

MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the South Dakota Public Utilities Commission

Docket No. EL15-____

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 North
3 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 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. Please describe your duties and responsibilities with Montana-**
11 **Dakota.**

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 one 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 have worked for MDU Resources/Montana-Dakota
4 for twenty years and have been in my current capacity since January
5 2015. I was the Vice President-Operations of Montana-Dakota and Great
6 Plains Natural Gas Co., Divisions of MDU Resources Group, Inc. from
7 January of 2014 until assuming my present position.

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

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

12 A. The purpose of my testimony is to provide an overview of the
13 Company's South Dakota electric operations explain the Company's
14 request for an electric rate increase and discuss the policies and reasons
15 underlying the major aspects of the request. I will also introduce the other
16 Company witnesses that will present testimony and exhibits in further
17 support of the Company's request.

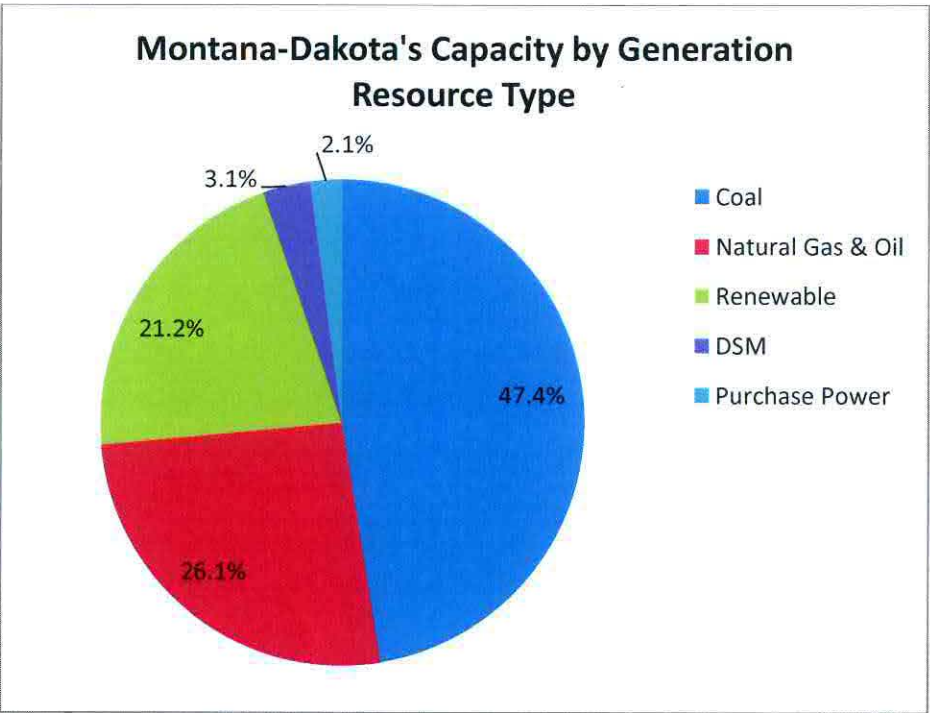
18 **Q. Would you provide a summary of Montana-Dakota's electric**
19 **operations in South Dakota?**

20 A. Montana-Dakota's electric system in South Dakota consists of
21 generation, transmission, distribution and general plant facilities serving
22 approximately 8,600 retail customers in 30 communities in South Dakota.
23 The majority of the Company's South Dakota customers are served

1 through the Company's Dakota Heartland Region with its district office in
2 Mobridge. The Company also has a district office in Pierre and district
3 representatives in four other communities in South Dakota. As of
4 December 31, 2014, the Company had 73 full and part time employees
5 who live and work throughout our South Dakota electric and gas service
6 area.

7 Q. **Describe Montana-Dakota's interconnected electric system.**

8 A. Through its interconnected electric system, Montana-Dakota serves
9 approximately 140,000 retail customers in portions of Montana, North
10 Dakota, and South Dakota. The Company's capacity mix is as shown
11 below including the new resource additions described in this filing as well
12 as the Company's Integrated Resource Plan that will be submitted to the
13 Commission on July 1, 2015.



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

3 A. Yes, I did.

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

6 A. Montana-Dakota is requesting an increase in its general electric
7 rates at this time because our current rates do not reflect the cost of
8 providing electric service to our South Dakota customers. The last
9 request for a rate increase was filed in 1985.

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

11 A. As will be fully explained by other Company witnesses, the
12 Company is requesting an electric rate increase of \$2,654,880 (a 19.2
13 percent increase over current rates) based on a 2014 test year adjusted
14 for known and measurable changes.

