

MONTANA-DAKOTA UTILITIES CO.

Before the Public Service Commission of North Dakota

Case No. PU-22-____

Direct Testimony

Of

Nicole A. Kivisto

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

2 A. 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 or Company), Cascade Natural Gas
7 Corporation, and Intermountain Gas Company, all subsidiaries of MDU
8 Resources Group, Inc. as well as Great Plains Natural Gas Co., a division
9 of Montana-Dakota, collectively the MDU Utilities Group.

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

12 A. I have executive responsibility for the development, coordination,
13 and implementation of strategies and policies relative to operations of the
14 above-mentioned companies that, in combination, serve over 1.165 million
15 customers in eight states.

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

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

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

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 Idaho, Minnesota, and South Dakota,
14 the Public Utility Commission of Oregon, and the Washington Utilities and
15 Transportation Commission.

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

17 A. The purpose of my testimony is to provide an overview of Montana-
18 Dakota's electric operations in the state of North Dakota. I will also provide
19 an overview of the Company's request for an electric rate increase and
20 discuss the policies and reasons underlying the major aspects of the
21 request. Finally, I will address the need for an interim increase and
22 introduce the other Company witnesses that will present testimony and
23 exhibits in further support of the Company's request.

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

3 A. North Dakota is a part of Montana-Dakota's interconnected electric
4 system, which consists of generation, transmission, distribution, and
5 general plant facilities serving approximately 93,500 customers in 119
6 communities in North Dakota. The Company's North Dakota electric
7 service area is divided into two operating regions with regional offices
8 located in Bismarck and Dickinson. In addition, there are several district
9 offices located in communities throughout the state. As of December 31,
10 2021, the Company had 542 full and part-time employees who live and
11 work throughout the Company's North Dakota electric and gas service
12 area.

13 Montana-Dakota's customers have toll-free access to the Customer
14 Experience Team and the Credit Center to place routine utility service
15 requests and inquiries from 7:30 am to 6:30 pm local time, Monday
16 through Friday and emergency calls on a 24-hour basis. A scheduling
17 center, part of the Customer Experience Team, transmits electronic service
18 orders to the mobile terminals placed in our fleet of service and
19 construction vehicles. This network allows the Company to respond
20 quickly to customer requests and emergency situations.

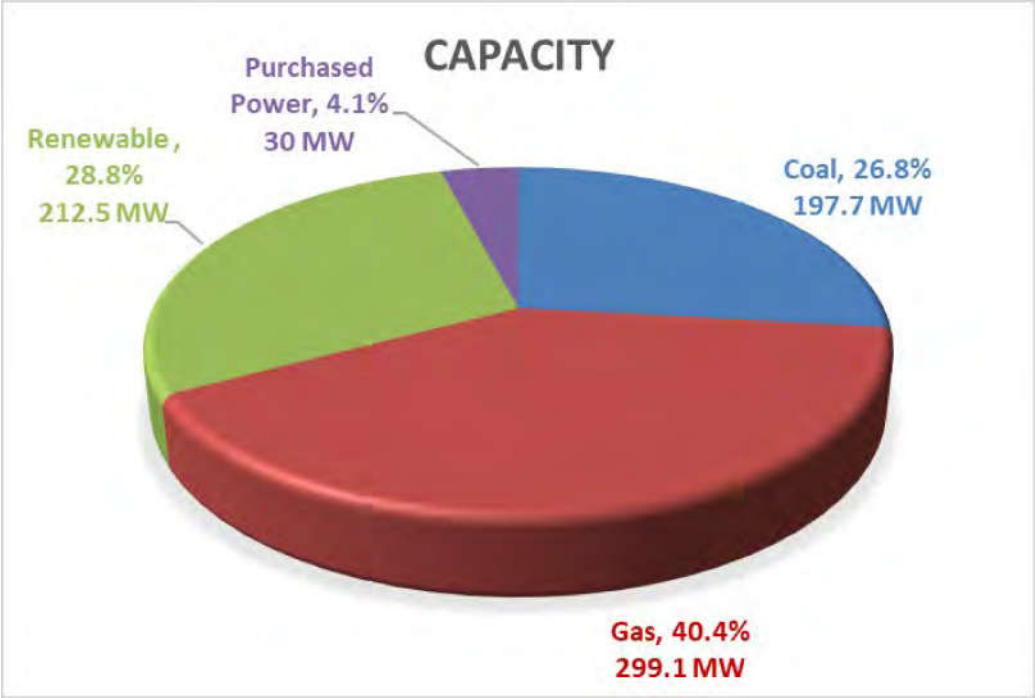
21 **Q. Would you describe Montana-Dakota's interconnected electric**
22 **system?**

