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

Before the North Dakota Public Service Commission
Case No. PU-16-__

Direct Testimony
of
Nicole A. Kivisto

Q. Please state your name and business address.

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

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

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

Q. Have you testified in other proceedings before regulatory bodies?

A. Yes. I have previously presented testimony before this Commission, the Public Service Commissions of Montana and Wyoming, the Public Utilities Commissions of Minnesota and South Dakota, the Public Utility Commissions of Oregon and Idaho and the Washington Utilities and Transportation Commission.

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

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. Please outline your educational and professional background.

A. I hold a Bachelor's Degree in Accounting from Minnesota State University Moorhead. I have worked for MDU Resources/Montana-Dakota for over twenty years and have been in my current capacity since January 2015. I was the Vice President-Operations of Montana-Dakota and Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc. from January of 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. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the Company's North Dakota electric operations, explain the Company's request for an electric rate increase and discuss the policies and reasons underlying the major aspects of the request. I will also address the

request for an interim increase and identify the Company witnesses that will present testimony and exhibits in further support of the Company's request.

Q. Would you provide a summary of Montana-Dakota's electric operations in North Dakota?

A. Montana-Dakota's electric system consists of generation, transmission, distribution and general plant facilities serving approximately 100,687 customers in 117 communities in North Dakota. The Company's North Dakota electric service area is divided into two operating regions with regional offices located in Bismarck and Dickinson. In addition, there are a number of district offices located in communities throughout the state. As of December 31, 2015, the Company had 567 full and part time employees who live and work throughout our North Dakota electric and gas service area.

Montana-Dakota's customers have toll-free access to the Customer Service Centers located in Meridian, Idaho and Bismarck, North Dakota as well as the Credit Center in Bismarck, North Dakota, to place routine utility service requests and inquiries from 7:00 am to 7:00 pm local time, Monday through Friday and emergency calls on a 24-hour basis. A scheduling center, located in Meridian, Idaho transmits electronic service orders to the mobile terminals placed in our fleet of service and

construction vehicles. This network allows the Company to respond quickly to customer requests and emergency situations.

Q. Would you describe Montana-Dakota's interconnected electric system?

A. Through its interconnected electric system, Montana-Dakota serves approximately 127,000 retail customers in portions of North Dakota, Montana and South Dakota. The Company's capacity mix is as shown below including the newest resource additions that have been approved by the Commission in various rate riders and explained in further detail in this filing.

