

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

Before the North Dakota Public Service Commission

Case No. PU-17-___

Direct Testimony
of
Nicole A. Kivisto

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

2 A. Yes. My name is Nicole A. Kivisto, 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 President and Chief Executive Officer (CEO) for 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. Have you testified in other proceedings before regulatory bodies?**

11 A. Yes. I have previously presented testimony before this
12 Commission, the Public Service Commissions of Montana and Wyoming,
13 the Public Utilities Commissions of Minnesota and South Dakota, the

1 Public Utility Commissions of Oregon and Idaho, and the Washington
2 Utilities and Transportation Commission.

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

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

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

10 A. I hold a Bachelor's Degree in Accounting from Minnesota State
11 University Moorhead. I have worked for MDU Resources/Montana-Dakota
12 for twenty two years and have been in my current capacity since January
13 2015. I was the Vice President - Operations of Montana-Dakota and
14 Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc.
15 from January of 2014 until assuming my present position.

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

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

1 A. The purpose of my testimony is to provide an overview of Montana-
2 Dakota's gas operations. I will also provide an overview of the Company's
3 request for a natural gas distribution rate increase, discuss the reasons
4 underlying the major aspects of the request and introduce the Company's
5 proposed System Safety Integrity Program (SSIP) and the proposed
6 adjustment mechanism required to fund the SSIP. Finally, I will address
7 the need for an interim increase and introduce the other Company
8 witnesses that will present testimony and exhibits in further support of the
9 Company's request.

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

12 A. Montana-Dakota provides natural gas service to approximately
13 109,000 customers in 74 communities in North Dakota, operating
14 approximately 2,575 miles of distribution mains and approximately
15 110,000 service lines. The customer base is 86 percent residential
16 customers and 14 percent commercial and industrial customers. As of
17 December 31, 2016, the Company had 562 full and part time employees
18 who live and work throughout the Company's North Dakota electric and
19 gas service area. Montana-Dakota's North Dakota gas service area is

1 divided into two operating regions with regional offices located in Bismarck
2 and Dickinson, North Dakota. In addition to the regional offices, there are
3 fully staffed operations centers located in the communities of Minot,
4 Williston, and Devils Lake, with satellite offices in Watford City and
5 Jamestown.

6 Mr. Patrick Darras will provide additional information regarding the
7 distribution system in North Dakota and the structure of the Distribution
8 Operations group and describe how that group operates and maintains the
9 distribution system to ensure the safety of customers and compliance with
10 all pipeline safety regulations.

11 Montana-Dakota's customers have toll-free access to the Customer
12 Service Centers located in Meridian, Idaho and Bismarck, North Dakota as
13 well as the Credit Center in Bismarck, North Dakota, to place routine utility
14 service requests and inquiries from 7:00 am to 7:00 pm local time,
15 Monday through Friday and emergency calls on a 24-hour basis. A
16 scheduling center, located in Meridian, Idaho transmits electronic service
17 orders to the mobile terminals placed in our fleet of service and
18 construction vehicles. This network allows the Company to respond
19 quickly to customer requests and emergency situations.

1 **Q. Would you please provide more information regarding the customers**
2 **the Company serves?**

3 A. Yes. The residential, firm general service, and small interruptible
4 customers use natural gas primarily for space and water heating. As
5 such, Montana-Dakota's system has a low load factor with peak gas
6 requirements occurring during the winter. Summer loads are small by
7 comparison. Montana-Dakota is projecting to deliver approximately 23.4
8 Mmdk of natural gas to customers in North Dakota in 2018. The natural
9 gas requirements by customer class is as follows: approximately 38
10 percent residential, 34 percent firm general service, 7 percent small
11 interruptible, 19 percent large interruptible, and 2 percent for the Air Force.

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

14 A. For a natural gas distribution utility, the basic elements which make
15 up the cost of providing natural gas service are the cost of gas delivered at
16 the town border stations in its service territory and the cost of distributing
17 the gas from the town border station to the end use customer. It is the
18 second of these two elements, the distribution costs, which are the subject
19 of this application for a general rate increase.