23 A. Through its interconnected electric system, Montana-Dakota

1 serves approximately 127,000 retail customers in portions of North
 2 Dakota, Montana, and South Dakota. Montana-Dakota's current portfolio
 3 of generation assets is comprised of baseload coal-fired generation,
 4 natural gas-fired peaking generation, wind generation, portable diesel
 5 units, and a waste heat generating unit. Capacity and energy are also
 6 provided through a Power Purchase Agreement. Montana-Dakota plans
 7 to maintain and operate its current fleet of generation resources which
 8 provides the best cost power supply for our customers. The Company's
 9 projected 2023 capacity mix is as shown below and is comprised of:

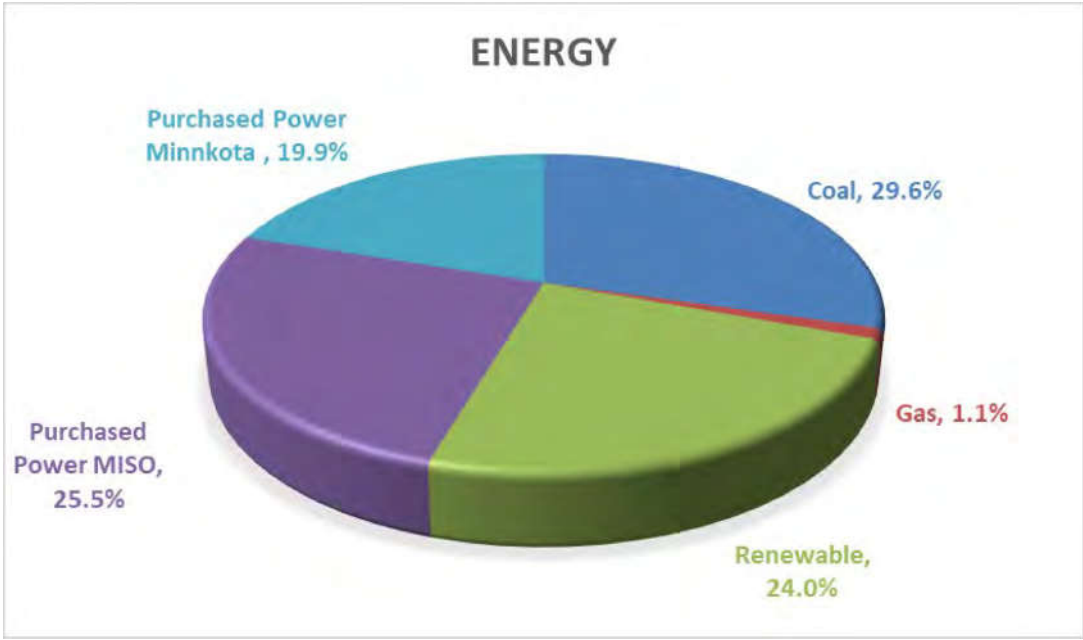
Facility	Nameplate Capacity (MW)
<u>Coal</u>	
Big Stone	94.1
Coyote	103.6
Total	197.7
<u>Gas</u>	
Miles City	23.2
Glendive Unit I and II	75.5
Heskett Unit III	89.0
Heskett Unit IV	88.0
Lewis and Clark Unit II - RICE	18.7
Portables	3.7
Total	298.1
<u>Renewable</u>	
Diamond Willow	30.0
Ormat	7.5
Cedar Hills	19.5
Thunder Spirit	155.5
Total	212.5
<u>Purchased Power</u>	
Minnkota	30.0
Grand Total 1/	738.3

1/ Additionally the Company has a Demand-Side Management program that can reduce demand by 13.6 MW for Interruptible customers and 25.0 MW for Commercial Customers.



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Customers' projected 2023 energy requirements are provided by the following resources as shown below.