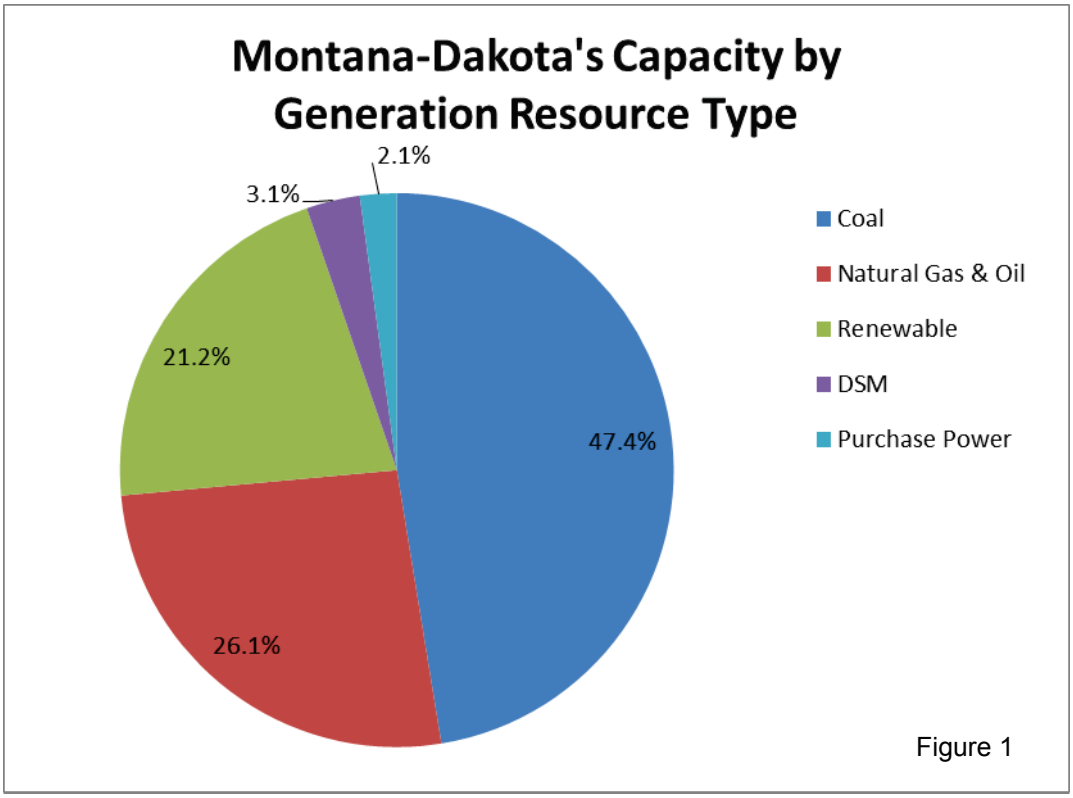


Figure 1

Montana-Dakota's current portfolio of generation assets is comprised of baseload coal-fired generation, natural gas-fired peaking generation, wind generation, portable diesel units and a waste heat generating unit. Capacity is also provided through Demand-Side Management programs and a capacity purchase. In the short term Montana-Dakota plans to maintain and operate its current fleet of generation resources which provides the best cost power supply for our customers. The Company is in the process of evaluating and analyzing various options which will culminate into an Integrated Resource Plan in mid 2017, and provide a long range view and roadmap for generation resources into the future. Following is a graphical presentation of the generation portfolio and associated name plate capacity by each unit.

