

MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case No. PU-20-____

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) of Montana-
6 Dakota Utilities Co. (Montana-Dakota), and Great Plains Natural Gas Co.
7 (Great Plains), a division of Montana-Dakota. I am also the President and
8 CEO of Cascade Natural Gas Corporation and Intermountain Gas
9 Company, all subsidiaries of MDU Resources Group, Inc., collectively the
10 MDU Utilities Group, herein referred to collectively as "Company."

11 **Q. Please describe your duties and responsibilities with MDU Utilities**
12 **Group.**

13 A. I have executive responsibility for the development, coordination,
14 and implementation of strategies and policies relative to operations of the

1 above-mentioned companies that, in combination, serve over 1.1 million
2 customers in eight states.

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

4 A. I hold a bachelor's degree in Accounting from Minnesota State
5 University Moorhead. I began working for MDU Resources/Montana-
6 Dakota in 1995 and have been in my current capacity since January 2015.
7 I was the Vice President-Operations of Montana-Dakota and Great Plains
8 from January of 2014 until assuming my present position.

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

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

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

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

2 A. The purpose of my testimony is to provide an overview of the
3 Company's gas operations in the state of North Dakota. I will also provide
4 an overview of the Company's request for a natural gas distribution rate
5 increase and discuss the policies and reasons underlying the major
6 aspects of the request. Finally, I will address the need for an interim
7 increase and introduce the other Company witnesses that will present
8 testimony and exhibits in further support of the Company's request.

9 **Q. Would you please address the relationship between Montana-Dakota**
10 **and Great Plains Natural Gas Co. (Great Plains) and how that affects**
11 **this rate case?**

12 A. Yes. Great Plains is a Division of Montana-Dakota and operates as
13 a district. Great Plains serves customers in Minnesota and the community
14 of Wahpeton and the surrounding area in North Dakota. There are
15 approximately 2,355 customers in North Dakota and its operations are
16 currently managed in a manner similar to Montana-Dakota's other districts,
17 such as Jamestown. In a Settlement in Case Nos. PU-17-490 and PU-17-
18 075 approved by this Commission, the Parties agreed to begin combining
19 all gas operations within North Dakota for reporting purposes as a first

1 step to having one North Dakota gas utility operation. I will address steps
2 proposed in this rate case to further align the service provided to
3 Wahpeton under Montana-Dakota's tariff.

4 **Q. Would you provide a summary of Montana-Dakota's and Great**
5 **Plains' gas operations in North Dakota?**

6 A. The Company currently provides natural gas service to
7 approximately 115,000 customers in 75 communities in North Dakota,
8 operating approximately 2,752 miles of distribution mains and
9 approximately 115,953 service lines. The customer base is 86 percent
10 residential and 14 percent commercial and industrial. As of December 31,
11 2019, the Company had 518 full and part-time employees who live and
12 work throughout the Company's North Dakota electric and natural gas
13 service area. Montana-Dakota's North Dakota natural gas service area is
14 divided into two operating regions with regional offices located in Bismarck
15 and Dickinson, North Dakota. In addition to the regional offices, there are
16 fully staffed operations centers located in the communities of Minot,
17 Williston, and Devils Lake, with satellite offices in Watford City and
18 Jamestown. Great Plains' North Dakota natural gas service area is
19 serviced out of Great Plains' office in Fergus Falls, Minnesota.

1 The Company's customers have toll-free access to the Customer
2 Experience Team located at the Customer Service Centers in Meridian,
3 Idaho, and Bismarck, North Dakota as well as the Credit Center in
4 Bismarck, North Dakota, to place routine utility service requests and
5 inquiries from 7:30 am to 6:30 pm local time, Monday through Friday and
6 emergency calls on a 24-hour basis. A scheduling center, part of the
7 Customer Experience Team located in Meridian, Idaho transmits electronic
8 service orders to the mobile terminals placed in our fleet of service and
9 construction vehicles. This network allows the Company to respond
10 quickly to customer requests and emergency situations.