5

1 **Q. How are the costs associated with the ice storm that affected North**
2 **Dakota on the weekend of April 23, 2022 handled in this case?**

3 A. The storm caused widespread outages and unprecedented
4 damage to the Company's transmission and distribution system. Due to
5 the outstanding efforts of employees, all Montana-Dakota customers were
6 re-energized by April 30, 2022. Because the Company is currently
7 evaluating the current and future costs related to this event, there are no
8 associated costs included in this case.

9 There are certain capital improvement projects included in the
10 planned additions for 2022 and 2023 that were in the storm affected area.
11 As a result, certain upgrades were necessary to complete the restoration;
12 however, additional work is likely necessary to achieve the desired
13 transmission standards.

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

16 A. Yes, I did.

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

19 A. Montana-Dakota is requesting an increase in its electric rates at
20 this time because our current rates do not reflect the cost of providing
21 electric service to the Company's North Dakota customers.

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

23 A. The Company's last rate case was Case No. PU-16-666. The

1 resulting rate increase was \$7.5 million or a 3.7 percent overall increase.
2 Final rates in that case became effective on August 7, 2017. On March 9,
3 2018, Montana-Dakota filed Case No. PU-18-89 which represented
4 revised electric rates in response to the federal 2017 Tax Cuts and Jobs
5 Act. This resulted in a revenue reduction in base rates of \$8,843,826
6 effective November 1, 2018.

7 **Q. What is the amount of the increase requested?**

8 A. As will be fully explained by other Company witnesses, the
9 Company is requesting \$25,365,558, which represents a 12.3 percent
10 increase, based on a projected 2023 test year. Montana-Dakota currently
11 has four riders: the Generation Resource Recovery Rider (Generation
12 Rider), the Renewable Resource Cost Adjustment (Renewable Rider), the
13 Transmission Cost Adjustment (Transmission Rider), and the
14 Environmental Cost Recovery Rider (Environmental Rider) (with no
15 current recovery). The 12.3 percent increase includes the effect on the
16 base electric rates and the Generation Rider. No changes to the
17 Renewable and Transmission Rider are included in this request.

18 More specifically, Montana-Dakota is proposing to move or expand
19 the cost recovery from certain riders and base rates as follows:

- 20 • Move the retired investment and related expenses of Lewis
21 & Clark Unit I and Heskett Unit I and II from base rates
22 to the Generation Rider.

- 1 • Move the production investment and related expenses of
- 2 Lewis & Clark Unit II (RICE) currently recovered through the
- 3 Generation Rider to base retail rates.
- 4 • Recover the production investment and related expenses of
- 5 Heskett Unit IV in base retail rates.

6 **Q. How would this increase effect the Company's residential**
7 **customers?**

