

**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 TAMMY J. NYGARD**

**MARCH 29, 2024**

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## LIST OF EXHIBITS

Exh. TJN-2	Proposed Utility Capital Structure
Exh. TJN-3	Provisional Additions to Plant in Service 2024-2025

## I. INTRODUCTION

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

2 A. 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. (“Montana-Dakota”), Great Plains Natural Gas Co. (“Great Plains”), and  
7 Intermountain Gas Company (“Intermountain”), subsidiaries of MDU Resources, and  
8 collectively “MDU Utilities Group.”

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

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

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

15 A. I graduated from the University of Mary with a Bachelor of Science degree in  
16 Accounting and Computer Information Systems. I have 22 years of experience in the  
17 utility industry. During my tenure with the Company, I have held positions of increasing  
18 responsibility, including Financial Analyst for Montana-Dakota, Director of Accounting  
19 and Finance for Cascade, and my current position, Controller.

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

2 A. My testimony supports the Company's overall cost of capital recommendation in this  
3 case. To that end, I explain and support the Company's recommended cost of debt,  
4 capital structure, and rate of return. In addition, I provide testimony supporting the  
5 financial group's capital expenditures for which Cascade seeks recovery in this case.

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

7 A. Cascade proposes an overall rate of return ("ROR") of 7.894 percent, which provides a  
8 reasonable return for Cascade's investors at a fair cost to Cascade's customers. The  
9 recommended ROR is based on a 50.285 percent common equity ratio with a return on  
10 equity of 10.5 percent, a long-term debt cost of 4.916 percent, and a short-term debt cost  
11 of 8.014 percent as illustrated in Exhibit TJN-2, page 1.

12 **Q. Are you sponsoring any exhibits in this proceeding?**

13 A. Yes, I am sponsoring the following exhibits:

- 14 • Proposed Utility Capital Structure, Exh. TJN-2
- 15 • Provisional Additions to Plant in Service 2024-2025, Exh. TJN-3.

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

16 **Q. Would you please explain Exhibit TJN-2, page 2?**

17 A. Yes. This exhibit summarizes the average utility capital structure and the related costs of  
18 debt and common equity of Cascade for the twelve months ended December 31, 2023  
19 and the projected average capital structure for 2024 and 2025. This capital structure and  
20 the associated costs serve as the basis for the overall rate of return requested by Cascade

1 in this rate case filing of 7.894 percent. The basis for the requested 10.5 percent return on  
2 common equity contained within the overall requested rate of return is supported by the  
3 testimony of Ms. Ann E. Bulkley in Exh. AEB-1T.

4 **Q. What are the components of the rate of return requested in this case?**

5 A. The components of the 2024 projected overall annual rate of return, which are used by  
6 Mr. Darrington to calculate the revenue requirement, are shown in Table 1 below:

7 **Table 1. Components of 2024 Rate of Return**

	Ratio	Cost	Weighted Cost of Capital
Long-Term Debt	44.214%	4.916%	2.173%
Short-Term Debt	5.501%	8.014%	0.441%
Equity	50.285%	10.500%	5.280%
Rate of Return	100.000%		7.894%

8 Mr. Darrington uses the 2024 rate of return to calculate the revenue requirement  
9 in this case. In addition, the Company calculated the components of the 2025 projected  
10 overall annual rate of return, which confirms the validity of the rate of return requested in  
11 this case. The components of the projected 2025 overall rate of return are shown in Table  
12 2 below:

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**Table 2. Components of 2025 Rate of Return**

	Ratio	Cost	Weighted Cost of Capital
Long-Term Debt	45.531%	4.960%	2.258%
Short-Term Debt	1.747%	7.460%	0.130%
Equity	52.722%	10.500%	5.536%
Rate of Return	100.000%		7.924%

2 **Q. How does the Company finance its natural gas utility operations and determine the**  
3 **amount of common equity and debt to be included in its capital structure?**

