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EXHIBIT: NAK-1T
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Exhibit No. __ (NAK-1T)
Docket No. UG-19____
Witness: Nicole A. Kivisto

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 NICOLE A. KIVISTO

March 29, 2019

TABLE OF CONTENTS

I. INTRODUCTION 1
II. SCOPE AND SUMMARY OF TESTIMONY 2
III. OVERVIEW OF CASCADE 4
IV. REASONS FOR RATE INCREASE REQUEST 4
V. CUSTOMER SUPPORT PROGRAMS 8
VI. UPDATE ON CUSTOMER CLASS LOAD STUDY 10
VII. OTHER COMPANY WITNESSES 12

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. My e-mail address is nicole.kivisto@mdu.com.

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, Montana-Dakota Utilities Co. ("Montana-Dakota"), and Great Plains Natural Gas Co. ("Great Plains"). After restructuring, all of these companies are now subsidiaries of MDU Resources Group, Inc. ("MDU Resources"), located in Bismarck, North Dakota. Together, these four utilities comprise the Montana Dakota Utilities Group (MDUG or Utilities Group). Cascade became a wholly-owned subsidiary of MDU Resources in 2007.

Q. Please describe your duties and responsibilities.

A. I have executive responsibility for the development, coordination, and implementation of strategies and policies relative to operations of the above-mentioned companies that, in combination, serve over one 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, Docket No. UG-170929 and Docket No. UG-152286. I have also testified before the Public Utility Commission of Oregon in Cascade's most recent Oregon rate cases, Docket No. UG 347 and Docket No. UG 305.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony covers numerous subject areas, including an overview of Cascade's corporate profile, a brief summary of the Company's rate request, and a description of the primary drivers leading to this request for rate relief. I also provide background on Cascade's increased spending on system improvements and describe measures the Company has taken to control costs and increase operating efficiencies, allowing it to reduce the impact of this request. Finally, I provide the Commission an update on 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.

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

A. Cascade's cost of doing business in Washington is increasing despite the Company's efforts to control costs and increase efficiency. Since 2008, the Company has invested over $406.6 million to improve the safety and reliability of its distribution system in

Washington. While much progress was made over this period, Cascade believes it necessary to maintain its focus on system improvements and estimates it will invest more than $282 million to ensure system safety and reliability between 2019 and 2023. Further, the Company continues to experience increases in labor and personnel costs, general inflation across its business lines, and to some degree customer growth.

Cascade's rate base growth and increased operating expenses since its last filed rate case require it to request an overall rate of increase of $12,708,529 million or 5.6 percent. The Company's demonstrated increase is based on an overall rate of return of 7.728 percent based on a weighted capital structure of 50 percent common equity, 50 percent long-term debt, and a return on equity of 10.3 percent.

The Company's filing uses a historical test year based on the twelve-month period that ended December 31, 2018. The 2018 test year was selected as the most recent, appropriate, and supportable to represent the period in which rates will be in effect. In addition, certain capital projects expected to be complete and in service by the end of 2019 have also been pro formed into the Company's requested rate base. Company witness Maryalice Peters provides further discussion of the test period in her testimony.

As to rate spread and rate design, the Company's proposed tariffs reflect its application of an equal percent of margin increase or decrease to each rate class, except for Special Contracts. This proposed rate treatment is consistent with the Commission's order in the Company's last rate case. No changes to rate design are proposed by Cascade, including the customer charge. Again, this treatment is consistent with the Commission's order in the last rate case.

Cascade's rate filing will result in a bill increase of $2.83 per month for the average residential customer using 57 therms per month. As a result, the average customer's bill will increase from $46.01 per month to $48.85.

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 294,462 customers, of which 218,540 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 of the communities served by Cascade in Washington are Bellingham, Mt. Vernon, Bremerton, Tri-Cities, and Yakima. Cascade serves a non-contiguous service territory with 268 dedicated employees.

IV. REASONS FOR RATE INCREASE REQUEST

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

A. As I express earlier in my testimony, there are several factors that have contributed to the Company's decision to file a general rate case. When examined as a whole, the combination of significant rate base investments, increased pressures on operating and maintenance ("O&M") expenditures, and the progressive and deleterious impact of regulatory lag on cost recovery, and consequently earnings, require the Company to file this rate case and sequential rate cases in future years.

Q, Please explain how regulatory lag creates a progressive and deleterious drain on the Company's finances.

A. First, I believe it is necessary to put the Company's circumstances in context. Cascade is in the middle of a needed campaign to improve the safety and reliability of its distribution system. In 2016 and 2017, the Company's invested capital in Washington exceeded $31.1 million and $42.4 million, respectively. In the 2018 test year, the Company's capital investment in Washington increased to $93.5 million and is projected to exceed $86.6 million in 2019. As noted earlier in my testimony, Cascade will continue to make significant capital investments in Washington through 2023 and has budgeted more than $195 million to achieve its reliability objectives.

