Exhibit No. __ (TJN-1T)
Docket No. UG-17____
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-17______

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF TAMMY J. NYGARD

July 31, 2017

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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. and Great Plains Natural Gas Co., Divisions of MDU Resources, as well as Controller for Intermountain Gas Company, a subsidiary 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 15 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 Utilities Co., Director of Accounting and Finance for Cascade, and my current position, Controller.

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

A. I explain and support the cost of debt, capital structure and rate of return requested in this proceeding.

In brief, I provide information that shows:

- Cascade's proposed rate of return ("ROR") of 7.597 percent provides a reasonable return for Cascade's investors at a fair cost to Cascade's customers. The ROR is based on a 50.0 percent common equity ratio with a Return on Equity of 9.9 percent and a debt cost of 5.295 percent.

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

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, 2016, was valued at $214,471,000 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 5.295 percent is calculated based on the weighted average outstanding debt at December 31, 2016, 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. Since 2006, the Company has been able to reduce its average annualized cost of debt from approximately 7.58 percent to 5.295 percent.

Q. What has the Company done in recent years to reduce the cost of long-term debt?

A. The Company has taken advantage of the current market's low interest rates by securing new long-term debt corresponding with the anticipated life of the new plant currently being constructed throughout Cascade's service territory. The interest rate spreads between the recently retired debt and newly acquired debt has allowed Cascade to lower average interest rate costs by over 200 basis points.

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 rate of return and capital structure that Cascade is requesting in this case?

A. The Company is requesting a rate of return of 7.597 percent with 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%	9.90%	4.950%
Total Debt	50%	5.295%	2.647%
	100%		7.597%

Q. The Company is proposing a capital structure of 50 percent equity and 50 percent debt. Why does the Company feel this is the appropriate capital structure?

A. The requested capital structure is based upon Cascade's actual average capital structure for the last five years. 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						
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	Average
Total Debt	46%	52%	49%	53%	52%	50%
Common Equity	54%	48%	51%	47%	48%	50%

Q. Why is the Company proposing a 9.90 percent return on equity?

Dr. J. Stephen Gaske calculated a range for the cost of common equity capital for Cascade's Washington natural gas distribution operations based on a Discounted Cash Flow ("DCF") analysis of a group of proxy companies that have risks similar to those of Cascade's Washington gas distribution operations. Dr. Gaske then placed the Company within the range of reasonableness established by the DCF analysis by comparing the risks of Cascade's Washington natural gas distribution operations to those of the proxy gas distribution companies and by considering several alternative benchmark analyses. The basis for the requested 9.90 percent return on equity contained within the overall requested rate of return is explained in further detail in the testimony of Dr. J. Stephen Gaske. The Company agrees with the information presented and conclusion reached by Dr. Gaske that a 9.90 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.