15 **Q. How will the requested increase affect the various classes of**
16 **customers?**

17 A. The Company is proposing an equal percentage change to each
18 customer class of approximately 19.2 percent. This proposed increase
19 reflects an increase of \$16.90 per month or approximately \$203 on an
20 annual basis for a typical residential customer.

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

1 A. There are multiple factors that make up the amount requested.
2 Many factors came together all at once to force the concurrent
3 construction of several new projects. These factors include: the multitude
4 of new regulations issued by the Environmental Protection Agency
5 (EPA); growth across the interconnected system; the expiration of very
6 favorable transmission agreements with the Western Area Power
7 Administration (WAPA) along with WAPA and Basin Electric choosing to
8 join the Southwest Power Pool instead of the Midcontinent Independent
9 System Operator, Inc. (MISO); and the previous expiration of a long-term
10 baseload Power Purchase Agreement (PPA) with Basin Electric and
11 subsequent efforts to replace that energy and capacity. These issues,
12 though known, have converged all at once resulting in Montana-Dakota
13 needing to: install pollution controls to allow existing units to continue to
14 provide energy and capacity at costs lower than adding more new
15 resources, add new generation to supply additional and replacement
16 energy and capacity; and build additional transmission, as well as incur
17 additional transmission costs from others.
18 These three major reasons for this request are summarized with additional
19 detail, as follows:
20 1. The need to make modifications at generation facilities to comply
21 with new Environmental Protection Agency (EPA) requirements and
22 the increased operating costs of this compliance effort to keep the
23 low cost generating units operating, including:

- 1 • Modifications required to the Lewis & Clark coal fired station
2 located at Sidney, Montana necessary to comply with the
3 EPA Mercury and Air Toxics Standard; and
- 4 • The Air Quality Control System (AQCS) being installed on
5 the Big Stone coal fired station located at Big Stone City,
6 South Dakota required to meet EPA's Regional Haze
7 regulation and mercury control equipment required under the
8 Mercury and Air Toxics Standard.

9 Compliance dates for these projects are dictated by the EPA, and
10 are not within Montana-Dakota's control. Montana-Dakota will
11 show through its Integrated Resource modelling, discussed in more
12 detail by Mr. Neigum, that the installation of the required equipment
13 was the least cost alternative. The investment associated with the
14 projects represents approximately 32 percent of the requested
15 increase in rates.

16 2. The need to add, and/or replace, capacity and energy requirements
17 including:

- 18 • The 107.5 MW Thunder Spirit Wind Project which is
19 expected to go into service in December of this year;
- 20 • Two Reciprocating Internal Combustion Engines (RICE
21 Units) being added at the Lewis & Clark Station for a total of
22 18.6 additional MWs; and

1 • The 88 MW Heskett III Simple Cycle Combustion Turbine
2 which went into service in the fall of 2014.

3 The need to provide additional energy and capacity resources was
4 driven by the rapid oil development in eastern Montana and
5 Western North Dakota that affected the majority of the
6 interconnected system with customer additions associated with the
7 activity, along with the expiration of the 66 MW Basin Electric long-
8 term capacity and energy PPA in 2006. Montana-Dakota had
9 attempted to replace the Basin Electric PPA with a new base load
10 unit but those efforts were derailed by the partners in the Big Stone
11 II unit abandoning the project. The timing of these needed
12 resources happened to coincide with the compliance time frames of
13 EPA Regional Haze and MATS rules. The incremental needs were
14 offset by favorable changes MISO made to its resource adequacy
15 requirements in 2012 which reduced Montana-Dakota's peak
16 demand obligations by 130 MW, which the Company did not have
17 to construct or acquire, resulting in significant savings to customers.

18 3. Transmission investments needed to ensure reliability, and
19 additional costs that will be incurred due to replacing transmission
20 services previously provided by WAPA and Basin Electric Power
21 Cooperative that will now be provided through the Southwest
22 Power Pool.

1 With each of these investments, there is additional depreciation,
2 operation and maintenance expenses and taxes associated with the
3 increases in investment. The gross investment in South Dakota electric
4 operations has increased by approximately \$55 million since the last rate
5 case in 1985 representing an increase of 172 percent.

6 **Q. When was the last general electric rate increase for Montana-Dakota**
7 **in South Dakota?**

8 A Montana-Dakota's last general electric rate case was Docket No. F-
9 3576 which was filed on December 31, 1985 with rates effective on June
10 1, 1986. The rate case resulted in an overall increase of \$940,000
11 representing an increase of 10.7 percent in revenues.