4 A. As a regulated public utility, the Company has a duty and obligation to provide safe and  
5 reliable service to its customers across its service territory while prudently balancing cost  
6 and risk. In order to fulfill its service obligations, the Company has made, and plans to  
7 make, significant capital expenditures for new plant investment throughout its service  
8 territory, especially in mains and services. These new investments also have associated  
9 operating and maintenance costs. Through its financial planning process, the Company  
10 determines the amounts of necessary financing required to support these activities.  
11 Cascade finances its operations with a target of 50 percent common equity capital  
12 structure at year end. Capital expenditure investments are financed through a mix of  
13 internally generated funds, the utilization of the Company’s short-term credit line and the  
14 issuance of additional long-term debt and common equity financing as required to  
15 maintain targeted capital ratios and finance the combined utility operations.

1 **Q. Please describe the common equity injections Cascade received in the test year and**  
2 **that are projected for each year of the multiyear rate plan.**

3 A. The Company received \$45 million of common equity in 2023 and is expecting \$25  
4 million of common equity in 2024. The Company is not expecting to receive any  
5 additional common equity in 2025.

6 **Q. Please describe the debt issuances that occurred in the test year and that are**  
7 **projected during the multiyear rate plan, as well as any long-term debt that will**  
8 **mature during the multiyear rate plan.**

9 A. The Company issued \$100 million of long-term debt in 2023 and is not expecting to issue  
10 any new long-term debt in 2024 or 2025. In 2025, the Company has \$25 million of senior  
11 notes maturing.

12 **Q. What does Exhibit TJN-2, pages 3 through 5 show?**

13 A. Page 3 shows the cost and the debt balance by issue at December 31, 2023. Page 4 shows  
14 the projected cost and the debt balance by issue at December 31, 2024, and page 5 shows  
15 the projected cost and the debt balance by issue at December 31, 2025, including the \$25  
16 million of long-term debt maturity, as previously discussed.

17 **Q. How did you derive the projected cost of debt for 2024 and 2025?**

18 A. The projected cost of debt for 2024 and 2025 is based upon the yield-to-maturity of each  
19 debt issue outstanding.



1 **Q. Would you please describe Exhibit TJN-2, page 6?**

2 A. TJN-2, page 6 presents the twelve-month average short-term debt balance for 2023 and  
3 projected 2024 and 2025 as well as the average cost of short-term debt. A twelve-month  
4 average of short-term debt is used in the cost of capital calculation to reflect the  
5 seasonality in the short-term debt balance. Short-term debt is historically at or near its  
6 peak in December and the twelve-month average calculation is more reflective of the  
7 borrowing level than a year-end balance.

8 **Q. Please explain the decrease in short-term debt that is projected during the multiyear**  
9 **rate plan.**

10 A. The decrease in short-term debt from 2023 to 2025 is driven by higher gas costs in  
11 December 2022 and January 2023 being recovered over a two-year period from  
12 November 2023 through October 2025.

13 **Q. What does page 7 of Exhibit TJN-2 show?**

14 A. The schedule presents the average common equity balance at December 31, 2023 and the  
15 projected average balances for December 31, 2024 and December 31, 2025 reflecting the  
16 projected activity in the balances.

17 **Q. You testified that the Company is proposing a capital structure that includes 50.285**  
18 **percent equity. Why is this equity ratio appropriate for the Company?**

19 A. The Company's requested capital structure is based upon Cascade's actual (and targeted)  
20 capital structure. The Company's 2023 and 2024 equity ratio was normalized for an  
21 unanticipated short-term debt increase due to higher gas costs in December 2022 and

1 January 2023. The high gas costs are being recovered over a two-year period rather than  
2 the normal one-year period, as authorized in Docket UG-230745. These increased costs  
3 resulted in a Purchased Gas Adjustment (“PGA”) balance of \$153 million at December  
4 31, 2023 and a projected balance of \$74 million at December 31, 2024. The Company’s  
5 normalized 2023 equity ratio was 50.422 percent.

6 **Q. How does Cascade’s proposed equity ratio for this case compare to the normalized**  
7 **equity ratio for the test year and the projected equity ratio?**

8 A. Cascade’s proposed equity ratio of 50.285 percent is:

- 9 • lower than the 2023 normalized equity ratio of 50.422 percent;
- 10 • consistent with the projected normalized equity ratio for 2024; and
- 11 • lower than the projected equity ratio of 52.722 percent in 2025.

