

MONTANA-DAKOTA UTILITIES CO.

Before the Public Utilities Commission of South Dakota

Docket No. NG23-\_\_\_\_

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 or Company), Cascade Natural Gas  
7 Corporation, and Intermountain Gas Company, all subsidiaries of MDU  
8 Resources Group, Inc., and Great Plains Natural Gas Co., a division of  
9 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 1.182 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 North Dakota, Montana,  
13 and Wyoming, the Public Utilities Commissions of Idaho and Minnesota,  
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 gas operations in the state of South Dakota. I will also provide an  
19 overview of the Company's request for a gas rate increase and discuss  
20 the policies and reasons underlying the major aspects of the request.  
21 Finally, I will introduce the other Company witnesses who will present  
22 testimony and exhibits in further support of the Company's request.

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

3 A. Montana-Dakota provides natural gas service to approximately  
4 64,600 customers in 26 communities in South Dakota, operating  
5 approximately 1,544 miles of distribution mains and approximately 1,184  
6 miles of service lines. The customer base is 88 percent residential and 12  
7 percent commercial and industrial. As of December 31, 2022, the  
8 Company had 73 full and part-time employees who live and work  
9 throughout our South Dakota electric and gas service area.

10 Montana-Dakota's South Dakota gas service area is divided into  
11 two operating regions with regional offices located in Rapid City, South  
12 Dakota and Bismarck, North Dakota and a number of smaller district  
13 offices located in communities throughout South Dakota.

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

1 **Q. Would you please provide more information regarding the customers**  
2 **the Company serves?**

3 A. Yes. The residential, firm general service, and small interruptible  
4 customers use natural gas primarily for space and water heating. As  
5 such, Montana-Dakota's system has a low load factor with peak gas  
6 requirements occurring during the winter. Summer loads are small by  
7 comparison. Montana-Dakota is projecting to deliver approximately 8.9  
8 Mmdk of natural gas to customers in South Dakota in 2023. The natural  
9 gas requirements by customer class is as follows: approximately 43  
10 percent residential, 36 percent firm general service, 4 percent small  
11 interruptible, and 17 percent large interruptible.

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

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

20 The natural gas the Company purchases from suppliers is a  
21 commodity like wheat or corn, the price of which is not regulated. The  
22 cost of delivering the gas to the Company's distribution system at the town  
23 border station is regulated by the FERC or other regulatory agencies.

1           These gas costs are passed on to customers on a dollar-for-dollar basis  
2           as specified in the Commission approved Purchased Gas Cost Adjustment  
3           tariff. The gas portion of the cost of providing natural gas service currently  
4           comprises about 65 percent of a typical residential bill for gas service.

5           The distribution cost portion of the Company's cost of service is the  
6           subject of this proceeding. This element includes the costs of new  
7           distribution investments, replacement of aging infrastructure, operation  
8           and maintenance expenses, depreciation, taxes, and the opportunity to  
9           earn a return on the Company's investments in facilities that provide  
10          natural gas service. Distribution costs are currently 35 percent of a typical  
11          residential bill.

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

14    A.           Yes, I did.

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

17    A.           Montana-Dakota is requesting an increase in its gas rates because  
18           our current rates do not reflect the cost of providing natural gas service to  
19           Montana-Dakota's South Dakota customers. For the twelve months  
20           ending December 31, 2022, the Company's Rate of Return was 3.858  
21           percent. This is below the last authorized Rate of Return of 7.216 percent  
22           in Docket No. NG15-005.

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

2 A. The Company's last rate case was filed eight years ago in Docket  
3 No. NG15-005, which resulted in an increase of \$1.2 million or a 2.45  
4 percent overall increase. Final rates in the case became effective on July  
5 1, 2016.

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

7 A. As will be fully explained by other Company witnesses, the  
8 Company is requesting \$7,420,480 which represents an 11.2 percent  
9 increase based on a 2022 test year adjusted for known and measurable  
10 changes. This increase represents an average yearly increase of 1.4  
11 percent per year.