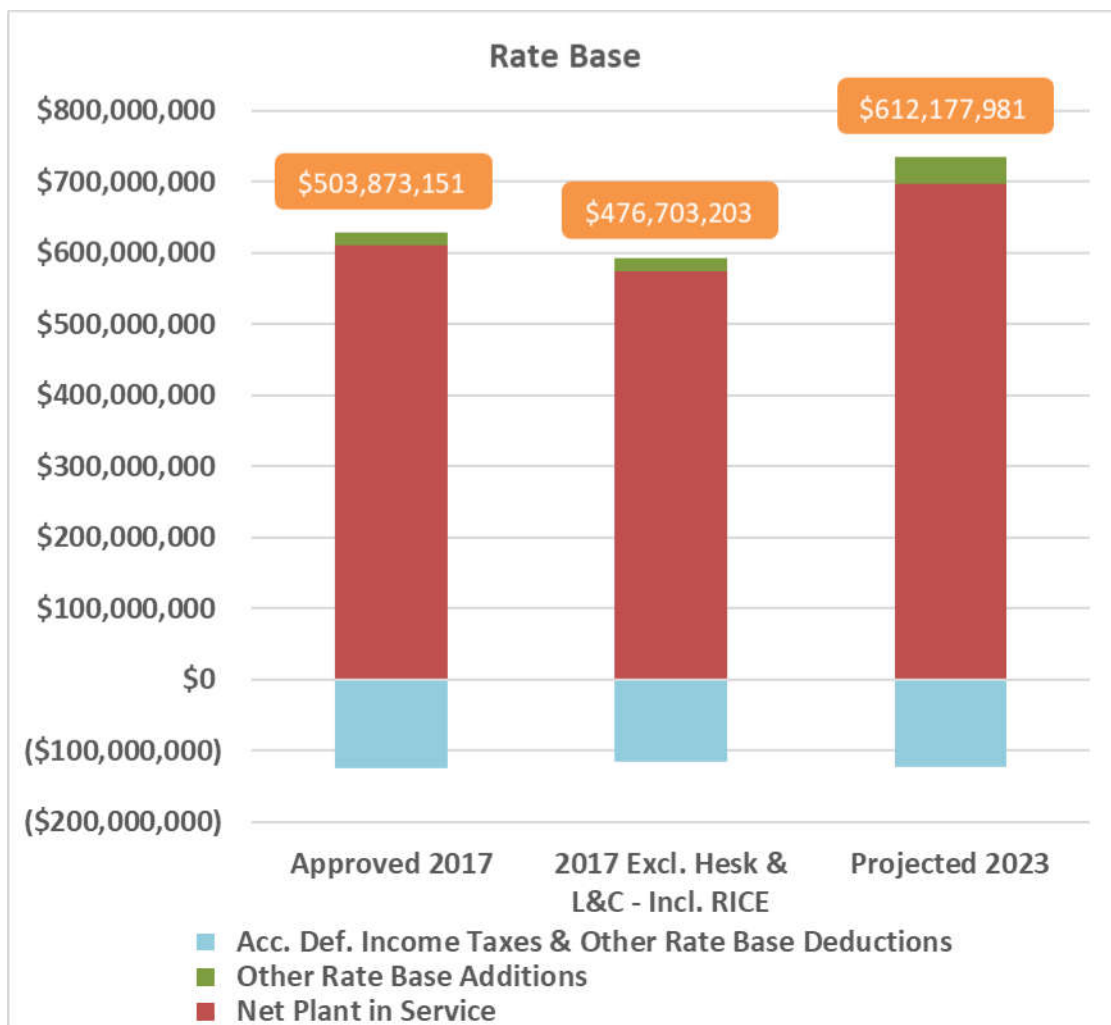
8 A. The typical non-space heating residential customer using an
9 average of 800 kWh per month would see a monthly increase of
10 approximately \$14.94 or 16.6 percent. This equates to an annual increase
11 of approximately \$179. This filing also includes an increase in the daily
12 basic service charge from 46 cents per day (\$13.99 monthly) to 67 cents
13 per day (\$20.38 monthly).

14 Since the Company last filed a rate case in 2016 in Case No. PU-
15 16-666, this filing represents an average annual increase of 2.5 percent
16 per year, inclusive of riders.

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

19 A. As noted earlier, the last rate increase was implemented August 7,
20 2017 based on a projected 2017 revenue requirement. It was then
21 adjusted to reflect the Tax Cuts and Jobs Act of 2017 on November 1,
22 2018. The major reason for this request is driven by the investments
23 made since the last rate case, including the Heskett IV gas turbine. This

1 additional investment results in an increase in the associated depreciation
 2 expense and property tax. As depicted in the graph below, the
 3 Company's net adjusted rate base has grown approximately \$135.5
 4 million or 28.4 percent since the 2017 rate base when adjusted to exclude
 5 Lewis & Clark Unit I and Heskett Unit I & II and to include the Lewis &
 6 Clark RICE Unit. This adjustment was performed to more accurately
 7 compare the rate base to the Projected 2023 which also excludes Lewis &
 8 Clark Unit I and Heskett Unit I & II and includes the Lewis & Clark RICE
 9 Unit.



10

1 Changes in O&M expenses represent another factor for the
2 increase at this time. The closure of Lewis & Clark Unit I and Heskett Unit
3 I & II coal units has resulted in significant savings. In addition, lower
4 pension and post retirement costs have resulted in lower overall benefit
5 costs. However, those savings have been offset by annual increases in
6 labor since 2017, significant increases in software maintenance expenses
7 and insurance expenses, as well as more recent inflationary increases.
8 As shown in the table below, the Company's total O&M costs are expected
9 to remain in line with those approved in the Company's last electric rate
10 case.

