

MONTANA-DAKOTA UTILITIES CO.

Before the Public Service Commission of North Dakota

Case No. PU-22____

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

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 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 20
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 E.

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 E?**

19 A. Statement E shows the utility capital structure of Montana-Dakota
20 for the twelve months ended December 31, 2021 and the projected capital

1 structure for 2022 and 2023. Statement E includes the associated costs
2 of short and long term debt and common equity. This capital structure and
3 the associated costs serve as the basis for the overall rate of return
4 requested by Montana-Dakota in this rate filing of 7.513 percent. The
5 basis for the requested 10.5 percent return on common equity contained
6 within the overall requested rate of return is supported by the testimony of
7 Ms. Ann Bulkley.

8 As shown on page 1, the components of the 2023 projected overall
9 annual rate of return, which are used by Ms. Tara Vesey to calculate the
10 revenue requirement, are:

	<u>Weighted Cost of Capital</u>
Long Term Debt	2.008%
Short Term Debt	0.170%
Common Equity	<u>5.335%</u>
Required Rate of Return	7.513%

11

12 **Q. How does the Company finance its electric utility operations and**
13 **determine the amount of common equity and debt to be included in**
14 **its capital structure?**

15 A. As a regulated public utility, the Company has a duty and obligation
16 to provide safe and reliable service to its customers across its service
17 territory while prudently balancing cost and risk. In order to fulfill its
18 service obligations, the Company has made significant capital

1 expenditures for new plant investment throughout its service territory,
2 including new generation sources for capacity and energy such as the
3 Heskett IV natural gas turbine, the Diamond Willow wind repower, as well
4 as transmission upgrades to enhance system reliability across the
5 Company's integrated system. These new investments also have
6 associated operating and maintenance costs. Through its financial
7 planning process, the Company determines the amounts of necessary
8 financing required to support these activities. Montana-Dakota finances its
9 operations targeting a 50 percent common equity capital structure at year
10 end. Capital expenditure investments are financed through a mix of
11 internally generated funds, the utilization of the Company's short-term
12 credit line and the issuance of additional long-term debt and common
13 equity financing as required to maintain targeted capital ratios and finance
14 the combined utility operations.

15 The Company obtained \$15.0 million of additional common equity
16 in 2021. In addition, the Company expects to receive approximately \$23.5
17 million of common equity during 2022 and \$5.0 million of common equity
18 in 2023 in order to achieve and maintain the targeted capital structure.

19 In December 2020, the Company had \$50.0 million short-term debt
20 outstanding which was repaid in March 2021. In March 2021, the

1 Company entered into a separate \$50.0 million term loan agreement with
2 a maturity date of March 7, 2022. The Company repaid this \$50.0 million
3 term loan in December 2021 utilizing the proceeds of recently issued long-
4 term debt as noted below.

5 On September 15, 2021, the Company entered into a \$125.0
6 million note purchase agreement with \$75.0 million issuance September
7 15, 2021 and a delayed draw of \$50.0 million on December 15, 2021. The
8 \$50.0 million delayed draw was used to pay off the \$50.0 million short-
9 term debt. The Company is not projecting to issue any new long-term debt
10 in 2022 or 2023.

11 **Q. Were there any adjustments made to the short or long-term debt in**
12 **the rate of return calculation? If so, please explain.**

13 A. As described above, the Company had \$50.0 million of short-term
14 debt at December 31, 2020. This short-term debt was repaid in March
15 2021. In March 2021, the Company entered into another short-term debt
16 of \$50.0 million which was repaid in December 2021 with long term debt.
17 Therefore, since this \$50.0 million short-term note outstanding at
18 12/31/2020 was converted to a long-term note in 2021, the \$50.0 million
19 was presented as a long-term note in the capital structure. The Company
20 felt this was the most appropriate way to account for this \$50.0 million to

1 avoid including in both short-term debt and long-term debt at the end of
2 the year.

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

4 A. Page 1 is a summary showing the Company's average long-term
5 debt at December 31, 2021, and associated cost of debt, and it shows the
6 projected long-term debt and associated costs for 2022 and 2023. Page 2
7 shows the cost and the long-term debt balance by issue at December 31,
8 2021. Page 3 shows the projected cost and the long-term debt balance by
9 issue at December 31, 2022 and page 4 shows the projected cost and the
10 long-term debt balance by issue at December 31, 2023. The average cost
11 of long-term debt for 2023, as shown on page 1, is 4.503 percent. This
12 compares to the currently authorized cost of long-term debt of 5.341
13 percent. This equates to a savings of approximately \$2.3 million in the
14 revenue requirement as calculated in this filing.

15 **Q. How did you derive the projected cost of long-term debt for 2022 and**
16 **2023?**

17 A. The projected cost of debt for 2022 and 2023 is based upon the
18 yield-to-maturity of each debt issue outstanding.

1 **Q. Would you please describe Statement E, Schedule E-2?**

2 A. Schedule E-2 presents the twelve-month average short-term debt
3 balance for 2021 and projected 2022 and 2023 as well as the average
4 cost of short-term debt. A twelve-month average of short-term debt is
5 used in the cost of capital calculation to reflect the seasonality in the short-
6 term debt balance. Short-term debt is historically at or near its peak in
7 December and the twelve-month average calculation is more reflective of
8 the borrowing level than a year-end balance.

9 **Q. What does Statement E, Schedule E-3 show?**

10 A. This schedule presents the average common equity balance at
11 December 31, 2021 and the projected balance for December 31, 2022
12 and December 31, 2023 reflecting the projected activity in the balance.

13 **Q. Would you please describe Statement E, Schedule E-4 and explain
14 the amortization method utilized?**

15 A. Schedule E-4 reflects the annual amortization of the costs
16 associated with the redemption of long-term debt. For this proceeding, the
17 amortization has been computed on a straight-line basis over the
18 remaining life of the issues. The Company uses the same calculation for
19 accounting purposes. The balance of the PCN Notes issuance expense
20 became fully amortized during 2022, which corresponds to the initial

1 maturity dates of the associated PCN Notes. There is no cost associated
2 with these notes in 2023.

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

4 **A.** Yes, it does.