

MONTANA-DAKOTA UTILITIES CO.  
A Division of MDU Resources Group, Inc.

Before the South Dakota Public Utilities Commission

Docket No. NG15-\_\_\_\_

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.

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

1 A. I hold a Bachelor's Degree in Accounting from Minnesota State  
2 University Moorhead. I have worked for MDU Resources/Montana-Dakota  
3 for twenty years and have been in my current capacity since January  
4 2015. I was the Vice President - Operations of Montana-Dakota and  
5 Great Plains Natural Gas Co., Divisions of MDU Resources Group, Inc.  
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. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide an overview of Montana-  
12 Dakota's South Dakota natural gas operations, explain the Company's  
13 request for a natural gas distribution rate increase and discuss the  
14 reasons underlying the major aspects of the request. I will also address  
15 the request for an Infrastructure Rider and will 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 gas operations**  
19 **in South Dakota?**

20 A. Montana-Dakota provides natural gas service to approximately  
21 57,600 customers in 25 communities in South Dakota, operating over  
22 1,401 miles of distribution mains and approximately 1,058 miles of service  
23 lines. The customer base is 88 percent residential customers and 12

1 percent commercial and industrial customers. As of December 31, 2014,  
2 the Company had 73 full and part time employees who live and work  
3 throughout the Company's South Dakota electric and gas service area.  
4 Montana-Dakota's South Dakota gas service area is divided into two  
5 operating regions with regional offices located in Rapid City, South  
6 Dakota, and Bismarck, North Dakota. In addition to the Rapid City regional  
7 office, there are two other fully staffed operations centers located in the  
8 communities of Spearfish and Mobridge along with an office/warehouse in  
9 Pierre. There are gas related service technicians and construction  
10 employees headquartered in 10 other South Dakota communities deemed  
11 strategic to the safe and reliable operation of our distribution system.  
12 There are also electric-only personnel in additional locations in South  
13 Dakota. Service technicians and construction employees in North Dakota  
14 also support operations in South Dakota communities close to the state  
15 border.

16 Montana-Dakota's customers have toll-free access to the Customer  
17 Service Centers located in Meridian, Idaho and Bismarck, North Dakota as  
18 well as the Credit Center in Bismarck, North Dakota, to place routine utility  
19 service requests and inquiries from 7:00 am to 7:00 pm local time,  
20 Monday through Friday and emergency calls on a 24-hour basis. A  
21 scheduling center, located in Meridian, Idaho transmits electronic service  
22 orders to the mobile terminals placed in our fleet of service and

1 construction vehicles. This network allows the Company to respond  
2 quickly to customer requests and emergency situations.

3 **Q. Would you please provide more information regarding the customers**  
4 **the Company serves?**

5 A. Yes. The residential, firm general service and small interruptible  
6 customers use natural gas primarily for space and water heating. As  
7 such, Montana-Dakota's system has a low load factor with peak gas  
8 requirements occurring during the winter with summer loads being small  
9 by comparison. The total annual gas used by our South Dakota  
10 customers is 8.2 Mmdk as identified for the test period in this case. The  
11 natural gas requirement by customer class is as follows: approximately 44  
12 percent residential, 36 percent firm general service, 4 percent small  
13 interruptible and 16 percent large interruptible.

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

16 A. For a natural gas distribution utility, the basic elements which make  
17 up the cost of providing natural gas service are the cost of gas purchased  
18 at the town border stations in its service territory and the cost of  
19 distributing the gas from the town border station to the end use customer.  
20 It is the second of these two elements, the distribution costs, which are the  
21 subject of this application for a general rate increase.

22 The natural gas the Company purchases from suppliers is a  
23 commodity like wheat or corn, the price of which is not regulated. The

1 cost of delivering the gas to the Company's distribution system at the town  
2 border station is regulated by the FERC or other regulatory agencies.  
3 These gas costs are passed on to customers on a dollar-for-dollar basis  
4 as specified in the Commission approved Purchased Gas Cost  
5 Adjustment tariff. The gas cost portion of the cost of providing natural gas  
6 service currently comprises about 60 percent of a typical residential bill for  
7 gas service.