11 **Q. Would you please provide more information regarding the customers**
12 **the Company serves?**

13 A. Yes. The residential, firm general service, and small interruptible
14 customers use natural gas primarily for space and water heating. As
15 such, the Company's system has a low load factor with peak gas
16 requirements occurring during the winter with summer loads being small
17 by comparison. The Company is projecting to deliver approximately 25.8
18 Mmdk of natural gas to customers in North Dakota in 2021. The natural
19 gas requirements by customer class is as follows: approximately 34

1 percent residential, 33 percent firm general service, 13 percent small
2 interruptible, 18 percent large interruptible, and 2 percent for the Air Force.

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

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

11 The natural gas the Company purchases from suppliers is a
12 commodity like wheat or corn, the price of which is not regulated. The
13 cost of delivering the gas to the Company's distribution system at the town
14 border station is regulated by the FERC or other regulatory agencies.
15 These gas costs are passed on to customers on a dollar-for-dollar basis
16 as specified in the Commission approved Cost of Gas tariff. The gas
17 portion of the cost of providing natural gas service comprises about 58
18 percent of a typical residential bill for natural gas service.

1 The distribution portion of the Company's cost of service is the
2 subject of this proceeding. This element includes the costs of new
3 distribution investments, replacement of aging infrastructure, operation
4 and maintenance expenses, depreciation, taxes, and the opportunity to
5 earn a return on the Company's investments in facilities that provide
6 natural gas service. Distribution costs are currently about 42 percent of a
7 typical residential bill.

8 **Q. How is the COVID-19 pandemic impacting the Company and its**
9 **customers?**

10 **A.** The Company has implemented appropriate measures to ensure that
11 it can continue to operate safely and ensure that the Company's
12 customers can continue to receive essential gas service during this
13 challenging time. To that end, the Company temporarily suspended the
14 collection of late payment charges on April 1, 2020 for its customers and
15 implemented a moratorium on service disconnections for non-payment
16 related to hardships incurred from COVID-19 beginning mid-March and
17 extending through the end of August 2020. The Customer Experience
18 Team is working with customers to establish longer than normal

1 repayment plans if appropriate and to ensure customers are aware of
2 energy assistance programs available to them.

3 **Q. Has the Company considered the impact of filing a general rate case**
4 **during these trying times?**

5 **A.** We understand that many of our customers may be experiencing
6 economic hardship resulting from the COVID-19 pandemic, and that the
7 prospect of a rate increase may be difficult at this time. We carefully
8 considered the appropriate timing for this filing and ultimately determined
9 that the rate increase is necessary in order to meet customers' needs in
10 regard to maintaining safe and reliable service as well as provide timely
11 recovery of the Company's investments and costs. While there is
12 uncertainty regarding how long the Company and its customers will be
13 impacted by the COVID-19 pandemic and the magnitude of the impacts,
14 the Company is optimistic that the situation will be improved by the time
15 rates go into effect in 2021 as explained later in my discussion of interim
16 rates.

17 **Q. Please summarize the requested increase in this filing.**

18 **A.** The Company's cost of doing business in North Dakota is increasing
19 despite the Company's efforts to control costs and increase efficiency.

1 The Company has invested approximately \$11.0 million between 2017
2 and 2019 to improve the safety and reliability of its distribution system in
3 North Dakota. While much progress was made over this period, the
4 Company believes its necessary to maintain its focus on system
5 improvements and estimates it will invest more than \$43.1 million to
6 ensure system safety and reliability between 2020 and 2024. Further, the
7 Company continues to experience increases in labor and personnel costs
8 and general cost increases across its business lines.

9 The Company's rate base growth and increased operating expenses
10 since its last filed rate case require it to request an overall increase of
11 \$8,972,496 or 7.80 percent based on a projected 2021 test period. The
12 Company's demonstrated increase is based on an overall rate of return of
13 7.304 percent based on a weighted capital structure of 50.306 percent
14 common equity, 49.694 percent debt, and a return on equity of 10.2
15 percent.

