

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the North Dakota Public Service Commission

Case No. PU-15-____

Direct Testimony
of
Nicole A. Kivisto

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

2 A. My name is Nicole A. Kivisto and my business address is 400 North
3 Fourth Street, Bismarck, North Dakota 58501.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the President and Chief Executive Officer (CEO) of Montana-
6 Dakota Utilities Co. (Montana-Dakota) and Great Plains Natural Gas Co.,
7 Divisions of MDU Resources Group, Inc. I am also the President and
8 CEO of Cascade Natural Gas Corporation and Intermountain Gas
9 Company; subsidiaries of MDU Resources Group, Inc.

10 **Q. Please describe your duties and responsibilities with Montana-**
11 **Dakota.**

12 A. I have executive responsibility for the development, coordination,
13 and implementation of strategies and policies relative to operations of the
14 above mentioned companies that, in combination, serve over one million
15 customers in eight states.

16 **Q. Please outline your educational and professional background.**

1 A. I hold a Bachelor's Degree in Accounting from Minnesota State
2 University Moorhead. I have worked for MDU Resources/Montana-Dakota
3 for twenty years and have been in my current capacity since January
4 2015. I was the Vice President - Operations of Montana-Dakota and
5 Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc.
6 from January of 2014 until assuming my present position.

7 Prior to that, I was the Vice President, Controller and Chief
8 Accounting Officer for MDU Resources for nearly four years, and held
9 other finance related positions prior to that.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide an overview of Montana-
12 Dakota's North Dakota natural gas operations, explain the Company's
13 request for a natural gas distribution rate increase and discuss the
14 reasons underlying the major aspects of the request. I will also address
15 the request for a Rate Stabilization Mechanism, the need for an interim
16 increase; and finally I will introduce the other Company witnesses that will
17 present testimony and exhibits in further support of the Company's
18 request.

19 **Q. Would you provide a summary of Montana-Dakota's gas operations
20 in North Dakota?**

21 A. Montana-Dakota provides natural gas service to approximately
22 105,000 customers in 74 communities in North Dakota, operating over
23 2,450 miles of distribution mains and approximately 1,770 miles of service

1 lines. The customer base is 86 percent residential customers and 14
2 percent commercial and industrial customers. As of December 31, 2014,
3 the Company had 558 full and part time employees who live and work
4 throughout the Company's North Dakota electric and gas service area.
5 Montana-Dakota's North Dakota gas service area is divided into two
6 operating regions with regional offices located in Bismarck and Dickinson,
7 North Dakota. In addition to the regional offices, there are fully staffed
8 operations centers located in the communities of Minot, Williston and
9 Devils Lake, with satellite offices in Watford City and Jamestown.

10 Additionally there are service technicians and construction
11 employees headquartered in 27 other North Dakota communities deemed
12 strategic to the safe and reliable operation of the Company's distribution
13 system. There are also personnel associated with electric operations only
14 in additional locations in North Dakota. Service technicians and
15 construction employees in Montana, and South Dakota also support
16 operations in North Dakota communities close to the borders of those
17 states. A map of the gas distribution system in North Dakota is included
18 as Exhibit No. ____ (NAK-1).

19 Montana-Dakota's customers have toll-free access to the Customer
20 Service Centers located in Meridian, Idaho and Bismarck, North Dakota as
21 well as the Credit Center in Bismarck, North Dakota, to place routine utility
22 service requests and inquiries from 7:00 am to 7:00 pm local time,
23 Monday through Friday and emergency calls on a 24-hour basis, as

1 discussed in more detail by Ms. Jones. A scheduling center, located in
2 Meridian, Idaho transmits electronic service orders to the mobile terminals
3 placed in our fleet of service and construction vehicles. This network
4 allows the Company to respond quickly to customer requests and
5 emergency situations.

6 **Q. Would you please provide more information regarding the customers**
7 **the Company serves?**

8 A. Yes. The residential, firm general service and small interruptible
9 customers use natural gas primarily for space and water heating. As
10 such, Montana-Dakota's system has a low load factor with peak gas
11 requirements occurring during the winter with summer loads being small
12 by comparison. Montana-Dakota is projecting to deliver approximately
13 22.7 Mmdk of natural gas to customers in North Dakota in 2015. The
14 natural gas requirement by customer class is as follows: approximately 38
15 percent residential, 32 percent firm general service, 9 percent small
16 interruptible, 19 percent large interruptible and 2 percent for the Air Force.