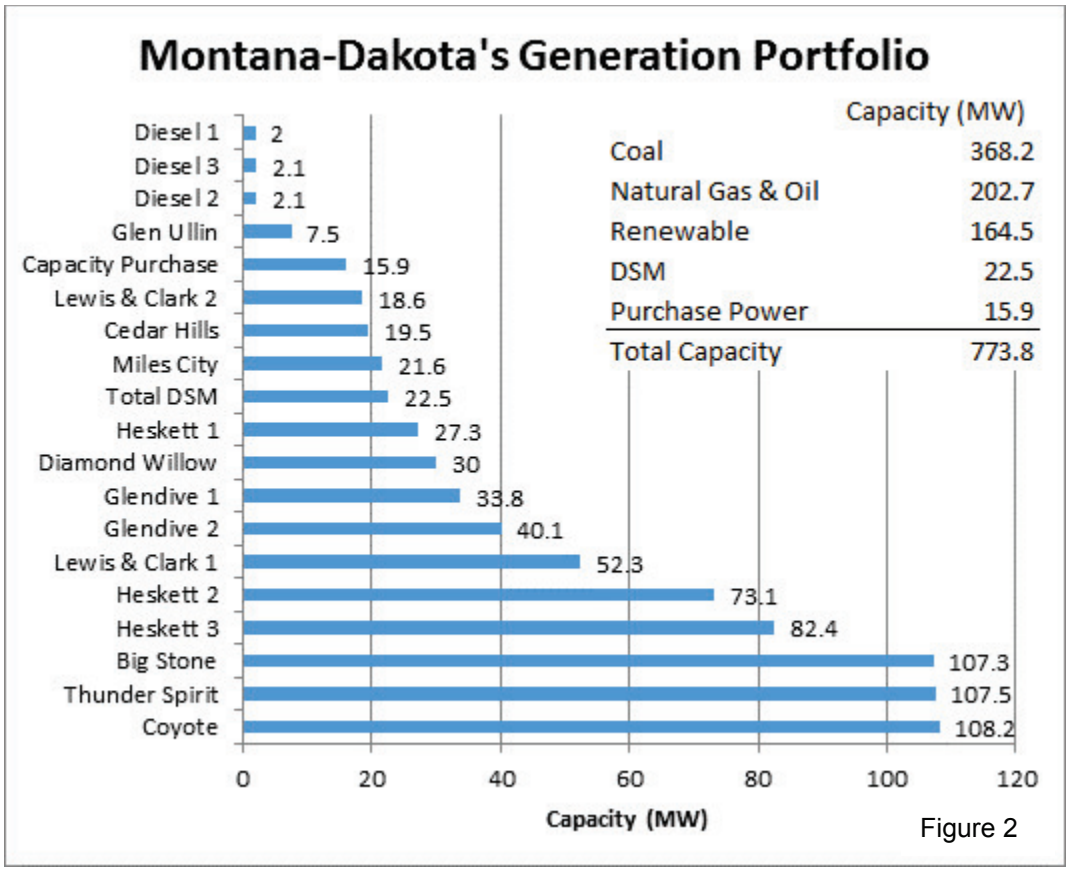


Figure 2

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

A. Yes, I did.

Q. Why has Montana-Dakota filed this application for an electric rate increase?

A. Montana-Dakota is requesting an increase in its general electric rates at this time because our current rates do not reflect the cost of providing electric service to our North Dakota customers. In addition, Montana-Dakota agreed to submit an electric rate application as part of the Settlement Agreements reached with the North Dakota Advocacy Staff

and as approved by the Commission in Case Nos. PU-15-703 and PU-15-704.

Q. What is the amount of the increase requested?

A. As will be fully explained by other Company witnesses, the Company is requesting an increase in base electric rates of $14,108,606 or 7.7 percent, based on a projected 2017 test year. The increase to customer bills net of changes in the Renewable Resource Cost Recovery Rider (Renewable Rider) and the Transmission Cost Adjustment (TCA) is $13,381,639 or 6.6 percent. A residential customer using 980 Kwh per month on average will see an increase of approximately $9.60 per month.

Montana-Dakota is also proposing to move or expand the cost recovery from certain riders as follows:

- Move the transmission investment and related expenses currently recovered through the Transmission Cost Adjustment (TCA) to base retail rates
- Continue recovering MISO related transmission expense and credits through the TCA along with the addition of Southwest Power Pool (SPP) related transmission expenses and credits.

- Move the production investment and related expenses in the Environmental Cost Recovery Rider (Environmental Rider)) to base retail rates.
- Move the investment and related expenses currently recovered through the Generation Resource Recovery Rider (Generation Rider) to base retail rates.
- Move the investment and related expenses associated with the Diamond Willow and Cedar Hills wind generation that is currently in base retail rates to the Renewable Resource Recovery Rider (Renewable Rider)

Q. How will the requested increase affect the customer classes?

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

Class	% Change
Residential	9.4
Small General	10.9
Large General	4.0
Municipal Lighting	1.1
Municipal Pumping	9.7
Outdoor Lighting	1.6
Overall	6.6

Q. When was the last general electric rate increase for Montana-Dakota in North Dakota?

A Montana-Dakota's last general electric rate case was Docket No. PU-10-124 which was filed on April 19, 2010 with final rates effective on July 22, 2011. The rate case resulted in an overall increase of $7.6 million representing an increase of 6.9 percent in revenues.

In addition, Montana-Dakota received Commission authorization to implement several riders since the last rate case to recovers costs not reflected in rates. Following is a summary of those riders and types of costs recovered under each rider.

The TCA was initiated on June 1, 2012 to recover the net balance of the capital and operating costs and revenue credits of Montana-Dakota's transmission related expenses and revenues determined to be eligible for recovery in accordance with 49-05-04.3 NDCC. The latest change in the TCA was effective February 12, 2016 in Case No. PU-15-747.

The Environmental Rider was initiated on January 15, 2014 and recovers the costs incurred by the Company in complying with federal and state environmental mandates determined to be eligible for recovery under NDCC 49-05-04.2. The latest change in the Environmental Rider was effective July 1, 2015 in Case No. PU-15-143. This rider included the construction work in progress associated with the Air Quality Control System (AQCS) project at the Big Stone Generating Station and the

Mercury and Air Toxic Standards (MATS) project at the Lewis & Clark Generating Station.