1 The natural gas the Company purchases from suppliers is a
2 commodity like wheat or corn, the price of which is not regulated. The
3 cost of delivering the gas to the Company's distribution system at the town
4 border station is regulated by the FERC or other regulatory agencies.
5 These gas costs are passed on to customers on a dollar-for-dollar basis
6 as specified in the Commission approved Cost of Gas tariff. The gas cost
7 portion of the cost of providing natural gas service currently comprises
8 about 61 percent of a typical residential bill for gas service.

9 The distribution portion of the Company's cost of service is the
10 subject of this proceeding. This element includes the costs of new
11 distribution investments, replacement of aging infrastructure, operation
12 and maintenance expenses, depreciation, taxes, and the opportunity to
13 earn a return on the Company's investments in facilities that provide
14 natural gas service. Distribution costs are currently about 39 percent of a
15 typical residential bill.

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

18 A. Yes, I did.

19 **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 \$5,868,389 (a 5.4
3 percent increase over current rates) based on a projected 2018 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. When was the Company's last general rate case?**

11 A. The Company's last rate case was Case No. PU-15-090. The
12 resulting rate increase was \$2.6 million, or a 1.96 percent overall increase.
13 Final rates in that case became effective on December 1, 2015.

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

16 A. The primary reasons for the need for an increase in rates is the
17 increased investment in distribution facilities to improve system safety and
18 reliability and the depreciation and taxes associated with the increase in
19 investment. The increase in investment since the last rate case is

1 attributable to mains, services and meters placed into service since the
2 Company's last case and the Company's plan to address infrastructure
3 integrity initiatives through a System Safety and Integrity Program.
4 Without an increase in distribution rates, the Company projects its 2018
5 rate of return will be 4.850 percent, well below its cost of capital.

6 **Q. Would you please describe the proposed System Safety and Integrity**
7 **Program (SSIP)?**

8 A. Yes. The Company is proposing a structured replacement program
9 for Early Vintage Steel Pipe, Early Vintage Plastic Pipe, Low Pressure
10 Systems and the relocation of inside meters. The SSIP will focus on the
11 replacement of systems in these categories that are known for higher
12 risks as identified by the Company's Distribution Integrity Management
13 Plan (DIMP).

14 **Q. What has prompted Montana-Dakota to propose the SSIP?**

15 A. On March 28, 2011, following fatal explosions by natural gas
16 pipeline failures in Allentown, Pennsylvania and San Bruno, California,
17 United States Secretary of Transportation, Ray LaHood, issued a Call to
18 Action. This Call to Action sought to engage state regulators, technical
19 experts, and pipeline operators in identifying pipeline risks and repairing,

1 rehabilitating and replacing the highest risk infrastructure. In addition, it
2 called on pipeline operators and owners to evaluate the condition of their
3 pipelines and quickly repair or replace sections in poor condition. In
4 recent years, a number of states have approved programs addressing
5 cost recovery mechanisms for distribution companies with programs
6 addressing aging infrastructure on a more structured basis similar to
7 Montana-Dakota's proposed SSIP. A study published by the American
8 Gas Association indicates that, as of December 2016, 36 states have a
9 cost recovery mechanism in place, similar to Montana-Dakota's proposed
10 SSIP recovery mechanism, that allows utilities to address aging
11 infrastructure while minimizing the frequency of rate cases necessary to
12 recover the associated costs.

13 Company witness Patrick Darras will describe in his testimony the
14 efforts that Montana-Dakota has undertaken to ensure a safe and reliable
15 distribution system and will discuss in detail the proposed SSIP.