17 **Q. Would you please describe the basic elements that make up the total**
18 **costs of providing natural gas service?**

19 A. For a natural gas distribution utility, the basic elements which make
20 up the cost of providing natural gas service are the cost of gas purchased
21 at the town border stations in its service territory and the cost of
22 distributing the gas from the town border station to the end use customer.

1 It is the second of these two elements, the distribution costs, which are the
2 subject of this application for a general rate increase.

3 The natural gas the Company purchases from suppliers is a
4 commodity like wheat or corn, the price of which is not regulated. The
5 cost of delivering the gas to the Company's distribution system at the town
6 border station is regulated by the FERC or other regulatory agencies.
7 These gas costs are passed on to customers on a dollar-for-dollar basis
8 as specified in the Commission approved Cost of Gas tariff. The gas cost
9 portion of the cost of providing natural gas service currently comprises
10 about 71 percent of a typical residential bill for gas service.

11 The distribution portion of the Company's cost of service is the
12 subject of this proceeding. This element includes the costs of new
13 distribution investments, replacement of aging infrastructure, operation
14 and maintenance expenses, depreciation, taxes, and the opportunity to
15 earn a return on the Company's investments in facilities that provide
16 natural gas service. Distribution costs are currently about 29 percent of a
17 typical residential bill.

18 The basic components are shown graphically on Exhibit No. ____
19 (NAK-2).

20 **Q. Ms. Kivisto, did you authorize the filing of the rate application in this**
21 **proceeding?**

22 **A. Yes, I did.**

23 **Q. What is the amount of the increase requested?**

1 A. As will be fully explained by other Company witnesses, the
2 Company is requesting a natural gas rate increase of \$4,301,515 (a 3.4
3 percent increase over current rates) based on a projected 2015 test
4 period.

5 **Q. Why has Montana-Dakota filed this application for a natural gas rate
6 increase?**

7 A. Montana-Dakota is requesting an increase in its general gas rates
8 at this time because the current rates do not reflect the cost of providing
9 natural gas service to the Company's North Dakota customers.

10 **Q. What are the primary reasons that Montana-Dakota needs an
11 increase at this time?**

12 A. The primary reason for the increase in rates is the increased
13 investment in facilities and the associated depreciation, operation and
14 maintenance expenses and taxes associated with the increase in
15 investment.

16 **Q. When was the Company's last general rate case?**

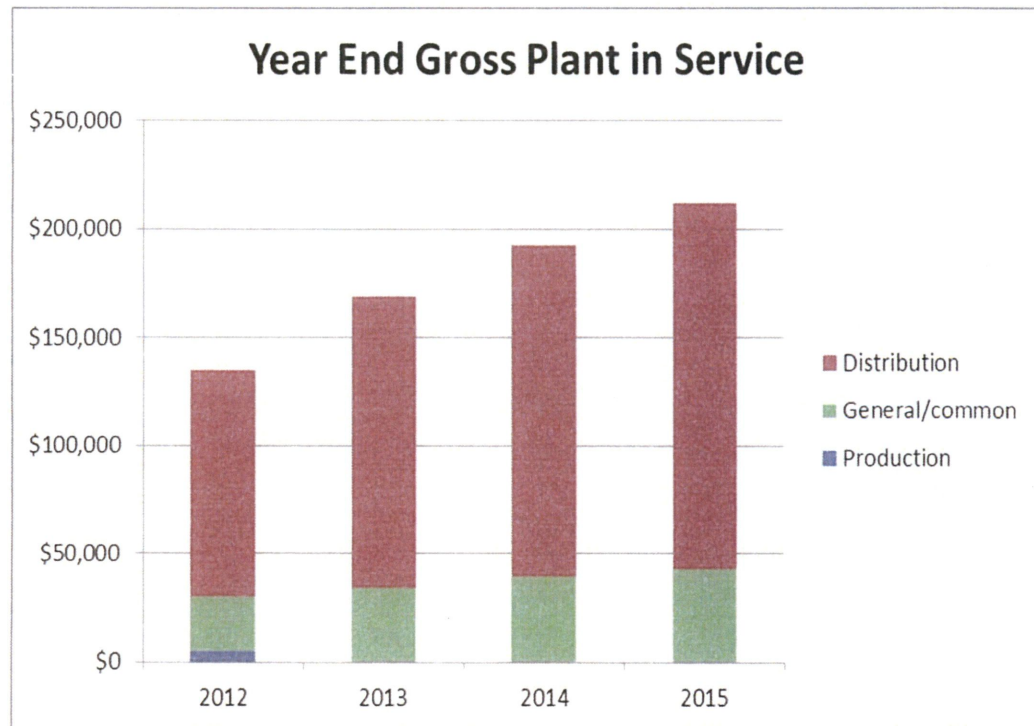
17 A. The Company's last rate case was Case No. PU-13-803. The
18 resulting rate increase was \$4.25 million, or a 3.95 percent overall
19 increase. Final rates in that case became effective on May 1, 2014.