Cascade's investment history and future objectives demonstrate the Company's clear commitment to improve its Washington properties for the benefit of its customers and the public. However, the Company's commitment to invest in and improve its system will continue to negatively impact Cascade's earnings unless the progressive impacts of regulatory lag can be reliably mitigated.

As necessary background, please recall that the 2017 filing was based upon a historical test year that ended on December 31, 2016.[1] Therefore, the capital investments made by Cascade since then and not included in the Commission-approved pipeline replacement cost recovery mechanism have not been included in rate base until this filing – a period exceeding two years for the capital projects completed in early 2017. As a result,

[1] The use of the Average of Monthly Averages methodology for determining plant allowed into rate base results in the exclusion of a percentage of plant put into service during the test year.

Cascade incurred approximately $56 million of unrecovered capital costs during this period.

Expressed nominally, the unrecovered return *of* and *on* the investments not included in the 2016 test year and made in 2017 is estimated to be $4.6 million. By the end of 2018, the cumulative total of 2016, 2017, and 2018 unrecovered return *of* and *on* invested capital is estimated to be $13.7 million. At the same time, the Company has incurred and booked a cumulative total of $2.29 million in unrecovered depreciation expense over these periods. Even though the Commission may approve the Company's in-service investments made in 2016, 2017 and 2018 in this rate case, Cascade will never recover the return *of* and *on* these investments from their in-service date to the start of new rates approved by the Commission's final order in this docket. This is the essence of the regulatory lag affecting Cascade during this period of extraordinary capital investment—progressive regulatory lag resulting in accumulating carrying costs and earnings below its authorized return. Mr. Parvinen also provides similar calculations of the impact of regulatory lag in Exhibits__(MPP-3) and (MPP-4).

The accumulation of these deleterious financial impacts can be mitigated but not eliminated by annual rate cases designed to timely capture all in-service capital investments made by the Company. However, unless an end of period adjustment is allowed by the Commission, the Company will not capture the full value of projects put into service in 2018, requiring it to carry portions of these projects into the next rate case. As these unrecognized capital investments accumulate, the incentive to file a new rate case early in

2020 intensifies, thus exacerbating the back-to-back rate case cycle.

Until its capital investments can be recognized for rate treatment without having to file a general rate case, Cascade will have no choice but to file annual rate cases over the next five years. To be clear, Cascade would like to avoid the cost and efforts devoted to annual rate case filings but believes it to be the only available option until more timely cost recovery opportunities are approved by the Commission.

Q. Does the Company believe the regulatory outcomes in Washington influenced the recent downgrade of the Company's financial ratings?

A. Yes. On August 1, 2018, Fitch Ratings downgraded Cascade's Issuer Default Rating from "A-" to "BBB+." In addition, the agency downgraded the Company's Unsecured debt rating from "A" to "A-." To support its downgrade decision, Fitch expressly noted the Company's "challenging" regulatory environment in Washington, the limited recovery of rate base included in the last rate filing, and Cascade's inability to earn its "authorized return for several years."[2] While regulatory lag was not expressly called out in the Fitch report, there is no question that under-recovery of invested capital has negatively impacted earnings.

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 on new investments or operational expenses. As examples, Cascade has found synergy savings since its acquisition by MDU Resources. These savings

[2] FitchRatings, "Fitch Affirms MDU Resources, Centennial Energy; Downgrades Cascade; Outlook Stable", August 1, 2018, https://www.fitchratings.com/site/pr/10040135.

have been produced by streamlining senior management, forming both a unified customer service center and a joint billing facility, restructuring processes to create efficiencies, and investing in uniform accounting and customer information system software.

The Utilities Group also seeks to maximize synergies and create efficiencies. To this end, we have approved the acquisition of a new Gas Management System and centralized other operations and functions. The Company also takes seriously its obligation to deliver safe, reliable, and efficient service to its customers, and I can assure the Commission that Cascade has and will continue to take the steps necessary to fulfill this obligation.

V. CUSTOMER SUPPORT PROGRAMS

Q. How does Cascade support 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 a number of bill assistance and conservation programs designed to assist customers in meeting their energy bill obligations.

Regarding bill assistance, Cascade's Washington Energy Assistance Fund ("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.

The WEAF program has been very successful and was recently updated to better serve low-income customers. To this end, the Commission approved the Company's request to increase the program's spending cap. As a result, the program's 2018-2019 funding was set at $1,329,400 and it is projected to grow to $1,467,400 by program year

2020-2021. In addition, the program is allowed an incremental 5% soft cap should additional funds be needed.

Cascade also offers a Budget Payment Plan for customers that allows those that opt in to 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 their payments. As of December 31, 2018, there were 21,243 Washington customers participating in the Budget Payment Plan, comprising 9.7% percent of Cascade's customer base.

Cascade also 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. Through 2017 the Company's program expenses annually had not exceeded $3.6 million. In 2018, however, Cascade's energy efficiency budget increased to meet higher therm savings goals to approximately $5.1 million with 2019's budget set at approximately $6.1 million, which includes program delivery costs, the incentives offered to customers, and work with regional partner, the Northwest Energy Efficiency Alliance.