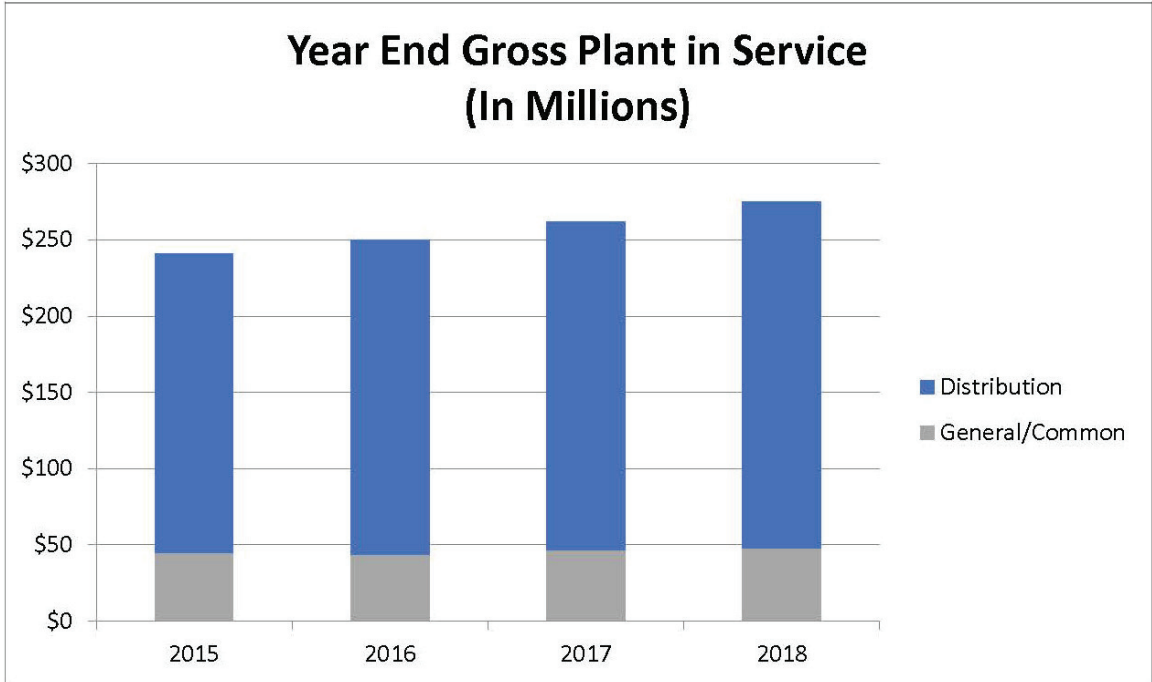
16 **Q. What is the estimated cost of the SSIP under the adjustment**
17 **mechanism in 2019?**

18 A. Based on the projected investment in 2019 of approximately \$6
19 million as identified by Mr. Darras, an annual revenue of approximately

1 \$860,000 would be required in 2019. This represents a monthly charge to
2 residential customers of approximately \$0.46 in order to enhance system
3 safety and reliability. The proposed System Safety and Integrity Program
4 Adjustment Mechanism provides a mechanism that allows the Company
5 to proactively address pipeline integrity while potentially avoiding costly
6 rate cases and providing customers with more gradual rate increases over
7 time.

8 **Q. How much has the gross investment and rate base increased since**
9 **the last case?**

10 A. The table below shows the year end gross investment in natural
11 gas plant assigned and allocated to North Dakota gas operations. The
12 year end gross investment projected for 2018 is \$275 million or nearly 18
13 percent greater than the gross investment from the 2015 test year used in
14 the last rate case. The chart below illustrates the increase in investment
15 since 2015, with the average rate base increasing to approximately \$135
16 million for the test period in this case.



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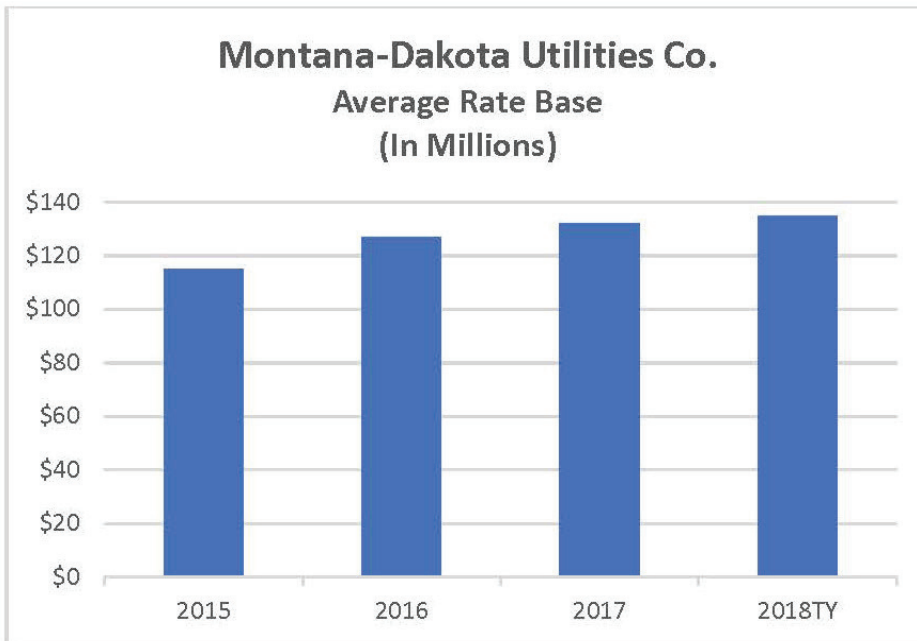
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4

period in this case.