12 **Q. Has the Commission previously recognized that a company’s equity ratio should not**  
13 **be lowered when increased gas costs reduce the company’s actual equity ratio?**

14 A. Yes. In Docket UG-200568, the Commission declined other parties’ requests to decrease  
15 Cascade’s authorized equity ratio, following the Enbridge explosion. The Commission  
16 stated that its decision would provide stability during a time of volatility in the  
17 Company’s equity ratio and avoids penalizing the Company with a lower ROR resulting  
18 from increased gas costs.<sup>1</sup>

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<sup>1</sup> See *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 ¶¶ 75-77 (May 18, 2021)

1 **Q. What standard does the Commission apply when considering the appropriate**  
2 **capital structure for regulated utilities?**

3 A. As the Commission stated in Cascade’s 2021 rate case, when establishing a capital  
4 structure for ratemaking purposes, the Commission seeks to strike an appropriate balance  
5 between debt and equity on the bases of economy and safety. The economy of lower cost  
6 debt, on which the Company has a legal obligation to pay interest, must be balanced  
7 against the safety of higher cost common equity on which the Company has no legal  
8 obligation to pay a return at any set time.<sup>2</sup>

9 **Q. Please elaborate on why Cascade’s proposed capital structure appropriately**  
10 **balances safety and economy.**

11 A. The Company’s capital structure must strike an appropriate balance between debt and  
12 equity with debt providing economy and equity providing safety. The capital structure  
13 must contain sufficient equity to provide financial security, but no more than necessary to  
14 keep rate payer costs at a reasonable level.

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

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<sup>2</sup> See *WUTC v. Cascade Natural Gas Corporation*, Docket UG-210755, Order 09 ¶ 91 (August 23, 2022).

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

3 **Q. Is Cascade facing risks to its cost of debt and ability to obtain financing?**

4 A. Yes. As discussed in the testimony of Nicole A. Kivisto in Exh.NAK-1T, Cascade has  
5 recently received a rating downgrade from S&P Global and a revised Outlook to  
6 Negative from Stable from Fitch Ratings. The ratings are important because they impact  
7 Cascade's ability to access debt at reasonable rates. If Cascade's credit ratings were to  
8 fall below investment grade, it would cause additional harm to an already declining risk  
9 perception of the Company in debt markets. The Company's borrowing costs would  
10 increase. A downgrade would immediately raise Cascade's cost of short-term borrowing  
11 and would increase the cost for future long-term borrowings. The debt cost assumptions  
12 embedded in Cascade's proposed Capital Structure assume that this multiyear rate plan  
13 filing eases the concerns of the rating agencies and the investment community and allows  
14 Cascade continued access to debt at reasonable rates.

**III. PROVISIONAL PLANT ADDITIONS**

15 **Q. Are you sponsoring any provisional plant additions?**

16 A. Yes. I am sponsoring four minor provisional plant additions. They are the CC&B  
17 Upgrade and Betterment, the PowerPlan Upgrade, the UI Planner Upgrade, and the  
18 Tungsten Autovoucher. Each of these projects will upgrade existing software for changes  
19 and improvements. Upgrading to the newer versions allows Cascade to take advantage of  
20 additional features incorporated into the software and allows the Company to keep

1 maintenance costs low and security concerns to a minimum. The total cost for these plant  
2 additions is shown in Table 3, with additional detail in Exh. TJN-3.

3 **Table 3. Provisional Additions to Plant in Service 2024-2025 - Minor Projects**

Description	WA 2024 Cascade Plant Additions	WA 2025 Cascade Plant Additions
Total Specific Projects	\$644,885	\$894,394
Total Programmatic Projects	\$0	\$0
<b>Total Provisional Additions to Plant In-Service 2024-2025 - Minor Projects</b>	<b>\$644,885</b>	<b>\$894,394</b>

**IV. CONCLUSION**

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

5 **A. Yes, it does.**