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

A. Yes. I am proud to inform the Commission that Cascade finished first in J.D. Power's 2018 Gas Utility Residential Customer Satisfaction Survey for mid-size gas utilities. The Company's outstanding achievement was due to the exceptional work of our employees and Cascade's focus on providing safe, reliable and efficient service to our customers.

VI. UPDATE ON CUSTOMER CLASS LOAD STUDY

Q. Please describe Cascade's agreement to conduct a load study for the purpose of determining commodity usage by core customer classes.

A. As part of the settlement of UG-170929, the Company agreed to design and conduct a study that would allow it to more accurately assess commodity usage among its core customer classes. Upon implementation, the study will be used to verify system usage by class and help inform the allocation of costs between the classes. For purposes of this case, the Company has spread the proposed increase on an equal percent of margin to each class except for Special Contracts, as called for in the settlement.

Q. Did the Commission establish a deadline for completion of the study?

A. No, it did not. The Commission's final order observed that the parties' settlement contained no deadline for the study's completion and it approved the settlement terms, as written. It did, however, comment on the rate spread restrictions noted above, stating that the agreement imposed "appropriate parameters and restrictions on the allocation of future rate increases until such time as a load study or detailed load analysis is complete."[3] The Commission's willingness to allow Cascade the time necessary to make what it believes to be the best decision for it and its customers is much appreciated.

Q. Please explain the Company's philosophy regarding the parameters of its load study.

A. From the Company's perspective, an acceptable load study should be designed to balance the study's objectives with its overall cost, including necessary system and back office

[3] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation*, Docket UG-170929, Order 06 at ¶ 72 (July 20, 2018).

modifications. To this end, the flexibility provided by the Commission's order has allowed Cascade the opportunity to consider its options, weigh expected costs, and assess the range of benefits.

Q. Has Cascade settled on a study design consistent with these principles?

A. Yes, the Company has examined its options and based on its preliminary analysis, believes the load study can be completed in less time and at a lower cost using newly installed equipment and existing personnel.

Q. Please explain.

A. Cascade's goal is to arrive at a reasonable result using the technologies and personnel at hand. We are scoping the use of newly installed Encoder Receiver Transmitters ("ERT") in combination with reprogramming Mobile Meter Reading ("MMR") equipment to take the readings necessary to effectively determine customer class usage over a designated period. By using the combination of ERT and MMR equipment, the Company believes it can minimize the study's costs and maximize its benefits. Importantly, the Company also believes it can produce comparable and useful results over a reasonable period.

Q. What is the Company's expected timeline for completion of the load study?

A. Cascade hopes to begin data collection over the next heating season, assuming the final study design and anticipated equipment modifications can be completed over the summer. I must caution, however, that the study's completion will be weather dependent.

An important cost allocation factor is the determination of peak day usage by class. Obtaining the peak usage data requires the existence of a peak day or even better, a number of peak or near peak days, to produce statistically meaningful data points. Therefore, the load study could take more than one heating season to complete should peak day temperatures and loads fail to occur.

Q. Will the Company share its data collection strategy with the Commission prior to implementation?

A. Yes, that is the Company's intent. When the final draft of the load study has been prepared, the Company will present it to the Commission, interested parties, and stakeholders for review and comment.

Q. Cascade considered building out of a Fixed Area Network to enhance the collection of customer usage data and improve system operations, is this option still being considered?

Yes, construction of a Fixed Area Network ("FAN") remains a key objective for Cascade. At this time, the Company is scoping the network's design and required technologies. Once this work is completed, it will then turn to finalizing the project's capital budgets and timeline for construction. If a FAN is determined to be cost-effective and technologically feasible, Cascade anticipates that its construction could be complete by 2024.

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 address the Company's capital structure, the proposed cost of embedded debt, and the overall rate of return.

Ms. Ann E. Bulkley, Senior Vice President – Concentric Energy Advisors, will discuss the requested overall return on equity for Cascade.

Mr. Michael Parvinen, Director – Regulatory Affairs, discusses the impact of regulatory lag on the Company and describes the Company's proposals to mitigate regulatory lag. He also addresses the Company's calculation of working capital. Further, he discusses the Company's conservation targets and whether they are appropriate.

Ms. Pamela Archer, Supervisor, Regulatory Analysis, will discuss the proposed tariff changes.

Ms. Maryalice Peters, Regulatory Analyst, discusses the Company's proposed revenue requirements and supporting calculations.

Mr. Isaac Myhrum, Regulatory Analyst, performs the summary of revenues by customer class and the revenue analysis for the Cost Recovery Mechanism and the Company's unbilled revenue. He also performs the baseline analysis for Cascade's Decoupling program. The Company's proposed rate spread is also covered by Mr. Myhrum's testimony.

Mr. Brian Robertson, Senior Resource Planning Analyst, will discuss the weather normalization adjustment and method behind the calculation.

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

A. Yes.