

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  
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 for 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 providing leadership and management of the  
13 accounting and the financial forecasting/planning functions, including the

1 analysis and reporting of all financial transactions for Montana-Dakota,  
2 Great Plains, Cascade, and Intermountain.

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

5 A. I graduated from the University of Mary with a Bachelor of Science  
6 degree in Accounting and Computer Information Systems. I have over 15  
7 years of experience in the utility industry. During my tenure with the MDU  
8 Utilities Group, I have held positions of increasing responsibility, including  
9 Financial Analyst for Montana-Dakota, Director of Accounting and Finance  
10 for Cascade, and now as MDU Utilities Group Controller.

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

12 A. I am responsible for presenting Statement D.

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

15 A. Yes, it was.

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

17 A. Yes, it is.

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

19 A. Statement D shows the utility capital structure of Montana-Dakota  
20 for the twelve months ended December 31, 2016 and the projected capital

1 structure for 2017 and 2018. Statement D includes the associated costs  
2 of debt, preferred stock and common equity. This capital structure and the  
3 associated costs serve as the basis for the overall rate of return requested  
4 by Montana-Dakota in this rate filing of 7.542 percent. The basis for the  
5 requested 10.00 percent return on common equity contained within the  
6 overall requested rate of return is supported by the testimony of Dr. J.  
7 Stephen Gaske.

8 Page 1 of Statement D summarizes the utility capital structure and  
9 the related utility costs of capital at December 31, 2016 and the projected  
10 capital structure and the related utility costs of capital for 2017 and 2018.  
11 As shown on page 1, the components of the 2018 projected overall annual  
12 rate of return, which are used by Mr. Jacobson to calculate the revenue  
13 requirement, are:

	<u>Weighted Cost of Capital</u>
Long Term Debt	2.273%
Short Term Debt	0.169%
Preferred Stock	0.000%
Common Equity	<u>5.100%</u>
Required Rate of Return	7.542%

14

15 **Q. Are there recent changes to the capital structure?**

1 A. Yes. On April 1, 2017 Montana-Dakota redeemed all preferred  
2 stock issued and outstanding. Preferred stock comprised about 1.1  
3 percent of the capital structure in 2016 and was replaced with lower cost  
4 long term debt. The redemption reduces the administrative burden  
5 associated with the preferred stock and, at the same time, reduces the  
6 overall cost of capital. The Company did incur a redemption premium to  
7 redeem the preferred stock and has deferred the costs of the redemption.  
8 As further discussed in the testimony of Mr. Jacobson, Montana-Dakota  
9 proposes to include those costs, net of deferred income taxes, in the rate  
10 base similar to debt redemption costs. The inclusion of deferred preferred  
11 stock redemption charges in rate base continues to show a net present  
12 value benefit to customers.

13 **Q. Was it prudent to redeem the preferred stock?**

14 A. Yes. By redeeming preferred stock, Montana-Dakota reduced its  
15 financing costs. The preferred stock had dividend rates of 4.5% and 4.7%.  
16 This was replaced with the fifteen year long-term debt issuance issued in  
17 March 2017 at an interest rate of 3.36%. The result of the redemption is a  
18 lower overall cost of capital. An analysis has been prepared which  
19 demonstrates the overall net benefit of the redemption, inclusive of the  
20 rate base impact, is beneficial to customers.

1 **Q. How does the Company finance its natural gas utility operations and**  
2 **determine the amount of common equity, debt and preferred stock to**  
3 **be included in its capital structure?**

4 A. As a regulated public utility, the Company has a duty and obligation  
5 to provide safe and reliable service to its customers across its service  
6 territory while prudently balancing cost and risk. In order to fulfill its  
7 service obligations, the Company has made significant capital  
8 expenditures for new plant investment throughout its service territory,  
9 especially in mains and services. These new investments also have  
10 associated operating and maintenance costs. Through its financial  
11 planning process, the Company determines the amounts of necessary  
12 financing required to support these activities. Montana-Dakota finances its  
13 operations with a target of 50 percent common equity. Capital expenditure  
14 investments are financed through a mix of internally generated funds, the  
15 utilization of the Company's short-term credit line and the issuance of  
16 additional debt and common equity financing as required to maintain  
17 targeted capital ratios and finance the combined utility operations.

18 The Company obtained \$10.0 million of additional common equity  
19 in 2016. In addition, the Company expects to receive approximately \$25.0

1 million of common equity during 2017 in order to achieve and maintain the  
2 targeted capital structure.

3 In 2016, the Company is issued a \$100.0 million private placement  
4 of unsecured senior notes with \$40.0 million of that amount drawn in 2016  
5 and the balance of \$60.0 million delayed until March 2017. \$50.0 million of  
6 senior notes were paid off in September 2016.

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

8 A. Page 1 is a summary showing the Company's long-term debt at  
9 December 31, 2016 and associated cost of debt, and it shows the  
10 projected long-term debt and associated costs for 2017 and 2018. Page 2  
11 shows the cost and the debt balance by issue at December 31, 2016.  
12 Page 3 shows the projected cost and the debt balance by issue at  
13 December 31, 2017 and page 4 shows the projected cost and the debt  
14 balance by issue at December 31, 2018.

15 **Q. How did you derive the projected cost of debt for 2017 and 2018?**

16 A. The projected cost of debt for 2017 and 2018 is based upon the  
17 yield-to-maturity of each debt issue outstanding.

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

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

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

6 A. Page 6 presents the twelve-month average short-term debt balance  
7 for 2016 and projected 2017 and 2018 as well as the average cost of  
8 short-term debt. A twelve-month average of short-term debt is used in the  
9 cost of capital calculation to reflect the seasonality in the short-term debt  
10 balance. Short-term debt is historically at or near its peak in December  
11 and the twelve-month average calculation is more reflective of the  
12 borrowing level than a year-end balance.

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

14 A. Page 1 presents the preferred stock balances and weighted cost at  
15 December 31, 2016 along with the redemption in the second quarter of  
16 2017. Pages 2 sets forth the various preferred stock issues outstanding at  
17 December 31, 2016 and page 3 presents the same information indicating  
18 no preferred stock remains outstanding at December 31, 2017.

19 **Q. Statement D, Schedule D-2 shows preferred stock redeemed in 2017.**

20 **When was the preferred stock redeemed?**

1 A. As noted previously in my testimony, on March 1, 2017, the  
2 Company provided notice of its intent to redeem all outstanding shares of  
3 preferred stock. Effective April 1, 2017, all outstanding preferred shares  
4 were redeemed.

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

6 A. The schedule presents the common equity balance at December  
7 31, 2016 and the projected balance for December 31, 2017 and  
8 December 31, 2018 reflecting the projected activity in the balance.

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

10 A. Yes, it does.