20 **Q. If final rates from the Company's last case were just effective on May
21 1, 2014, why does the Company need to file again so soon?**

22 A. The North Dakota natural gas system is experiencing
23 unprecedented growth and the rates established based on a projected

1 2014 test period are not sufficient to provide an adequate return on the
2 investments made to safely and reliably serve customers. Without a rate
3 increase, the Company projects its 2015 rate of return will be 5.255
4 percent, well below its cost of capital.

5 The table below shows the investment in natural gas plant assigned
6 and allocated to North Dakota gas operations, exclusive of the pipeline
7 installed in 2014 to provide service to the Heskett III generating station.
8 Projected 2015 year end gross investment, excluding the Heskett III
9 pipeline is \$212 million or nearly 15 percent greater than the gross
10 investment from the 2014 test year used in the last rate case.
11

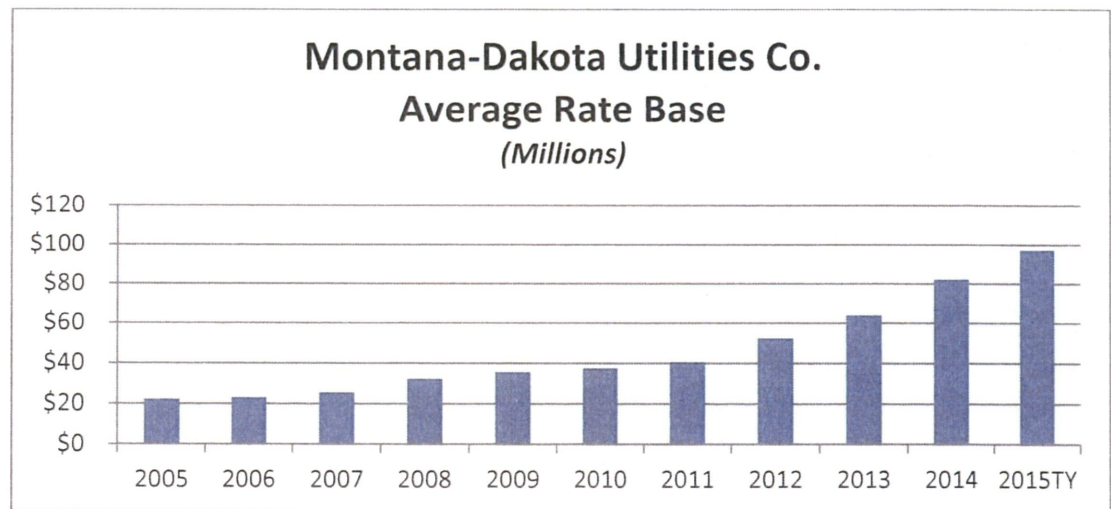


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13 The Company continues to make ongoing investments to add new
14 customers to the system and replace existing facilities that have reached

1 their end of life. With any new investments, regardless of whether they
2 are required to serve new customers or replace existing facilities, there
3 are associated depreciation expenses and taxes.

4 The increase in investment has been accompanied by an increase
5 in customers as well as an increase in sales and transportation volumes.
6 In this case, which is based on a 2015 test period, the Company estimates
7 107,247 customers in 2015 with usage of 22.7 Mmdk, which represents a
8 3.6 percent increase in customers and a two percent growth in usage over
9 the customers and volume levels underlying authorized rates in the last
10 rate case. The 2015 projections represent an increase of 11,189
11 customers or growth of approximately 12 percent since 2012.

12 The chart below illustrates the significant increase in investment
13 since 2005, with the average rate base increasing from just over \$20
14 million in 2005 to over \$97 million for the test period in this case (excluding
15 the Heskett III pipeline).