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1 **Q. Have increased operating expenses contributed to the need for this**
2 **rate increase?**

3 A. Yes, the Company's operating expenses, which include
4 depreciation and taxes other than income, have increased since the last
5 rate case. However, as mentioned earlier, the largest contributing factor
6 has been the investment necessary to safely and adequately serve
7 customers. Operation & Maintenance Expenses (O&M) have increased
8 approximately 3 percent per year and have remained fairly consistent on a
9 per customer basis since the last rate case.

10 **Q. How will the requested increase affect the various classes of**
11 **customers?**

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

14

Class	Percent Increase
Residential	5.9%
Firm General	5.5%
Air Force Delivery	.0%
Small Interruptible	.0%
Large Interruptible	.0%
Overall	5.4%

1

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

5 A. Montana-Dakota works hard to control its costs by continually
6 looking for opportunities that create efficiencies and control costs. In spite
7 of Montana-Dakota's efforts to control costs, the Company is seeing a
8 need for increased revenue as the need to replace existing infrastructure
9 and add new infrastructure continues.

10 Montana-Dakota continually reviews its field operations for ways to
11 operate more efficiently and has been successful in doing so. Much of
12 this has been possible due to the advancement of cost effective
13 technology. However, additional investments are needed to ensure the
14 system can be operated safely and reliably.

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

1 A. Montana-Dakota is requesting an overall return of 7.542 percent,
2 inclusive of a return on equity (ROE) of 10.0 percent. Dr. Gaske's analysis
3 indicates that a 10.0 percent ROE is fully justified and supported.

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

5 A. Yes. Interim rate relief is being sought in this case consistent with
6 North Dakota Century Code 49-05-06. The amount of interim relief sought
7 is \$4,561,074 or 4.2 percent and consists of the Company's projected
8 2018 revenue requirement adjusted to reflect the rate of return of 9.50
9 percent authorized in Case No. PU-15-090, currently approved
10 depreciation rates, and the exclusion of items that were not a part of the
11 last rate case. The interim request will be described in more detail by Mr.
12 Jacobson. The proposed interim rates are described by Mr. Hatzenbuhler.
13 The interim increase is necessary to provide the Company an opportunity
14 to recover the costs of providing service to customers today.

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

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

- 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. Patrick C. Darras, Vice President of Operations for Montana-
5 Dakota and Great Plains Natural Gas Co. will testify regarding the
6 North Dakota gas distribution operations and the System Safety and
7 Integrity Program.
- 8 • Ms. Tammy J. Nygard, Controller for Montana-Dakota, will testify
9 regarding the overall cost of capital, capital structure and overall debt
10 costs, including the preferred stock redemption.
- 11 • Mr. Earl M. Robinson, Principal and Director of AUS will testify
12 regarding the Common and Gas Depreciation Studies that support the
13 proposed depreciation rates in this filing.
- 14 • Mr. Matthew Shoemake, Regulatory Analyst for Montana-Dakota will
15 testify regarding the volumes projected in this case.
- 16 • Mr. Travis R. Jacobson, Regulatory Analysis Manager for Montana-
17 Dakota, will testify regarding the total revenue requirement and the
18 interim revenue requirement necessary for North Dakota gas
19 operations.

- 1 • Mr. Jordan R. Hatzenbuhler, Senior Regulatory Analyst for Montana-
2 Dakota will testify on the Company's embedded class cost of service
3 study and proposed rate design.
- 4 • Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota
5 will testify regarding proposed tariff changes, including the SSIP
6 Adjustment Mechanism and a proposed Firm General Contracted
7 Demand Rate.

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

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

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

16 A. Yes, it does.