The Generation Rider was authorized effective January 6, 2015 and recovers the costs of generation resources approved by the Commission but not included in retail rates. The latest update in the Resource Recovery Rider was effective March 15, 2016 in Case No. PU-15-703. The rates authorized in the Resource Recovery Rider in Case No. PU-15-703 included a true-up to the Heskett III revenue requirement initially approved to be effective January 9, 2015 in Case No. PU-14-109 and the addition of the Reciprocating Internal Combustion Engines (RICE) units co-located with the Lewis & Clark Generating Station that were placed into service in December 2015 as discussed by Mr. Welte. The Company is proposing to include both of the projects, currently recovered through the Resource Recovery Rider, in the base retail electric rates which will result in no charge applicable under the Resource Recovery Rider at the time a final order is issued in this case.

The Renewable Rider was authorized effective January 7, 2016 in Case No. PU-15-704 and recovers costs associated with renewable generation resource modifications or additions approved by the Commission, but not recovered through retail rates. At this time, the 107.5 MW Thunder Spirit wind project that commenced service in

December 2015, as discussed by Mr. Neigum in his direct testimony, is recovered through the Renewable Rider.

Q. If approved what will be the average annual increase in residential customer's bill since the last general rate case, which was approved in July 2011?

A. Residential customer bills will increase, on average, by approximately 5 percent annually since the last rate case because of the investments in infrastructure and rate riders implemented to recover those investments that I will describe in more detail below. The rider mechanisms provided a means of smoothing out the increases associated with the investments and avoiding a significant increase in any one year while providing timely recovery of the required investments.

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

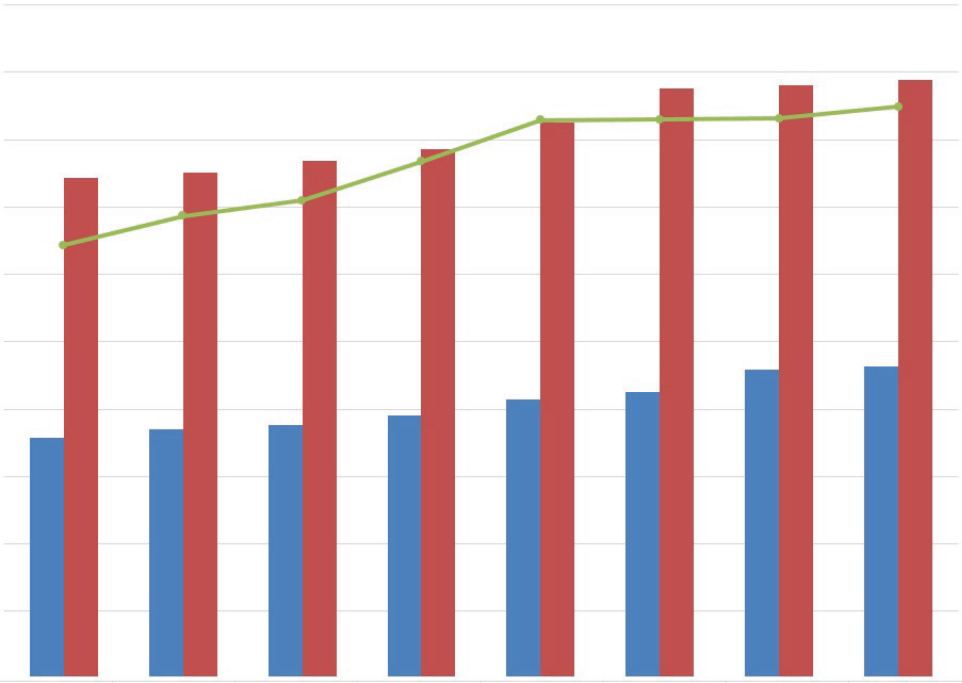
A. The primary reasons for the need for an increase in electric rates is the increased investment in facilities, and the associated depreciation, operation and maintenance expenses and taxes associated with the increase in investment beyond what has been recovered through the rate riders.