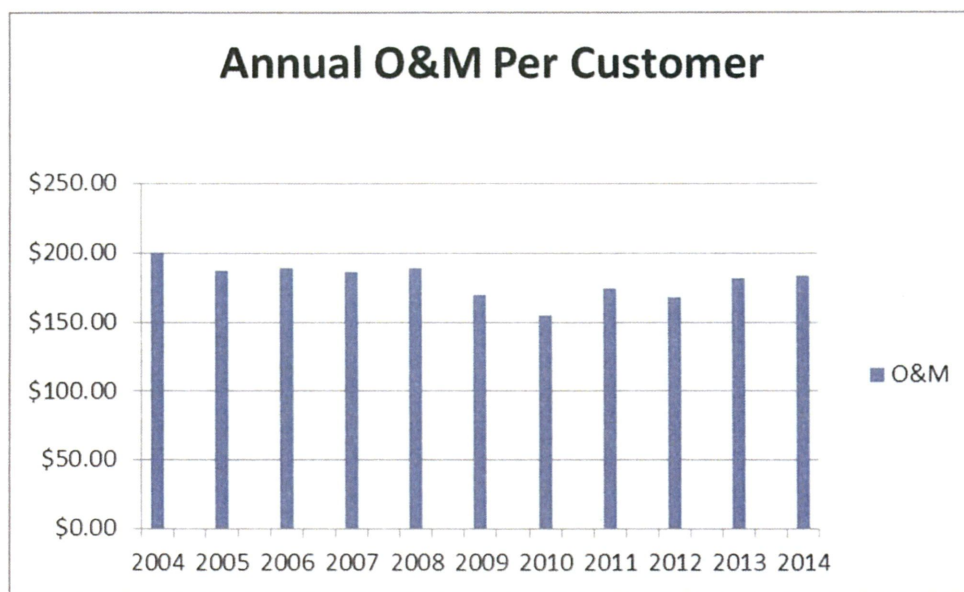
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17

1 **Q. Would you please provide an overview of the investments being**
2 **made in 2015?**

3 A. The investments required in 2015 are a continuation of the
4 upgrades and system enhancements discussed in the last rate case. For
5 example, in 2015 the second phase of the loop distribution system
6 around the city of Williston will be installed, completing this project that
7 has been providing service in phases and will provide additional capacity
8 as well as additional security to Montana-Dakota's customers. In addition
9 to the completion of the Williston loop line, new town border stations are
10 scheduled for Epping, Alexander, Belfield and Mandan. The Mandan
11 town border station will provide a new supply source into the City of
12 Mandan as this town border station will interconnect with the natural gas
13 line installed to provide natural gas to the Heskett III generating station
14 improving the reliability of service in this area as well as providing
15 necessary capacity. The Company expects that in 2015 it will spend
16 approximately \$5 million in distribution related investment in the Dakota
17 Heartland Region and \$10 million in the Badlands Region consisting of
18 the major projects noted above and replacement and growth projects,
19 partially offset by customer contributions. Lastly, the Company
20 consistently targets areas for replacement of aging mains in both regions.

21 **Q. Are increased operation and maintenance (O&M) expenses**
22 **contributing to the need for this rate increase?**

1 Yes, the Company is projecting an increase of approximately 13
2 percent over the projections underlying the last rate case. In fact, actual
3 O&M for the twelve months ended December 2013 came in approximately
4 5 percent higher than the Projected 2014 O&M from the last rate case.
5 The increase is driven primarily by labor and benefit costs. However, in
6 spite of the growth in labor and benefit costs, the graph below illustrates
7 that the Company's operation and maintenance costs have remained fairly
8 consistent on a per customer basis over a number of years.



9
10 **Q. Do you anticipate a slowdown in growth and expenses as a result of**
11 **the recent decrease in oil prices?**

12 **A.** The Company does expect a less frantic nature in the need for
13 natural gas service expansion in the face of the current economic
14 conditions surrounding the oil and gas industries. However, it is not clear
15 how long this slowdown will be and if it will lead to a longer term reduction
16 in growth, a more orderly growth pattern or if the boom cycle will return

1 shortly. In the meantime, Montana-Dakota must continue to meet the
2 needs of its customers. In order to address this uncertainty the Company
3 is proposing to initiate a Rate Stabilization Mechanism that will provide a
4 means to address changes in investments and volatile return levels in this
5 time of uncertainty.