16 **Q. What other adjustments are contributing to the need for an increase**
17 **in distribution rates?**

1 A. In addition to the operating expenses, the Company is requesting
 2 the inclusion of the provision for pension and post-retirement benefits, net
 3 of the associated deferred taxes, to be added to rate base.

4 **Q. Why has the Company proposed to include these assets and**
 5 **liabilities in rate base at this time?**

6 A. Recent contributions to the Company's pension trust fund have
 7 resulted in a significant prepaid asset related to the Company's pension
 8 plan as shown in Table 1 below:

	Cash Contributions	Pension Expense	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			\$7,777,266
Activity - 2005	\$0	\$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
Activity - 2008	-	2,825,775	(5,882,569)
Activity - 2009	8,347,434	4,759,097	(2,294,232)
Activity - 2010	3,871,657	(5,328)	1,582,753
Activity - 2011	13,757,133	1,610,332	13,729,554
Activity - 2012	12,038,687	(740,118)	26,508,359
Activity - 2013	10,014,592	1,830,351	34,692,600
Activity - 2014	12,202,457	594,340	46,300,717
Activity - 2015	2,182,143	1,398,780	47,084,080
Activity - 2016	-	1,746,833	45,337,247
Activity - 2017	422,015	1,422,159	44,337,103
Activity - 2018	7,200,692	720,403	50,817,392
MDU R funding adj	(5,133,171)	-	45,684,221
Activity - 2019	15,452,375	1,379,116	59,757,480
Total Funding	<u>\$81,544,704</u>	<u>\$29,564,490</u>	
Ending Balance - 12/31/2019			<u>\$ 59,757,480</u>

1 As shown in Table 1, the cash contributions made by the Company
2 have significantly exceeded the pension expense, which is the amount
3 included in the Company's revenue requirement and recovered through
4 rates charged to customers. Similar to other investments, Montana-
5 Dakota has a significant outlay in cash and its only opportunity to earn a
6 return on the outlay of cash is by inclusion in the Company's rate base.

7 Montana-Dakota has taken a number of steps to minimize pension
8 costs. They include closing the pension plan to new participants as well
9 as freezing the level of benefits accrued. In addition, the Company's
10 contributions generally result in lower pension expense recovered through
11 the revenue requirement.

12 The post retirement prepaid asset, while much smaller in size, has
13 similar characteristics as the prepaid pension asset and was included in
14 the pro forma rate base as well.

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

17 A. Yes, I did.

18 **Q. Why has Montana-Dakota and Great Plains filed this application for a**
19 **natural gas rate increase?**

1 A. The Company is requesting an increase in its general gas rates at
2 this time because the current rates do not reflect the cost of providing
3 natural gas service to its North Dakota customers.

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

5 A. Montana-Dakota's last rate case was Case No. PU-17-295. The
6 resulting rate increase including the effects of the Tax Cuts and Jobs Act of
7 2017 was \$2.5 million, or a 2.30 percent overall increase. Final rates in
8 that case became effective on December 1, 2018. Great Plains' last rate
9 case was Case No. PU-17-490 and was a reduction of \$168,306 resulting
10 from the Tax Cuts and Jobs Act of 2017.

11 **Q. What are the primary reasons that the Company needs an increase at
12 this time?**