	Heskett & L&C			Adj. 2017	
	2017	Adj. 2017	2023	vs. 2023	
				Variance	% Variance
F&PP	\$53,528,720	\$53,528,720	\$46,856,802	(\$6,671,918)	-12%
Labor	23,812,846	18,450,012	23,925,931	5,475,919	30%
Benefits	5,127,898	4,066,421	3,979,334	(87,087)	-2%
Coyote/Big Stone	7,322,372	7,322,372	7,901,511	579,139	8%
Insurance	1,738,625	1,738,625	2,844,554	1,105,929	64%
Software Mtnce	1,093,503	1,093,503	2,326,137	1,232,634	113%
Other O&M	16,278,879	12,032,465	13,744,897	1,712,432	14%
Total O&M	\$108,902,843	\$98,232,118	\$101,579,166	\$3,347,048	3%
Excl. F&PP	\$55,374,123	\$44,703,398	\$54,722,364	\$10,018,966	22%

12 Finally, the fuel and purchased power costs requested in this filing
13 do reflect the savings associated with the closures of the Heskett and
14 Lewis & Clark coal units and other changes since the last rate
15 case. Customers have already been receiving the benefit of those
16 savings as these have been passed on to customers through the monthly

1 fuel and purchased power filings (Fuel Clause Adjustment) that reflect the
2 actual costs incurred.

3 **Q. How have the Company's labor expenses changed since the last**
4 **case?**

5 A. Since 2017, Montana-Dakota's labor expenses have been flat when
6 compared to 2017. However, when comparing the Adjusted 2017 (which
7 is exclusive of those costs associated with Lewis & Clark Unit I and
8 Heskett Unit I & II), to the Projected 2023 expense, the Company realized
9 a 4.4 percent increase per year, including additional positions.

10 **Q. Have you performed a depreciation study for inclusion in this**
11 **request?**

12 A. Yes. A depreciation study for Montana-Dakota's electric plant in
13 service was performed by Mr. Larry Kennedy of Concentric Advisors,
14 ULC. Mr. Kennedy has provided testimony on behalf of the Company and
15 is recommending a composite depreciation rate of 2.95 percent based on
16 plant in service as of December 31, 2020 as compared to the 2.54 percent
17 composite rate previously approved by this commission. The impact of
18 the depreciation study results on the North Dakota electric jurisdiction is
19 an increase of approximately \$4.6 million in the revenue requirement.

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

22 A. In addition to the increase in rate base and the associated
23 operating expenses including the updated depreciation rates, the

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

4 **Q. Why has the Company proposed to include the pension and post**
5 **retirement regulatory assets in rate base at this time?**

6 A. From 2009 through 2021, the Company made approximately \$80
7 million in required cash contributions to the pension trust fund. The cash
8 contributions made by the Company have significantly exceeded the
9 pension expense, which is the amount included in the Company's revenue
10 requirement as a component of O&M expenses and recovered through
11 rates charged to customers. Similar to other investments, Montana-
12 Dakota has a significant outlay in cash and its only opportunity to earn a
13 return on the outlay of cash is by inclusion in the Company's rate base.

14 Montana-Dakota has taken a number of steps to minimize pension
15 costs, including closing the pension plan to new participants and freezing
16 the level of benefits accrued.

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

20 Due in large part to the Company's recent contributions, pension
21 and post retirement annual expenses have been reduced as they are
22 recovered through the revenue requirement. In this case, pension and
23 post retirement reflect a negative cost of \$1.0 million which is a savings to

1 customers and largely offsets the inclusion of the pension and post
2 retirement net assets.

3 The inclusion of pension and post retirement is fully explained by
4 Ms. Vesey.

5 **Q. You have discussed a number of items, can you briefly explain the**
6 **additional revenue requirement?**

7 A. In summary, as shown in the table below, the \$25.4 million increase
8 in revenue is driven primarily by:

	Amount (in millions)
Increase in Rate Base	\$13.8
Lower Sales	2.7
Higher O&M Expenses	10.0
Higher Depreciation	10.0
Property Tax	1.7
Other	1.0
Amortization of L&C and Heskett	7.8
Offset by:	
L&C and Heskett Savings	<u>(\$21.6)</u>
Net Increase	<u><u>\$25.4</u></u>

9
10 The Heskett Unit IV addition is included in the Rate Base and
11 represents approximately \$5.6 million of the increase. The Depreciation
12 Study effect of \$4.6 million is also included in the depreciation increase.