12 **Q. What is causing the need for additional generation at this time?**

13 A. Montana-Dakota utilizes the Integrated Resource Planning (IRP)
14 process to first identify customer capacity and energy requirements over
15 the long term and then to consider all resource options reasonably
16 available to meet the end-use customer's demand for reliable and cost-
17 effective energy. Through the last several cycles of the IRP, Montana-
18 Dakota has identified a need for incremental capacity and energy to meet
19 customer demands and to replace an expiring capacity agreement as well
20 as planning for eventual future retirements of the oldest units in the fleet.
21 The new resources included in this request for rate relief have been
22 identified and supported as best cost options in meeting customer needs
23 as more fully explained by Mr. Skabo and Mr. Neigum. I believe the

1 course we are taking will position the Company and its customers well into
2 the future while we understand the current uncertainties surrounding
3 impending EPA regulations. Montana-Dakota has effectively reduced its
4 carbon dioxide emissions intensity by more than 10 percent since 2003
5 with an estimated 20 percent reduction in emissions intensity by 2017.

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

7 Montana-Dakota is requesting an overall return of 7.588 percent,
8 inclusive of a return on equity (ROE) of 10.0 percent. Dr. Gaske's
9 analysis indicates that a 10.0 percent ROE is fully justified and supported
10 based on his Discounted Cash Flow analysis of a group of proxy
11 companies that have risks similar to those Montana-Dakota faces.

12 **Q. Is the Company seeking any new cost recovery mechanisms in this**
13 **case?**

14 A. Yes, the Company is asking the Commission to consider its
15 requests to add a Transmission Cost Recovery Rider and an
16 Environmental Cost Recovery Rider. With Basin Electric Power
17 Cooperative and the Western Area Power Administration joining the
18 Southwest Power Pool, the Company is expecting significant changes in
19 its transmission costs. In addition, transmission costs associated with the
20 MISO Multi-Value Transmission projects will continue to increase as those
21 projects are placed into service. These future transmission costs will be
22 unavoidable, ongoing and necessary to ensure reliable service to
23 customers. It is in the Company's and the customers' best interest to time

1 the recovery of these costs as close as possible to when they are
2 incurred. A rider allows for that ability.

3 Additionally, the Company is requesting to implement an
4 Environmental Cost Recovery Rider in order to track and recover future
5 costs associated with forthcoming environmental regulations. The
6 environmental related costs are also best recovered through an ongoing
7 cost recovery mechanism such that any changes – either positive or
8 negative can be recovered from customers in a more timely fashion.

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

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

- 13 • Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy
14 Advisors, Inc. will testify regarding the appropriate cost of common
15 equity for Montana-Dakota's South Dakota electric operations.
- 16 • Mr. Garret Senger, Executive Vice President – Regulatory Affairs and
17 Chief Accounting Officer for Montana-Dakota, will testify regarding the
18 overall cost of capital, capital structure and overall debt and preferred
19 equity costs.
- 20 • Mr. Jay Skabo, Vice President of Electric Supply for Montana-Dakota,
21 will provide an overview of the Company's electric operations, the need
22 for environmental retrofits to the generating fleet and the deferred

1 generation costs the Company is seeking to recover as part of this rate
2 case.

3 • Mr. Darcy J. Neigum, System Operations and Planning Manager for
4 Montana-Dakota, will testify regarding the need for the Company's
5 additional generation resources. Mr. Neigum will also discuss
6 transmission service changes as a result of the expiration of long term
7 transmission agreements with WAPA and Basin Electric Power
8 Cooperative's decision to join the Southwest Power Pool.

9 • Mr. Alan L. Welte, Director of Generation for Montana-Dakota, will
10 testify regarding the technologies employed to comply with current
11 environmental regulations.

12 • Mr. Travis R. Jacobson, Regulatory Affairs Manager for Montana-
13 Dakota, will testify regarding the total revenue requirement necessary
14 for South Dakota electric operations.

15 • Ms. Sara J. Cardwell, Regulatory Affairs Manager for Montana-Dakota,
16 will testify regarding the embedded class cost of service study, and

17 • Ms. Tamie A. Aberle, Director, Regulatory Affairs for Montana-Dakota,
18 will testify on the rate design and proposed tariff changes.

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

21 A. Yes. In my opinion, the proposed rates are just and reasonable as
22 they are reflective of the total costs being incurred by Montana-Dakota in
23 providing safe and reliable electric service to its customers. The proposed

1 rates will provide Montana-Dakota the opportunity to earn a fair and
2 reasonable return on its South Dakota electric operations.

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

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