The increased investment was driven by a significant investment in production facilities to 1) meet environmental compliance rules and

regulations; 2) replace and increase capacity to meet customers' peak energy needs; and 3) provide low cost energy to a growing customer base. Likewise, investments in distribution and transmission facilities have been required since the last rate case. While much of the direct customer related distribution investment has been offset by customer growth and sales, the Company has seen, for example, a need to update, upgrade or install new distribution and transmission lines and substations to efficiently and reliably meet the needs of all customers. Other infrastructure and technology investments have been completed as well. Office buildings in Williston and Watford City were no longer sufficient to manage its employees, equipment and warehouse supplies in those rapidly expanding areas. On the technology side, a significant investment was the development of the Company's new customer information system. The new web-based system provides customers with on-line access to their account information, provides for the convenience of on-line or electronic billing to which many customers have come to expect, and, at the same time, helps the Company contain costs as customers enroll in electronic billing and payments versus labor intensive paper check payments.

Q. Would you please summarize the amount of investment that has been made since the last rate case in 2010 as allocated or directly assigned to North Dakota electric operations?

A. Yes. A graph depicting the North Dakota electric operations gross plant in-service, electric retail sales margin (calculated by subtracting the cost of fuel and purchased power from retail sales revenue from base rates and current riders) and kWh sales has been prepared and included below to demonstrate the amount of investment along with the increase in sales experienced over this same time period and the corresponding increases in margin based on sales and the rate riders discussed above. The total sales margin has increased nearly 70 percent since 2010.



	2010	2011	2012	2013	2014	2015	2016	2017
Sales Margin	$87,555,917	$93,304,687	$95,967,849	$103,261,892	$116,540,561	$122,508,548	$145,600,572	$148,543,640
Plant in Service	$602,403,529	$628,601,404	$684,682,354	$748,367,517	$907,686,525	$1,171,034,895	$1,200,036,685	$1,251,330,572
Sales (Kwh)	1,608,982,871	1,718,125,300	1,774,593,056	1,918,868,881	2,071,848,200	2,074,024,946	2,079,165,000	2,121,877,000

Figure 3

As shown in Figure 3, the average plant in-service at the end of 2010 was $602.4 million and is projected to reach nearly $1.3 billion by the end of 2017.

Q. What has caused the need for this investment?

A. A summary of the change in the level of gross plant in-service by function between 2010 and 2017 is shown below:

	Increase (000s)
Production	$361,746
Transmission	119,103
Distribution	135,576
General	8,343
Common	16,014
Intangible	8,145
Total	$648,927

The average balance year over year, since 2010, by function is provided in Figure 4 below:

