WUTC DOCKET: UG-190210
EXHIBIT: TJN-1T
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Exhibit No. __ (TJN-1T)
Docket No. UG-19____
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-19______

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF TAMMY J. NYGARD

March 29, 2019

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I. OVERVIEW

Q. Would you please state your name, business address and position?

A. Yes. 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 Group.

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 17 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 7.728 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 50.0 percent common equity ratio with a return on equity of 10.3 percent and a debt cost of 5.155 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, 2018, was valued at $214,361,000 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 5.308 percent is calculated based on the weighted average outstanding debt at December 31, 2018, 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 2019, the Company plans to issue $50 million of additional long-term debt, which reduces the cost of debt in this case to 5.155 percent. Since 2006, the Company has been able to reduce its average annualized cost of debt from approximately 7.58 percent to 5.155 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 anticipates this amount will be replaced through a new long-term debt offering.

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

A. Any long-term debt issuances planned for the next five years are provided in confidential Exhibit No. __ (TJN-3C).

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

A. The Company is requesting an ROR of 7.728 percent, which is based on a capital structure of 50 percent equity and 50 percent debt. The components and calculation of the proposed rate of return are shown in the following table:

Table 1. Proposed Rate of Return

Proposed Rate of Return			
	Capital Structure	Cost	Component
Common Equity	50%	10.300%[1]	5.150%
Total Debt	50%	5.155%	2.578%
	100%		7.728%

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

Q. The Company is proposing a capital structure of 50 percent equity and 50 percent debt. Please explain.

A. The Company's requested capital structure is based upon Cascade's actual (and targeted) average capital structure for the last two years, adjusting 2018 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 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 Cascade believes is in the best interests of its shareholders and customers, and reduces financial risk for Cascade's debt obligations. The following Table 2 provides a summary of Cascade's actual capital structure supporting the requested capital structure of 50 percent equity and 50 percent debt.

Table 2. Cascade's Actual Capital Structure

Capital Structure				
	12/31/2017	12/31/2018	Adjusted 12/31/2018	Average
Total Debt	50.8%	50.9%	49.2%	50.0%
Common Equity	49.2%	49.1%	50.8%	50.0%

[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, due to the Enbridge incident, which caused increased gas costs in November and December 2018, and therefore higher unrecovered purchased gas costs, the Company incurred higher short-term debt costs than anticipated, which resulted in year-end equity percentage of slightly over 49 percent.

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.[3] 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.[4] Finally, Ms. Bulkley considered the impact of current capital market conditions 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.[5] The Company agrees with the information presented and 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.

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[3] *See*, Exh. No.__AEB-1T at 3, lines 5-16.
[4] *Id.* at 8, lines 1-9.
[5] *Id.*