13 **Q. What actions has the Company taken to mitigate this increase?**

14 A In Case No. PU-21-421, the Company calculated the revenue
15 requirement associated with Lewis & Clark Unit I and Heskett Unit I and II

1 currently included in the base rates to be \$21,633,216. The Company is
2 now proposing to reduce annual amortization to \$7,832,580, which will
3 extend the amortization period to 10 years. The \$13.8 million reduction
4 will extend the amortization period by approximately 6 years; however, it
5 will also result in a significant decrease in customers' rates.

6 **Q. What investments has the Company made since Case No. PU-16-**
7 **666?**

8 A. Montana-Dakota's invested approximately \$245 million from 2018
9 through 2021. The investments have included:

- 10 • Production investments of approximately \$91 million, which
11 includes the \$58 million expansion to the Thunder Spirit
12 Wind facility which is currently being recovered in the
13 Company's Renewable Rider.
- 14 • Transmission investments of approximately \$73 million
15 which include upgrades to aging substations and
16 transmission lines, along with line projects to enhance
17 reliability. The Company currently has approximately \$51
18 million of these projects which are currently being recovered
19 in the Transmission Rider.
- 20 • Distribution investments of approximately \$54 million which
21 include upgrading substations, replacing or upgrading
22 transformers, replacing or upgrading distribution lines and
23 reliability projects to maintain service to customers.

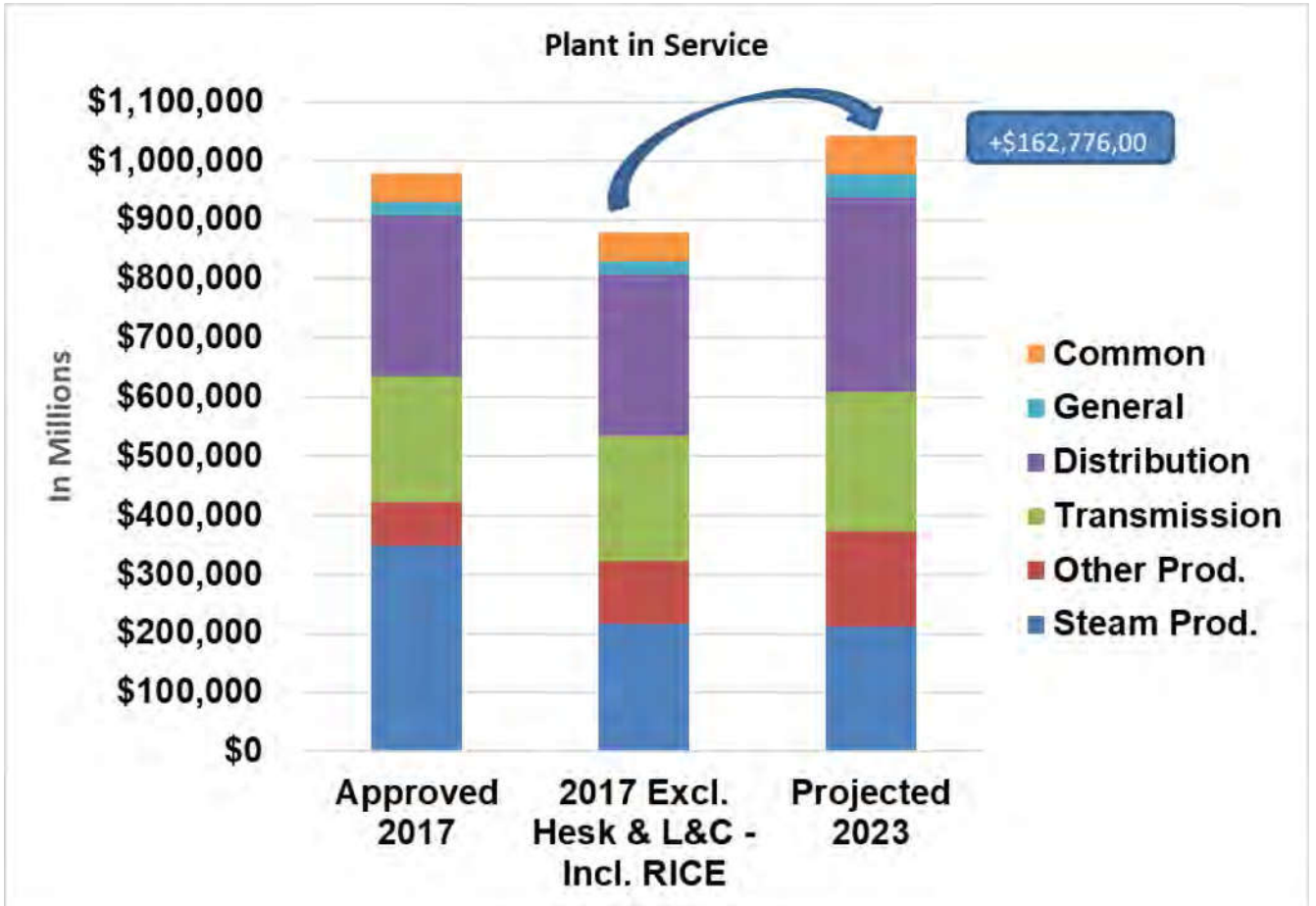
- 1 • General and Common investments of approximately \$27
2 million, with larger investments coming from work
3 equipment, software and hardware additions, building and
4 shop upgrades.