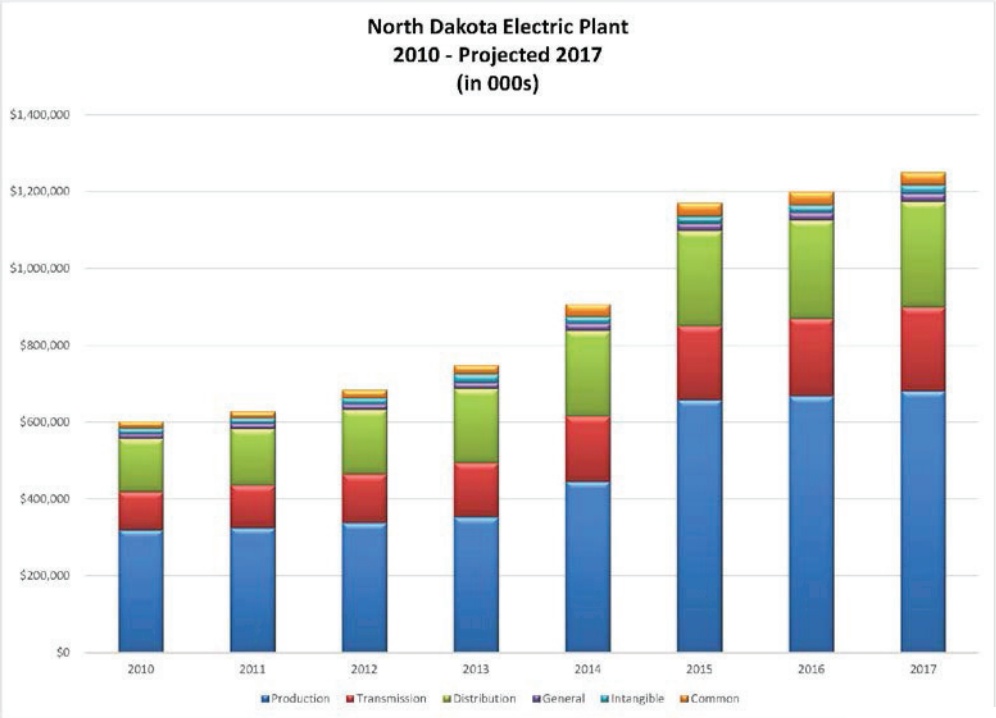


Figure 4

As shown, much of the increase is related to production assets driven by the Company's need to comply with Federal and State environmental rules and to meet the energy and capacity needs of its customers including; the Heskett III gas turbine, the major environmental

upgrades at Big Stone and Lewis & Clark comprised of the AQCS and MATS control projects, the Thunder Spirit Wind facility, and the RICE units located at the Lewis & Clark Station site.

Transmission upgrades, including those included in the TCA, have added significantly to plant in-service and are primarily related to the need to meet the increased capacity required to serve customers, upgrades due to age, storm damage replacements, and to provide for greater reliability within the interconnected system. The growth in investment in distribution facilities was significant during the period 2012 through 2015 and has shown signs of returning to a more normal level since that time. General, Common and Intangible investment has increased to a much smaller degree and is primary related to office/warehouse buildings in Williston and Watford City, and the Customer Care and Billing system implemented in 2013. These investments were necessary to continue to provide safe and reliable service to customers and to implement an up-to-date billing system that also facilitates customer interfaces via the internet, electronic bill presentment and payment options.

Q. What incremental investments are included in this case as projected for 2016 and 2017?

A. Incremental investments in 2016 and 2017 of approximately $118 million are associated with the following investments:

- production investments of approximately $34 million, the bulk of which are associated with additional environmental upgrades required to continue operations at the baseload facilities, as discussed in greater detail by Mr. Welte;
- transmission investments of approximately $31 million including continued reliability upgrades necessary to provide redundant sources into communities that are now fed with one source of power that also benefit the bulk power system and storm replacement projects;
- distribution investments of approximately $39 million including substation replacements and upgrades required to maintain reliable service, and the addition of automation equipment providing for remote operation of the distribution substations. The automation equipment will provide real time data to alert operators of power grid changes resulting in better service to customers, including enhanced restoration time in the event of an outage and more timely information for monitoring and maintaining equipment. This equipment will also enhance the delivery of outage information to customers. and
- general and common plant additions of approximately $14 million primarily associated with work equipment and software systems.

Q. Ms. Kivisto, would you please explain how the slow down in the Bakken oil fields is affecting the need for an increase in this case?

A. Yes. Continued electric sales growth, albeit at a much more measured pace, does exist as demonstrated by Figure 3. The increase in residential customer growth has returned to more historic levels of approximately 1.7 percent per year compared to 4 percent annually over the previous 5 years. Therefore, the need for an increase is not driven by a loss in sales however, the required investments that are not specific to load growth are no longer offset by an increase in customers significant enough to offset the cost increases.

Q. Would you describe how Montana-Dakota strives to efficiently provide safe and reliable service to its North Dakota customers?

A. Montana-Dakota continually reviews its field operations for ways to operate more efficiently and has been successful in doing so. Much of this has been possible due to the advancement of cost effective technology. Projects implemented since the last rate case include: a new mobile dispatch system called Pragma CAD, Mobile GIS and a new customer care and billing system, as discussed in more detail below.

An enhancement that was put into operation in 2012 was the development and deployment of a mobile mapping system. Montana-Dakota made the change from paper maps to an electronic ESRI GIS

based mapping system in 2005. At that time, a very simple map view product was deployed that could look at a snapshot in time of the GIS mapping system. These maps had to be manually updated and deployed to the field users periodically. Montana-Dakota developed and deployed a mobile map product from 3GIS. This mobile map product enhances Montana-Dakota's field mapping in several ways. Map updates are available on a real time basis in the field and provide the field users with the ability to mark up maps with critical information such as damage location, phasing, circuit open points, abnormal operating issues, or indicate map conflicts or errors. This product also allows for the sharing of location information among field personnel.