6 **Q. Would you please describe the proposed Rate Stabilization**
7 **Mechanism?**

8 **A. The Company is proposing to implement a Rate Stabilization**
9 **Mechanism applicable to its North Dakota natural gas operations for a five**
10 **year period starting in 2016. The Rate Stabilization Mechanism will**
11 **provide an annual review of actual results and the resulting return on**
12 **equity as compared to the return on equity authorized in this rate case.**
13 **The Company is proposing a 50 basis point band be applied to the return**
14 **on equity allowed in this rate case and in the event the Company's rate of**
15 **return falls outside of the band width proposed, the Company will either**
16 **return 50 percent of the earnings above the band to customers or in the**
17 **case of lower earnings, the Company will be able to collect additional**
18 **revenue from customers in order to meet its return on equity. In addition**
19 **to the return adjustment based on actual results the Company will include**
20 **an estimate of the next year's capital expenditures and labor costs for the**
21 **upcoming year to determine the need for an adjustment similar to an**
22 **interim adjustment in the rate case process. The Company believes that**
23 **providing this flexibility will help reduce the need for future regulatory**

1 filings, encourage good performance and reward the Company and
2 customers for the results. Ms. Aberle will provide a more detailed
3 description of the mechanism that is provided in a new Rate Schedule 89.

4 **Q. How will the requested increase affect the various classes of**
5 **customers?**

6 A. The proposed percentage change in rates by customer class is as
7 follows:

<u>Class</u>	<u>Percent Increase</u>
Residential	5.8%
Firm General	0.0%
Air Force Delivery	0.0%
Small Interruptible	6.8%
Large Interruptible	0.0%
Overall	3.4%

9

10 **Q. Ms. Kivisto, would you explain how Montana-Dakota strives to**
11 **efficiently provide safe and reliable service to its North Dakota**
12 **customers?**

13 A. Montana-Dakota works hard to control its costs by continually
14 looking for opportunities that create efficiencies and control costs.
15 Although, in spite of Montana-Dakota's efforts to control costs, the
16 Company sees cost pressures as the need to replace existing
17 infrastructure and add new infrastructure continues.

18 Montana-Dakota continually reviews its field operations for ways to
19 operate more efficiently and has been successful in doing so. Much of
20 this has been possible due to the advancement of cost effective

1 technology. However, with the recent growth in the Company's service
2 territory, additional investments and increases in operation and
3 maintenance expenses are needed to ensure the system can be operated
4 safely and reliably

5 **Q. Ms. Kivisto, what is the compensation philosophy at Montana-**
6 **Dakota, how does it compare with other like businesses and can the**
7 **Company reduce costs in this area?**

8 A. The Company's compensation philosophy is to attract and retain a
9 workforce that can provide safe and reliable service to customers.
10 Montana-Dakota targets a total compensation package that is at the
11 market average for similar positions at other utilities. This compensation
12 includes base pay and incentive pay along with various benefits. Ms.
13 Jones, Vice President of Human Resources, Customer Service and Safety
14 discusses these areas in more detail.

15 **Q. What return is Montana-Dakota requesting in this case?**

16 A. Montana-Dakota is requesting an overall return of 7.588 percent,
17 inclusive of a return on equity (ROE) of 10.0 percent. Dr. Gaske's
18 analysis indicates that a 10.0 percent ROE is fully justified and supported.

19 **Q. Is the Company proposing any rate design changes?**

20 A. Yes. The Company is proposing to collect the increased revenue
21 from the two classes that have returns less than the overall return, the
22 residential class and the small interruptible class. All other classes will be
23 held at their current revenue levels. The Company is further proposing to

1 collect all the additional revenue assigned to the residential class from the
2 Basic Service Charge, eliminate the Distribution Delivery Charge and no
3 longer apply the Distribution Delivery Stabilization Mechanism to the
4 residential class.

5 **Q. Is Montana-Dakota seeking interim rate relief in this proceeding?**

6 **A.** Yes. Interim rate relief is being sought in this case consistent with
7 North Dakota Century Code 49-05-06. The amount of interim relief sought
8 is \$4,303,978 and consists of the Company's projected 2015 revenue
9 requirement as described by Mr. Jacobson. The proposed interim rates
10 are described by Ms. Aberle. The interim increase is necessary to provide
11 the Company an opportunity to recover the costs of providing service to
12 customers today.