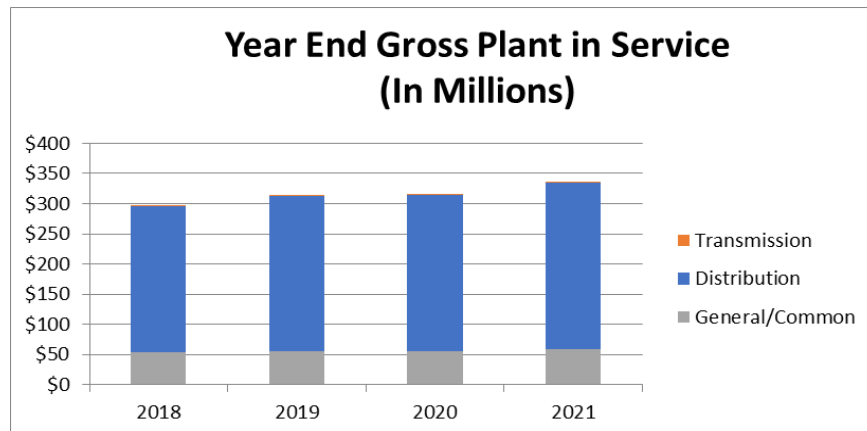
13 A. As noted earlier, the last Montana-Dakota rate increase was
14 implemented December 1, 2018 and was based on a projected 2018
15 revenue requirement for North Dakota. The primary reason for the need
16 for an increase in rates is the Company's continued investment in
17 distribution facilities to improve system safety and reliability. The
18 additional investment has generally increased the associated depreciation,
19 taxes, and operation and maintenance expenses.

1 **Q. Would you please describe the investment in distribution facilities to**
2 **improve system safety and integrity in greater detail?**

3 A. The investment in system safety and integrity is a focused effort
4 based on the Company's Distribution Integrity Management Program
5 (DIMP). Mr. Darras will explain in further detail how the DIMP is used to
6 identify the pipeline replacement projects necessary for safety reasons
7 and to reduce risk on Montana-Dakota's system.

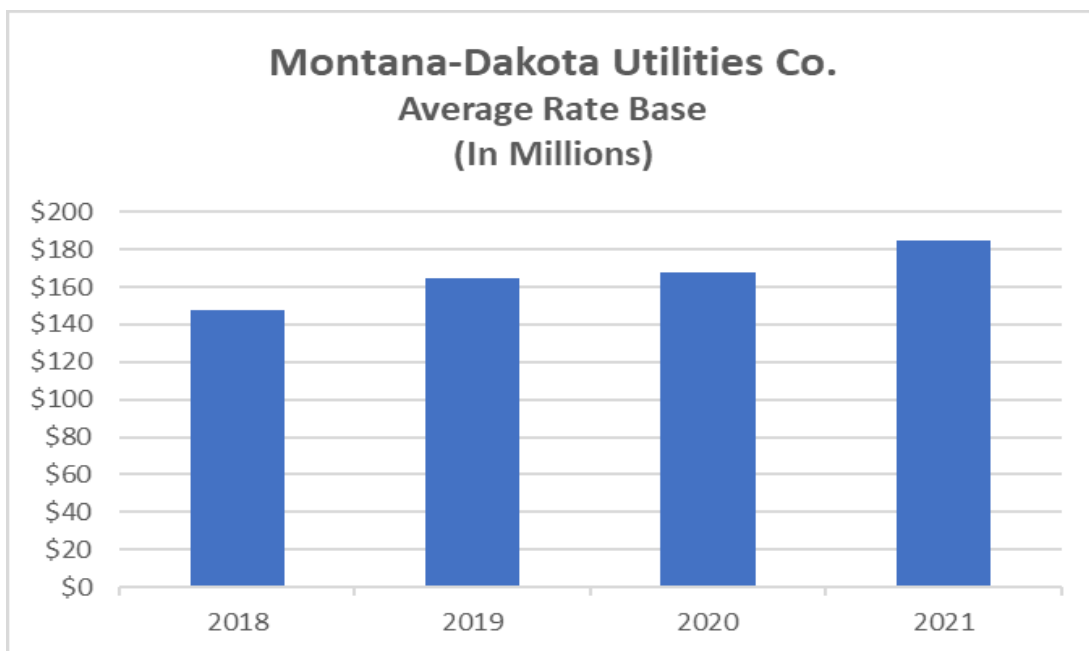
8 **Q. How much has the gross investment and rate base increased since**
9 **the last case?**

10 A. The table below shows the year end gross investment in natural
11 gas plant assigned and allocated to North Dakota and Great Plains North
12 Dakota gas operations. The year end gross investment projected for 2021
13 is \$336 million or nearly 22 percent greater than the gross investment from
14 the 2018 test year used in the last rate case.