8 The distribution portion of the Company's cost of service is the  
9 subject of this proceeding. This element includes the costs of new  
10 distribution investments, replacement of aging infrastructure, operation  
11 and maintenance expenses, depreciation, taxes, and the opportunity to  
12 earn a return on the Company's investments in facilities that provide  
13 natural gas service. Distribution costs are currently about 40 percent of a  
14 typical residential bill.

15 The basic components are shown graphically on Exhibit No. \_\_\_\_  
16 (NAK-1).

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

19 A. Yes, I did.

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

21 A. As will be fully explained by other Company witnesses, the  
22 Company is requesting a natural gas rate increase of \$1,532,319 (a 3.1

1           percent increase over current rates) based on a December 31, 2014 test  
2           year adjusted for known and measurable changes.

3   **Q.    Why has Montana-Dakota filed this application for a natural gas rate**  
4           **increase?**

5   A.           Montana-Dakota is requesting an increase in its general gas rates  
6           at this time because the current rates do not reflect the cost of providing  
7           natural gas service to the Company's South Dakota customers.

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

9   A.           The Company's last rate case was Docket No. NG12-008. The  
10          resulting rate increase was a 2.0 percent overall increase with final rates  
11          effective on December 1, 2013.

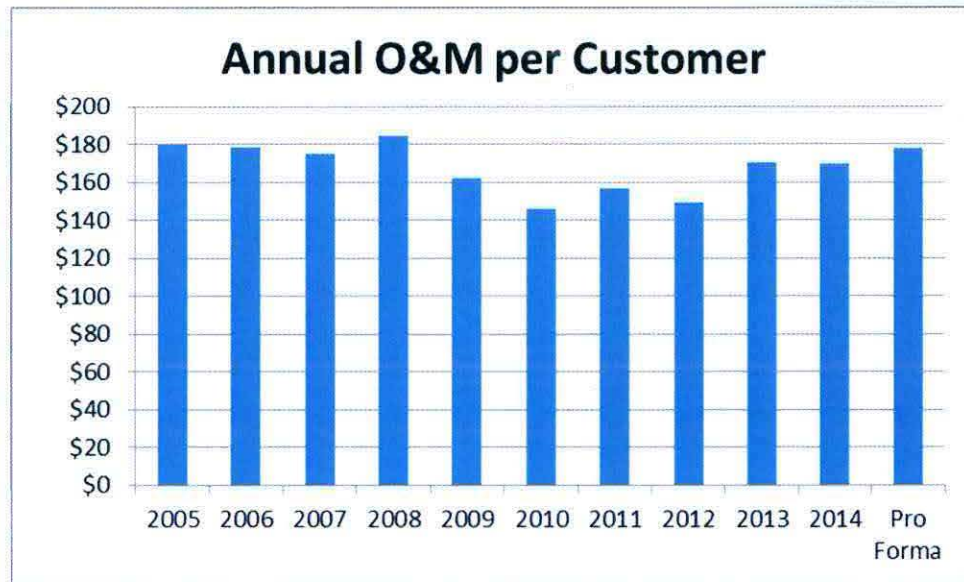
12   **Q.    What are the primary reasons that Montana-Dakota needs an**  
13          **increase at this time?**

14   A.           The primary reasons for the increase in rates is increased operating  
15          costs along with increased investment in facilities, including the related  
16          depreciation expense and taxes, partially offset by an increase in  
17          customers and throughput.

18   **Q.    Would you discuss each of the items contributing to the need for an**  
19          **increase?**

