from both a cash and accounting perspective, as well as from a risk reduction perspective.

Q. Is Cascade's funding of the pension consistent with Internal Revenue Service requirements?

A. Yes.

Q. How does the pension plan benefit current and future Cascade customers?

A. The pension plan is a component of the retirement program offered by Cascade. This program is used to retain valuable employees, which aids in offering high quality service and, therefore, enhances customer satisfaction.

III. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes it does.