15

1 The chart above illustrates the increase in the investment in plant in
2 service since 2018. The increase in distribution plant is the largest
3 contributor. At the same time, rate base has increased from \$148.4 million
4 to \$184.7 million from 2018 to the 2021 projected test period. The
5 addition of the pension and post retirement benefits regulatory assets has
6 also contributed to the increase in rate base.



7

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

10 A. Yes, the Company's operating expenses, which include
11 depreciation and taxes other than income, have increased since the last
12 rate case. However, as mentioned earlier, the largest contributing factor

1 has been the investment necessary to safely and adequately serve
2 customers.

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

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

11 The MDU Utilities Group, which encompasses the four brands I
12 discussed previously, has recently moved forward from a regional
13 operations structure by brand to a functional approach across all brands
14 covering an eight-state service area, striving for operational consistency.

15 The goal is to develop an operations organizational structure to
16 operate as one utility with one vision:

- 17 • Create efficiencies in operations, technology and support services
18 through common approaches and standards
- 19 • Gain economics of scale by using resources more effectively

- 1 • Streamline decision making
- 2 • Reduce duplication of effort
- 3 • Better manage the need for additional resources
- 4 • Implementation of a Pipeline Safety Management System
- 5 • Ensure the organization is better prepared for growth
- 6 • Evolution of continuous improvement
- 7 • Build specialized groups with a high level of expertise in their field

8 The functions are organized as follows, each reporting to a Vice
9 President who oversees the function across all brands and eight states:

- 10 • **Field Operations (Eric Martuscelli - Vice President)**

11 Directs and coordinates activities for the entire gas and electric
12 distribution field operations across the eight-state service territory.

13 Oversees the delivery of regulated products and services to our
14 customers.

- 15 • **Operations and Engineering Services (Pat Darras - Vice
16 President)**

17 Oversees the development, design and execution of critical and
18 transformative operational strategic initiatives including but not
19 limited to asset management, infrastructure upgrades, and

1 compliance while maintaining engineering and operational
2 excellence across the MDU Utilities Group.

3 • **Safety, Process Improvement, and Operations Technology**
4 **(Hart Gilchrest - Vice President)**

5 Oversees the development, design and execution of critical and
6 transformative operational excellence strategic initiatives including
7 but not limited to safety, technical training, safety management
8 systems, process improvement and operations technology.

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

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

Class	Percent
Residential	12.5%
Firm General	3.1%
Air Force	2.3%
Small Interruptible	2.5%
Large Interruptible	0.9%
Overall	7.8%

13

14 Based on the increase noted above, a residential customer would
15 see an average increase of \$6.26 per month.

1 **Q. What return is Montana-Dakota and Great Plains requesting in this**
2 **case?**

3 A. The Company is requesting an overall return of 7.304 percent,
4 inclusive of a return on equity (ROE) of 10.2 percent. Ms. Bulkley's
5 analysis indicates that a 10.2 percent ROE is fully justified and supported
6 based on the results of her studies.

7 **Q. The Company is proposing a phased approach to combine Great**
8 **Plains' gas operations in North Dakota with Montana-Dakota's gas**
9 **operations. Will you please explain?**

10 A. Yes. In this filing, the Company proposes to begin the phase in of
11 Wahpeton's customers to become Montana-Dakota customers. Upon
12 implementation of final rates in this case, Great Plains customers will be
13 served under Montana-Dakota's tariffs but will continue to receive a Great
14 Plains bill up to one year after the implementation of final rates in this
15 case. At that time customers will begin receiving their natural gas bills
16 under a Montana-Dakota invoice.