13 **Q. Will you please identify the witnesses who will testify on behalf of**
14 **Montana-Dakota in this proceeding?**

15 **A.** Yes. Following is a list of witnesses that will provide testimony
16 and/or exhibits in support of the Company's application:

- 17 • Ms. Anne M. Jones, Vice President – Human Resources, Customer
18 Service and Safety will testify regarding the Total Rewards Philosophy
19 of the Company and changes to customer service.
- 20 • Ms. Donette Schmit, Director of Financial Reporting and Planning will
21 testify regarding the overall cost of capital, capital structure and overall
22 debt and preferred equity costs.

- 1 • Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy
2 Advisors, Inc. will testify regarding the appropriate cost of common
3 equity for Montana-Dakota's North Dakota gas operations.
- 4 • Mr. Travis R. Jacobson, Manager, Regulatory Affairs—Regulatory
5 Analysis for Montana-Dakota, will testify regarding the total revenue
6 requirement and the interim revenue requirement necessary for North
7 Dakota gas operations.
- 8 • Ms. Sara Cardwell, Manager, Regulatory Affairs—Pricing & Tariff will
9 testify on the Company's projected volumes and embedded class cost
10 of service study.
- 11 • Ms. Tamie A. Aberle, Director of Regulatory Affairs for Montana-
12 Dakota, will testify regarding the proposed Rate Stabilization
13 Mechanism, rate design and other proposed tariff changes.

14 **Q. Ms. Kivisto, are the rates requested in this proceeding just and**
15 **reasonable?**

16 A. Yes. In my opinion, the proposed rates are just and reasonable as
17 they are reflective of the total costs being incurred by Montana-Dakota to
18 provide safe and reliable natural gas service to its customers. The
19 proposed rates will provide Montana-Dakota the opportunity to earn a fair
20 and reasonable return on its North Dakota natural gas operations.

