

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

Before the Public Service Commission of North Dakota

Case No. PU-16\_\_\_\_

Direct Testimony  
of  
Tammy J. Nygard

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

2 A. My name is Tammy J. Nygard and my business address is 400  
3 North Fourth Street, Bismarck, North Dakota 58501.

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

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

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

12 A. I am responsible for management of the accounting and the  
13 financial forecasting/planning functions, including the analysis and  
14 reporting of all financial transactions for Montana-Dakota, Great Plains,  
15 Cascade and Intermountain.

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

1 A. I graduated from the University of Mary with a Bachelor of Science  
2 degree in Accounting and Computer Information Systems. I started my  
3 career with Montana-Dakota in 2002 in a professional development role  
4 and during my tenure with the Company have held positions of increasing  
5 responsibility, including Financial Analyst for Montana-Dakota as well as  
6 Director of Accounting and Finance for Cascade.

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

8 A. I am responsible for presenting Statement D.

9 **Q. Was this statement and the data contained therein prepared by you  
10 or under your supervision?**

11 A. Yes, it was.

12 **Q. Is it true to the best of your knowledge and belief?**

13 A. Yes, it is.

14 **Q. Would you please explain Statement D?**

15 A. Statement D shows the utility capital structure of Montana-Dakota  
16 for the twelve months ended December 31, 2015 and the projected capital  
17 structure for 2016 and 2017. Statement D includes the associated costs  
18 of debt, preferred stock and common equity. This capital structure and the  
19 associated costs serve as the basis for the overall rate of return requested  
20 by Montana-Dakota in this rate filing of 7.459 percent. The basis for the  
21 requested 10.00 percent return on common equity contained within the  
22 overall requested rate of return is supported by the testimony of Dr. J.  
23 Stephen Gaske.

1                   Page 1 of Statement D summarizes the utility capital structure and  
2                   the related utility costs of capital at December 31, 2015 and the projected  
3                   capital structure and the related utility costs of capital for 2016 and 2017.  
4                   As shown on page 1, the components of the 2017 projected overall annual  
5                   rate of return, which are used by Mr. Jacobson to calculate the revenue  
6                   requirement, are:

	Weighted Cost of Capital
Long Term Debt	2.207%
Short Term Debt	0.182%
Preferred Stock	0.047%
Common Equity	5.023%
Required Rate of Return	7.459%

7

8   **Q.    How does the Company finance its electric utility operations and**  
9           **determine the amount of common equity, debt and preferred stock to**  
10          **be included in its capital structure?**

11   A.           As a regulated public utility, the Company has a duty and obligation  
12           to provide safe and reliable service to its customers across its service  
13           territory while prudently balancing cost and risk. In order to fulfill its  
14           service obligations, the Company has made significant capital  
15           expenditures for new plant investment throughout its service territory,  
16           including environmental upgrades such as the Big Stone Air Quality  
17           Control System project to comply with the regional haze rule and Lewis &  
18           Clark to comply with the Material and Air Toxic Standard rule, new

1 generation sources for capacity and energy such as the Heskett III natural  
2 gas turbine, the Thunder Spirit Wind Farm and 18.6 MW of new natural  
3 gas generation located near the Lewis & Clark Station, as well as  
4 transmission upgrades to enhance reliability across the Company's  
5 integrated system. These new investments also have associated  
6 operating and maintenance costs. Through its financial planning process,  
7 the Company determines the amounts of necessary financing required to  
8 support these activities. Montana-Dakota finances its operations targeting  
9 a 50 percent common equity capital structure at year end. Capital  
10 expenditure investments are financed through a mix of internally  
11 generated funds, the utilization of the Company's short-term credit line and  
12 the issuance of additional debt and common equity financing as required  
13 to maintain targeted capital ratios and finance the combined utility  
14 operations.

15 The Company obtained \$115.0 million of additional common equity  
16 in 2015. In addition, the Company expects to receive approximately \$15.0  
17 million of common equity during 2016 and \$45.0 million of common equity  
18 in 2017 in order to achieve and maintain the targeted capital structure.

19 In 2015, the Company issued \$150.0 million of new debt. The  
20 Company is projecting to issue \$50.0 million private placement of  
21 unsecured senior notes in October 2016 with a delayed draw of \$50.0  
22 million in March 2017. \$50.0 million of senior notes will be paid off in  
23 September 2016.

1 **Q. What does Statement D, Schedule D-1 show?**

2 A. Page 1 is a summary showing the Company's long-term debt at  
3 December 31, 2015 and associated cost of debt, and it shows the  
4 projected long-term debt and associated costs for 2016 and 2017. Page 2  
5 shows the cost and the debt balance by issue at December 31, 2015.  
6 Page 3 shows the projected cost and the debt balance by issue at  
7 December 31, 2016 and page 4 shows the projected cost and the debt  
8 balance by issue at December 31, 2017.

9 **Q. How did you derive the projected cost of debt for 2016 and 2017?**

10 A. The projected cost of debt for 2016 and 2017 is based upon the  
11 yield-to-maturity of each debt issue outstanding.

12 **Q. Would you please describe Statement D, Schedule D-1, page 5 and  
13 explain the amortization method utilized?**

14 A. Page 5 reflects the annual amortization of the costs associated with  
15 the redemption of long-term debt. For this proceeding, the amortization  
16 has been computed on a straight-line basis over the remaining life of the  
17 issues. The Company uses the same calculation for accounting purposes.

18 **Q. Would you please describe Statement D, Schedule D-1, page 6?**

19 A. Page 6 presents the twelve-month average short-term debt balance  
20 for 2015 and projected 2016 and 2017 as well as the average cost of  
21 short-term debt. A twelve-month average of short-term debt is used in the  
22 cost of capital calculation to reflect the seasonality in the short-term debt  
23 balance. Short-term debt is historically at or near its peak in December

1 and the twelve-month average calculation is more reflective of the  
2 borrowing level than a year-end balance.

3 **Q. What does Statement D, Schedule D-2 show?**

4 A. Page 1 presents the preferred stock balances at December 31,  
5 2015 and the projected balances for December 31, 2016 and December  
6 31, 2017. The anticipated weighted cost of preferred stock is also shown.  
7 Pages 2 sets forth the various preferred stock issues outstanding at  
8 December 31, 2015 and page 3 and 4 set forth the projected issues  
9 outstanding at December 31, 2016 and December 31, 2017.

10 **Q. What does Statement D, Schedule D-3 show?**

11 A. The schedule presents the common equity balance at December  
12 31, 2015 and the projected balance for December 31, 2016 and  
13 December 31, 2017 reflecting the projected activity in the balance.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes, it does.