In 2013, Montana-Dakota completed a project to replace the computer aided dispatching system for utility service orders. The previous system, Mobile Up, resulted in improved customer service as well as increased operational productivity however, the developer of the system discontinued support of the Mobile Up system. The productivity gains achieved with Mobile Up were estimated at 30 percent and the replacement project, Pragma CAD, will ensure that Montana-Dakota is able to maintain and improve upon the current level of customer service and operational efficiency gains. By installing this product at all of the companies within the MDU Resources Utility Group, the purchase,

installation and ongoing maintenance costs were reduced with costs being shared among a larger base (over 1 million customers), as well as having a product that is supported by the provider.

Montana-Dakota also implemented a new customer care and billing system in 2013. The new system has also facilitated additional customer interfaces through the internet and allows electronic bill presentment and payment options for customers. The customer care and billing system has been implemented at all brands within the utility group, spreading costs of the system across the 1 million customer base.

The Company continues to make ongoing investments to add new customers to the system and replace existing facilities that have reached their end of life. With any new investments, regardless of whether they are required to serve new customers or replace existing facilities, there are associated depreciation expenses and taxes.

The Company continues to review all aspects of the utility business to ensure Montana-Dakota is operating as efficiently as possible.

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

Montana-Dakota is requesting an overall return of 7.459 percent, inclusive of a return on equity (ROE) of 10 percent. Dr. Gaske's analysis indicates that a 10 percent ROE is fully justified and supported based on

his Discounted Cash Flow analysis of a group of proxy companies that have risks similar to those Montana-Dakota faces.

By way of contrast, the overall return approved in the last general rate case was 8.679 percent, inclusive of a long-term debt cost of 6.845 percent. Montana-Dakota has lowered its cost of long-term debt by nearly 22 percent to a projected 2017 long-term debt cost of 5.341 percent. Montana-Dakota continues to monitor the financial markets to ensure it is taking advantage of the low interest rate environment to the benefit of its customers.

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

A. Yes. Interim rate relief is being sought in this case consistent with North Dakota Century Code 49-05-06. The amount of interim relief sought is $13,027,771 and consists of the projected 2017 revenue requirement with certain adjustments based on Commission guidelines as described by Mr. Jacobson**.**

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

A. Yes. In addition to myself, following is a list of witnesses that will provide testimony and/or exhibits in support of the Company's application:

- Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy Advisors, Inc. will testify regarding the appropriate cost of common equity for Montana-Dakota's North Dakota electric operations.
- Mr. Alan L. Welte, Director of Generation for Montana-Dakota, will describe the electric generation facility projects recently installed by Montana-Dakota (other than the Thunder Spirit Wind project) including an update on the operational status of each project.
- Mr. Darcy J. Neigum, Director of System Operations and Planning for Montana-Dakota, will provide an update on the operational status of the Thunder Spirit Wind project and discuss changes in transmission service that Montana-Dakota has incurred since Western Area Power Administration (Western) and Basin Electric Power Cooperative (Basin Electric) joined Southwest Power Pool (SPP) on October 1, 2015.
- Ms. Tammy J. Nygard, Controller for Montana-Dakota, will testify regarding the overall cost of capital, capital structure and overall debt and preferred equity costs.
- Mr. Earl M. Robinson, Principal and Director of AUS Consultants, will testify regarding the Electric Depreciation Study that supports the proposed deprecation rates in this filing.
- Mr. Travis R. Jacobson, Regulatory Affairs Manager for Montana-Dakota, will testify regarding the total revenue requirement, the interim

revenue requirement necessary for North Dakota electric operations and proposed changes in the riders.

- Mr. Bruce Chapman, Vice President with Christensen Associates Energy Consulting, LLC, will testify the embedded class cost of service study utilized to support the proposed design of rates applicable to each rate class.
- Ms. Tamie A. Aberle, Director of Regulatory Affairs for Montana-Dakota, will testify regarding rate design proposed in this case to recover the identified revenue requirement for base retail rates, the Renewable Rider and the TCA, and
- Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota, will testify regarding proposed tariff changes.

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

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

Q. Does this complete your direct testimony?

A. Yes, it does.