

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-21 _____

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF TAMMY J. NYGARD

September 30, 2021

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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 (“Cascade”
4 or “Company”), a wholly-owned subsidiary company of MDU Resources Group, Inc.
5 (“MDU Resources”). I am also the Controller of Montana-Dakota Utilities Co. (“Montana-
6 Dakota”), Great Plains Natural Gas Co. (“Great Plains”), and Intermountain Gas Company
7 (“Intermountain”), subsidiaries of MDU Resources.

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

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

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

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

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

19 A. My testimony supports the Company’s overall cost of capital recommendation in this case.
20 To that end, I explain and support the Company’s recommended cost of debt, as well as

1 the capital structure, and rate of return that were approved in the Company's most recent
2 rate case, Docket UG-200568.

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

4 A. Yes. I am sponsoring the following exhibit:

5 Exh. TJN-2C, Debt Cost.

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 6.93 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 49.10 percent common equity ratio with a return on
10 equity of 9.40 percent and a debt cost of 4.54 percent. The ROR of 6.95 percent was fully
11 litigated and approved by the Commission in the Company's most recent rate case, Docket
12 UG-200568. The only change made to the ROR is to take into account a projected debt
13 issuance in 2022, which reduces the debt cost from 4.59 percent to 4.54 percent, lowering
14 the ROR from 6.95 percent to 6.93 percent. See the first exhibit to my Direct Testimony,
15 Exh. TJN-2C.

16 **Q. Please elaborate on Cascade's decision to issue debt in 2022.**

17 A. The Company updates its five-year plan every year, with updated assumptions on gas cost
18 estimates, capital expenditures, revenues from customers, etc. With all new assumptions
19 taken into account, the Company's five-year Plan for 2022 through 2026 reflects the need
20 for additional debt in 2022 in order to maintain proper liquidity.

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

1 **Q. How does Cascade finance its regulated utility operations?**

2 A. Cascade finances its regulated utility operations with a mix of debt and common equity
3 capital.

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

6 A. The Company is requesting an ROR of 6.93 percent, which is based on the approved
7 capital structure of 49.10 percent equity and 50.90 percent debt. With the exception of a
8 slightly lower debt cost, these are the same ROR and capital structure values that were
9 fully litigated and approved by the Commission in Docket UG-200568. Thus, there is
10 value in keeping the same ROR and capital structure for this rate proceeding to help limit
11 the issues involved. However, knowing we are looking to issue debt in 2022 the
12 Company felt it was appropriate to include that debt in our overall debt cost calculation.
13 The components and calculation of the proposed ROR are shown in Table 1:

14 **Table 1. Proposed Rate of Return**

Proposed Rate of Return			
	<u>Capital Structure</u>	<u>Cost</u>	<u>Component</u>
Common Equity	49.1%	9.40%	4.62%
Total Debt	<u>50.9%</u>	4.54%	<u>2.31%</u>
	<u>100%</u>		<u>6.93%</u>

1 **Q. You testified that the Company is proposing a capital structure of 49.10 percent**
2 **equity and 50.90 percent debt. Why is a 49.10 percent equity ratio appropriate for**
3 **the Company?**

4 A. The Company is requesting to keep its capital structure of 49.10 percent equity and 50.90
5 percent debt to match the capital structure that was fully litigated and approved by the
6 Commission in the Company's most recent rate case under Docket UG-200568.

7 As a regulated public utility, Cascade has the responsibility to provide safe and
8 reliable service to customers across its service territory. This requires on-going
9 investment in new plant for mains, services, meters, and other support facilities. As part
10 of the planning process, Cascade determines the amount of new financing needed to
11 support the capital expenditure program with a target of 50 percent debt and 50 percent
12 equity. The Company is committed to maintaining a healthy capital ratio, which is in the
13 best interest of the Company's customers and shareholders and reduces financial risk for
14 Cascade's debt obligations. As such, even though Cascade will be adding additional debt,
15 Cascade's parent company has and will continue to add equity infusions to maintain the
16 optimal capital structure of 50 percent debt and 50 percent equity. Cascade received an
17 equity infusion of \$20 million in December 2020, has received equity infusions of \$15
18 million so far in 2021, and expects to receive an additional equity infusion in the fourth
19 quarter of 2021 to maintain a 50 percent equity ratio. At this time, Cascade intends to
20 receive equity infusions of \$25 million in 2022.

1 **Q. Is the Company's proposed 4.59 percent of total debt unchanged?**

2 A. The Company intends to issue \$35 million of long-term debt in 2022. This debt issuance
3 was added to the overall debt cost, which results in a reduction from 4.59 percent to 4.54
4 percent, as illustrated in Exh. TJN-2C.

5 **Q. Is the Company proposing a 9.40 percent return on equity?**

6 A. The Company is requesting to keep its return on equity at 9.40 percent to match the
7 return on equity that was fully litigated and approved by the Commission in the
8 Company's most recent rate case under Docket UG-200568.

III. CONCLUSION

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

10 A. Yes, it does.