5 **Q. What incremental investments are included in this case as projected**
6 **2022 and 2023?**

7 A. The Company has included incremental investments in 2022 and
8 2023 of approximately \$142 million and are associated with the following
9 investments:

- 10 • Production investments of approximately \$58 million, the bulk of
11 which are associated with the new generation addition of Heskett
12 Unit IV, as discussed in greater detail by Mr. Geiger;
- 13 • Transmission investments of approximately \$26 million including
14 continued reliability upgrades necessary due to aging infrastructure,
15 and is discussed in greater detail by Mr. Frank;
- 16 • Distribution investment of approximately \$35 million including
17 substation replacements and upgrades required to maintain reliable
18 service, as discussed in greater detail by Mr. Frank;
- 19 • General and common plant additions of approximately \$23 million
20 primarily associated with work equipment, software systems, and
21 the construction of structural buildings as discussed in greater
22 detail by Mr. Martuscelli, Mr. Anderson, and Mr. Neigum.

1 The table below shows the investment in plant assigned and
 2 allocated to North Dakota electric operations from 2017 to projected 2023,
 3 excluding the Renewable and Transmission Riders.



1 **Q. Montana-Dakota submitted its Integrated Resource Plan (IRP) on**
2 **July 1, 2019. Attachment I of the IRP discussed the retirement of the**
3 **Lewis & Clark and Heskett coal units and indicated that the**
4 **Company's projections indicated a cost savings of \$20.1 million for**
5 **the integrated system. In light of this request for additional revenue,**
6 **have customer seen those benefits?**

7 **A.** Montana-Dakota's projections have come to fruition. Customers
8 began seeing a reduction of Fuel & Purchase Power (F&PP) costs
9 beginning in April 2021 with the closure of the Lewis & Clark station.
10 Montana-Dakota entered into a Power Purchase Agreement (PPA) in 2021
11 that was favorable to the Company's projections. The PPA was sized to
12 largely offset generation from the Lewis & Clark station and increased to
13 match the closure of the Heskett stations. Therefore, the overall F&PP
14 savings is greater than originally projected.

15 The projected changes in Operating Expenses and a reduction in
16 the revenue requirement due to the removal of the plant investment from
17 rate base continue to be in line with the original projections as well.

18 The last part of the cost savings was an offset related to the
19 replacement generation resource, the Heskett IV gas combustion turbine,
20 which is scheduled to be in operation in April 2023. The revenue
21 requirement for that resource continues to be on track as the overall
22 capital budget and anticipated operating costs are in line with those
23 contemplated in the 2019 IRP.

1 Therefore, while the Company is requesting an increase in the
2 overall revenue requirement at this time, if the 3 coal units had continued
3 operating, rather than being retired, the requested increase would have
4 been higher.