21 **Q. Does this complete your direct testimony?**

22 A. Yes, it does.

CANADA

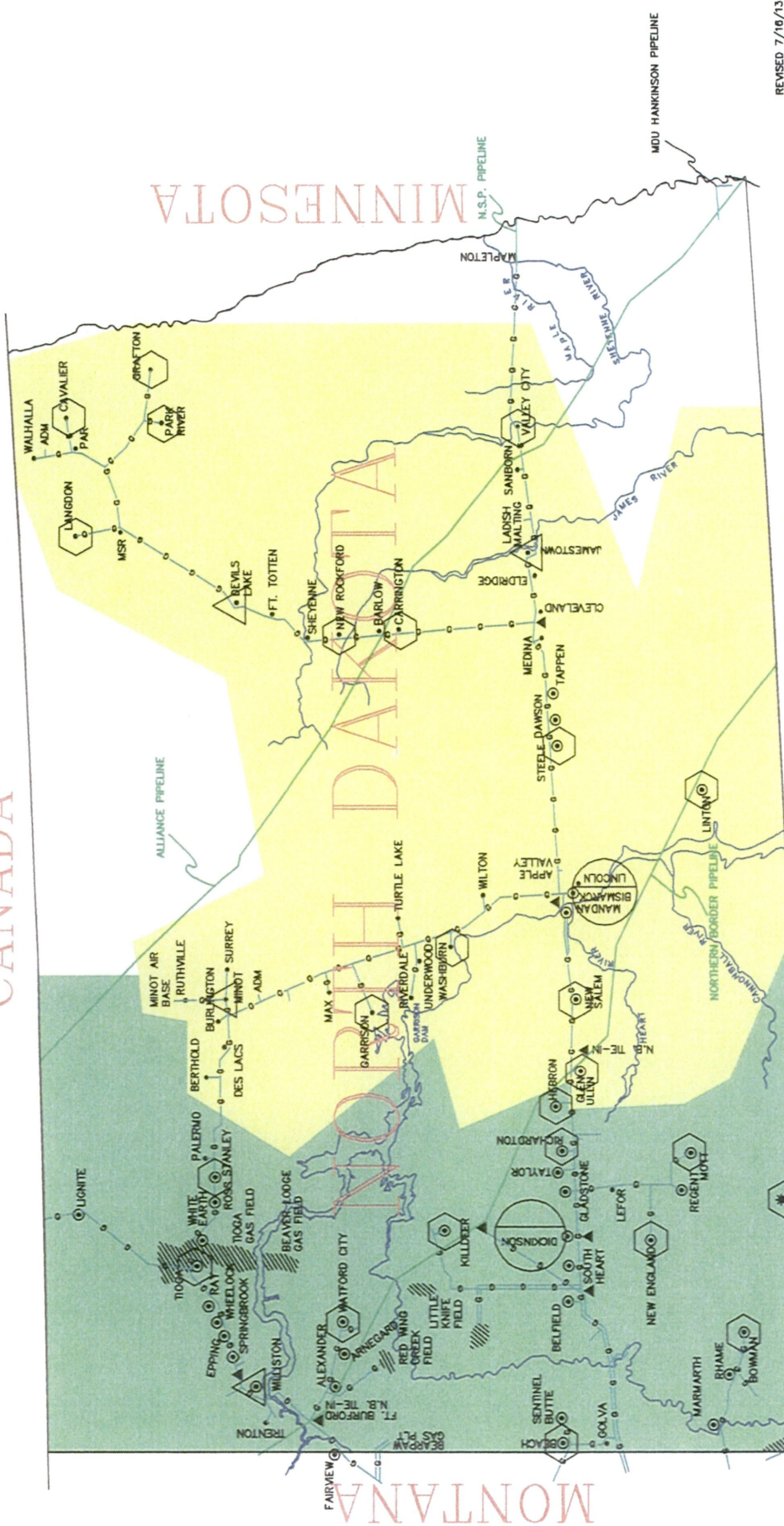
MINNESOTA

DAKOTA

SOUTH DAKOTA

MONTANA

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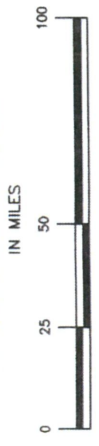
GAS SYSTEM

MDU RESOURCES GROUP, INC.

	GAS COMPRESSOR PLANTS		WILLISTON BASIN NATURAL GAS PIPELINES
	NATURAL GAS FIELDS		OTHER COMPANIES PIPELINES
	TOWNS SERVED WITH NATURAL GAS		
	TOWNS SERVED WITH ELECTRICITY & NATURAL GAS		
	TOWNS SERVED WITH ELECTRICITY & PROPANE		

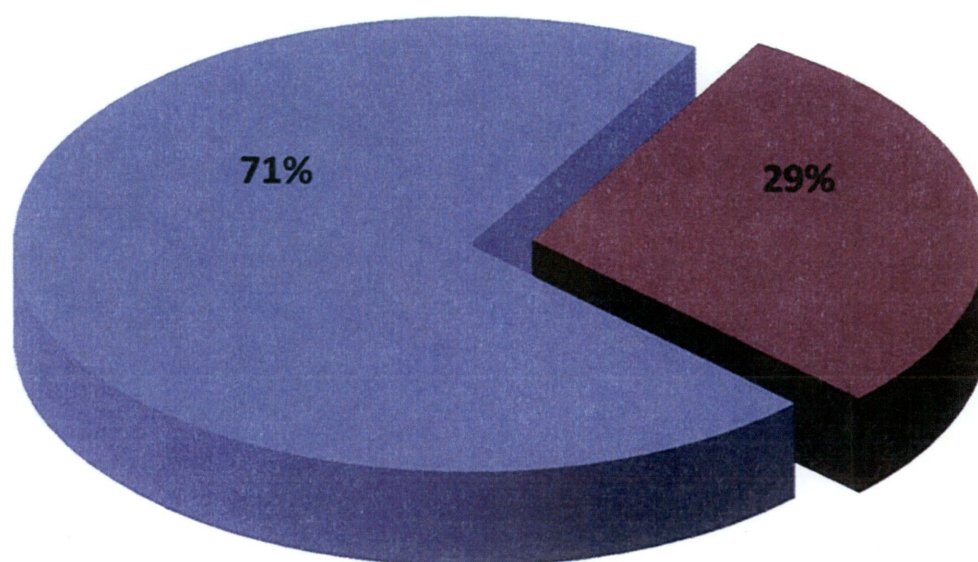


GRAPHIC SCALE



	REGION OFFICE
	DISTRICT OFFICE
	TOWNS WITH DISTRICT REPRESENTATIVE / SERVICE PERSONNEL

**Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Average Residential Customer Bill**



■ Distribution Cost ■ Gas Cost