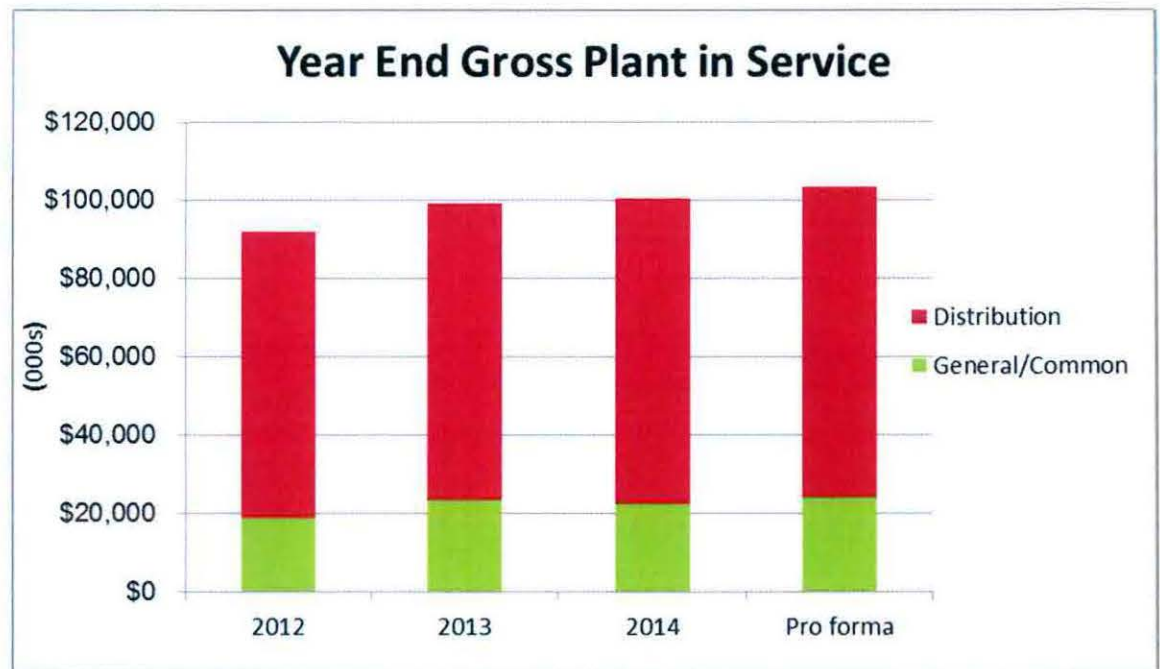
20   A.           Yes. The pro forma operation and maintenance (O&M) expense  
21          represents an increase of approximately 19 percent over the pro forma  
22          level underlying the last rate case, driven primarily by labor related and  
23          benefit costs. However, in spite of the growth in labor related and benefit

1 costs, the graph below illustrates that the Company's operation and  
2 maintenance costs have remained fairly consistent on a per customer  
3 basis over a number of years.



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5 The gross investment in South Dakota gas operations has  
6 increased by approximately \$11.5 million, or approximately 12 percent,  
7 from 2012 to the pro forma levels included in this case. In addition to the  
8 ongoing investment for new customers and replacing existing facilities, the  
9 full effect of the new customer billing system implemented in February  
10 2013 is reflected in this filing. The table below shows the investment in  
11 natural gas plant assigned and allocated to South Dakota gas operations.

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The Company continues to make ongoing investments to add new customers to the system and replace existing facilities that have reached their end of life. With any new investments, regardless of whether they are required to serve new customers or replace existing facilities, there are associated depreciation expenses and taxes.

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While plant investment has grown, Montana-Dakota's ability to use accelerated tax depreciation in 2010-2014 also resulted in an increase in accumulated deferred income taxes, which increased from \$8.1 million as filed in the last general rate case, to \$12.2 million in the pro forma level in this case. While investment has increased, the rate base has increased only slightly as a result.



1           There has been an increase in customers as well as an increase in  
2           sales and transportation volumes in South Dakota since the last general  
3           rate case. In this case, which is based on a December 31, 2014 test  
4           period adjusted for known and measurable changes, the Company has  
5           seen a 4.5 percent increase in customers and a 9.2 percent growth in  
6           usage over the customer and volume levels underlying authorized rates in  
7           the last rate case, which is an offset to the required increase.

8   **Q.    Would you please describe the proposed Infrastructure Rider?**

9   A.           The Company is proposing to implement an Infrastructure Rider  
10           applicable to its South Dakota natural gas operations. The purpose of the  
11           Infrastructure Rider is to provide a means to recover the costs associated  
12           with specified operational and safety-related infrastructure replacement  
13           and upgrade projects to the distribution system that are deemed prudent  
14           by the Commission and not already included in rates. The Infrastructure  
15           Rider would provide for the recovery of the investments at the  
16           Commission authorized return including income taxes on the return,  
17           incremental depreciation expense, incremental property taxes and any  
18           incremental operation and maintenance expenses. This mechanism  
19           would provide the opportunity to proactively address pipeline integrity,  
20           potentially avoid costly rate cases and provide and reduce cost impacts to  
21           customers with gradual increases over time. Ms. Aberle, Director of  
22           Regulatory Affairs, discusses the proposed rider in more detail in her  
23           testimony.