5 **Q. How will the requested increase affect the various classes of**
6 **customers?**

7 A. The allocation of revenue is based on the Class Cost of Service Study,
8 which is supported by Mr. Amen. The proposed percentage change in
9 rates by customer class is as follows:

<u>Rate Class</u>	<u>Overall Class Impact</u>
Residential Service	17.3%
Small General Service	18.4%
General Service	7.8%
Municipal Lighting	7.3%
Municipal Pumping	13.8%
Outdoor Lighting Service	4.2%
Total	12.3%

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

11 A. Montana-Dakota is requesting an overall return of 7.513 percent,
12 inclusive of a return on equity (ROE) of 10.5 percent. Ms. Bulkley's
13 analysis indicates that a 10.5 percent ROE is fully justified and supported
14 based on the results of her studies.

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

2 A. Yes. Interim rate relief is being sought in this case consistent with
3 North Dakota Century Code 49-05-06. Montana-Dakota's overall rate of
4 return on its investment was 5.942 percent as of December 31, 2021,
5 resulting in a return on equity of 7.834 percent, below the authorized
6 return of 9.65 percent. The amount of interim relief sought is \$11,422,625
7 or 6.6 percent and consists of the Company's projected 2023 revenue
8 requirement adjusted to reflect the return on equity of 9.65 percent
9 authorized in Case No. PU-16-666 and the exclusion of items that were
10 not a part of the last rate case. As noted above, Montana-Dakota is
11 proposing to extend the amortization period of Lewis & Clark Unit I and
12 Heskett Unit I & II by reducing the amortization to mitigate the overall
13 increase. The Company proposes to similarly reduce the amortization
14 period at the time interim rates are implemented. If the reduced
15 amortization is not granted, the amount of interim relief sought would be
16 higher.

17 The interim request will be described in more detail by Ms. Vesey.
18 The proposed interim rates are described by Ms. Bosch. The interim
19 increase is necessary to provide the Company an opportunity to recover
20 the costs of providing service to customers today.

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

23 A. Yes. Following is a list of witnesses that will provide testimony

- 1 and/or exhibits in support of the Company's application:
- 2 • Ms. Tammy J. Nygard, Controller for Montana-Dakota, will testify
3 regarding the overall cost of capital, capital structure, and overall debt
4 costs.
 - 5 • Ms. Ann E. Bulkley, Principal of The Brattle Group, will testify regarding
6 The appropriate cost of common equity for Montana-Dakota's North
7 Dakota electric operations.
 - 8 • Mr. Joseph E. Geiger, Director of Generation for Montana-Dakota, will
9 testify regarding Heskett Unit IV and the Power Production capital
10 expenditures.
 - 11 • Mr. Robert Frank, Director of Electric Transmission Engineering, will
12 testify regarding transmission and substation capital expenditures.
 - 13 • Mr. Darcy J. Neigum, Director of System Operations and Planning for
14 Montana-Dakota, will testify regarding the Company's electric load
15 forecast and the two-way radio replacement project.
 - 16 • Mr. Eric P. Martuscelli, Vice President of Field Operations for Montana-
17 Dakota, will testify regarding the Field Operations capital expenditures
18 and the Work and Asset Management System.
 - 19 • Mr. Daryl Anderson, Director of Electric Distribution Services for
20 Montana-Dakota, will testify regarding the Outage Management
21 System and the transformer purchases and replacements.
 - 22 • Mr. Larry E. Kennedy, Senior Vice President of Concentric Energy
23 Advisors, Inc., will testify regarding the Company's depreciation study

- 1 of the plant in service as of December 31, 2020 that supports the
2 proposed depreciation rates in this filing.
- 3 • Ms. Tara R. Vesey, Regulatory Affairs Manager for Montana-Dakota,
4 will testify regarding the total revenue requirement, the interim revenue
5 requirement, and the proposed changes in the generation rider
6 necessary for North Dakota electric operations.
 - 7 • Mr. Ron J. Amen, Managing Partner with Atrium Economics, LLC, will
8 testify regarding the Company's embedded class cost of service study
9 and the proposed rate design.
 - 10 • Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota,
11 will testify regarding proposed tariff changes and the derivation of
12 interim rates.

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

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

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

21 A. Yes, it does.