17 The Company proposes a second phase of rate changes also after a
18 one year period at which time Great Plains customers will begin to be
19 billed under a Montana-Dakota invoice. The completion of common rates

1 between Great Plains and Montana-Dakota customers will take place in a
2 future rate case in order to avoid significant changes in the rate structure.

3 **Q. Is the Company seeking interim rate relief in this proceeding?**

4 A. Yes. Interim rate relief is being sought in this case consistent with
5 North Dakota Century Code 49-05-06. The amount of interim relief sought
6 is \$6,893,176 or 6.0 percent and consists of the Company's projected
7 2021 revenue requirement adjusted to reflect the rate of return of 9.40
8 percent authorized in Case Nos. PU-17-295 and PU-17-490, exclusion of
9 rate case expense associated with this rate case and the pension
10 regulatory asset in rate base as this was not a part of the last rate case.
11 The Company recognizes that the current COVID-19 pandemic has
12 impacted some of its customers. To minimize the impact to customers, the
13 Company proposes the Commission grant a waiver of North Dakota
14 Century Code 49-05-06, Section 2 that states "the commission shall order
15 that the interim rate schedule take effect no later than sixty days after the
16 initial filing date" and allow the Company to delay implementation of
17 interim rates until January 1, 2021. The delay in the implementation of
18 rates will reduce the impact on customers by approximately two months
19 while, at the same time, allow the Company to begin to earn a reasonable

1 rate of return. The interim request will be described in more detail by Ms.
2 Vesey. The proposed interim rates are described by Ms. Bosch. The
3 interim increase is necessary to provide the Company an opportunity to
4 recover the costs of providing service to customers today.

5 **Q. Will you please identify the witnesses who will testify on behalf of**
6 **Montana-Dakota and Great Plains in this proceeding?**

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

- 9 • Ms. Ann Bulkley, Senior Vice President of Concentric Energy Advisors,
10 Inc. will testify regarding the appropriate cost of common equity for
11 Montana-Dakota's and Great Plains' North Dakota gas operations.
- 12 • Mr. Patrick C. Darras, Vice President of Engineering and Operations
13 Services for Montana-Dakota and Great Plains Natural Gas Co. will
14 testify regarding the North Dakota gas distribution operations and the
15 System Safety and Integrity Program.
- 16 • Ms. Tammy J. Nygard, Controller for the MDU Utilities Group, will
17 testify regarding the overall cost of capital, capital structure, and overall
18 debt costs.

- 1 • Mr. Matthew Shoemake, Regulatory Analyst for Montana-Dakota will
2 testify regarding the volumes projected in this case.
- 3 • Mr. Travis R. Jacobson, Regulatory Affairs Director for Montana-Dakota
4 will testify regarding an overview of the total revenue requirement and
5 the interim revenue requirement necessary for North Dakota gas
6 operations and the addition of the pension and post retirement benefits
7 in rate base.
- 8 • Ms. Tara S. Vesey, Regulatory Affairs Manager for Montana-Dakota will
9 testify regarding the total revenue requirement and the interim revenue
10 requirement necessary for North Dakota gas operations.
- 11 • Mr. Ron Amen, Management Consulting Director for Black and Veatch
12 Management Consulting, LLC will testify on the Company's embedded
13 class cost of service study and proposed rate design.
- 14 • Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota
15 will testify regarding proposed tariff changes and the proposed plan to
16 transition Great Plains' customers to Montana-Dakota's gas tariff.
- 17 **Q. Ms. Kivisto, are the rates requested in this proceeding just and**
18 **reasonable?**

1 A. Yes. In my opinion, the proposed rates are just and reasonable as
2 they are reflective of the total costs being incurred by the Company to
3 provide safe and reliable natural gas service to its customers. The
4 proposed rates will provide the Company the opportunity to earn a fair and
5 reasonable return on its North Dakota natural gas operations.

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

7 A. Yes, it does.