1 Q. How will the requested increase affect the various classes of  
2 customers?

3 A. The proposed percentage change in rates by customer class is as  
4 follows:  
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Class	Percent Increase
Residential	4.6%
Firm General	0.8%
Small Interruptible	0.8%
Large Interruptible	3.3%
Overall	3.1%

6  
7 Q. Ms. Kivisto, would you explain how Montana-Dakota strives to  
8 efficiently provide safe and reliable service to its South Dakota  
9 customers?

10 A. Montana-Dakota works hard to control its costs by continually  
11 looking for opportunities that create efficiencies and control costs. In spite  
12 of Montana-Dakota's efforts to control costs, the Company sees cost  
13 pressures as the need to replace existing infrastructure and add new  
14 infrastructure continues.

15 Montana-Dakota continually reviews its field operations for ways to  
16 operate more efficiently and has been successful in doing so. Much of  
17 this has been possible due to the advancement of cost effective  
18 technology. However, additional investments and increases in operation  
19 and maintenance expenses are required to ensure the system can be  
20 operated safely and reliably.

1     **Q.     Ms. Kivisto, what is the compensation philosophy at Montana-**  
2           **Dakota, how does it compare with other like businesses and can the**  
3           **Company reduce costs in this area?**

4     A.           The Company's compensation philosophy is to attract and retain a  
5           workforce that can provide safe and reliable service to customers.  
6           Montana-Dakota targets a total compensation package that is at the  
7           market average for similar positions at other utilities. This compensation  
8           includes base pay and incentive pay along with various benefits. Ms.  
9           Jones, Vice President of Human Resources, Customer Service and Safety  
10          discusses these areas in more detail.

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

12    A.           Montana-Dakota is requesting an overall return of 7.588 percent,  
13          inclusive of a return on equity (ROE) of 10.0 percent. Dr. Gaske's  
14          analysis indicates that a 10.0 percent ROE is fully justified and supported.

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

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

- 19          • Mr. Patrick C. Darras, Vice President – Operations, will provide an  
20          overview of the Company's South Dakota natural gas operations and  
21          pipeline integrity related matters.

- 1           • Ms. Anne M. Jones, Vice President – Human Resources, Customer  
2           Service and Safety will testify regarding the Total Rewards Philosophy  
3           of the Company and changes to customer service.
- 4           • Mr. Garret Senger, Executive Vice President – Regulatory Affairs and  
5           Chief Accounting Officer for Montana-Dakota, will testify regarding the  
6           overall cost of capital, capital structure and overall debt and preferred  
7           equity costs.
- 8           • Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy  
9           Advisors, Inc. will testify regarding the appropriate cost of common  
10          equity for Montana-Dakota's South Dakota gas operations.
- 11          • Mr. Travis R. Jacobson, Manager, Regulatory Affairs–Regulatory  
12          Analysis for Montana-Dakota, will testify regarding the total revenue  
13          requirement necessary for South Dakota gas operations.
- 14          • Ms. Sara Cardwell, Manager, Regulatory Affairs–Pricing & Tariff will  
15          testify on the Company's pro forma volumes and embedded class cost  
16          of service study.
- 17          • Ms. Tamie A. Aberle, Director of Regulatory Affairs for Montana-  
18          Dakota, will testify regarding the proposed Infrastructure Rider, rate  
19          design and other proposed tariff changes.

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

22    A.           Yes. In my opinion, the proposed rates are just and reasonable as  
23    they are reflective of the total costs being incurred by Montana-Dakota to

1 provide safe and reliable natural gas service to its customers. The  
2 proposed rates will provide Montana-Dakota the opportunity to earn a fair  
3 and reasonable return on its South Dakota natural gas operations.

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

5 **A.** Yes, it does.