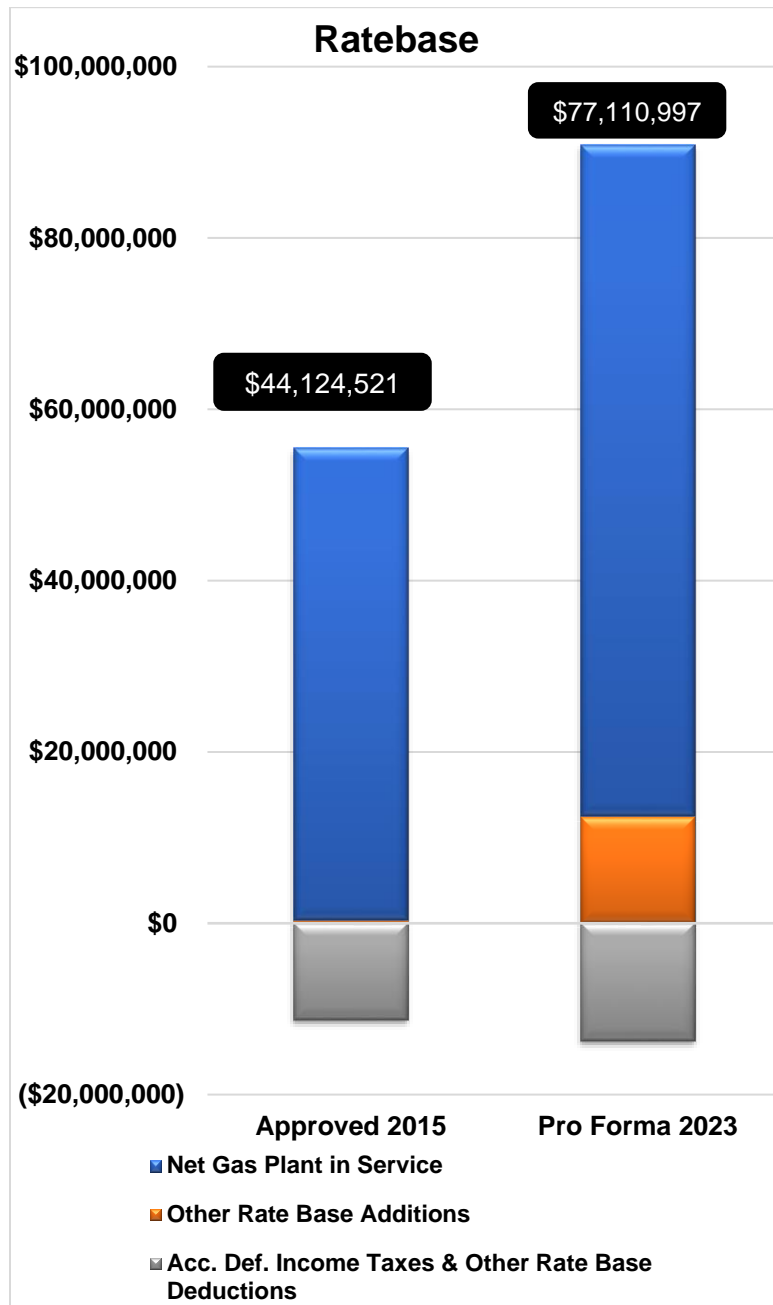
12 **Q. How would this increase effect the Company's residential  
13 customers?**

14 A. The Company's residential class of customers would see an  
15 increase of 15.9 percent, or an increase of approximately 2 percent per  
16 year. As a result, an individual residential customer using 5.5 Dk per  
17 month will see an increase of approximately \$8.70 per month.

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

20 A. The need for an increase in gas rates is driven primarily by the  
21 investments made since the last rate case and increases in O&M  
22 expenses. As depicted in the graph below, the Company's net adjusted

1 rate base has grown approximately \$33 million or 75 percent since the  
2 approved 2015 rate base.



3  
4 As shown in the table below, the Company's total O&M costs have  
5 increased over those approved in the Company's last gas rate case. After  
6 adjusting the 2015 Authorized O&M to exclude the costs associated with

1 cost of gas, the Company's Pro Forma O&M expenses are projected to  
 2 increase approximately 48 percent. This represents a 5.7 percent  
 3 compounded increase per year since the last filing.

	<u>Approved 2015</u>	<u>Pro Forma 2023</u>	<u>Variance</u>	<u>Percent Variance</u>
Cost of Gas	\$32,640,945	\$46,787,331	\$14,146,386	43.34%
Labor	5,277,104	7,061,225	1,784,121	33.81%
Benefits	1,318,452	1,349,539	31,087	2.36%
Subcontract Labor	707,829	1,808,823	1,100,994	155.55%
Materials	265,622	490,438	224,816	84.64%
Vehicles and Work Equipment	343,276	1,175,139	831,863	242.33%
Insurance	279,648	492,060	212,412	75.96%
Software Maintenance	167,644	615,778	448,134	267.31%
Other O&M	<u>1,480,719</u>	<u>1,529,622</u>	<u>48,903</u>	<u>3.30%</u>
Total O&M Expense	\$42,481,239	\$61,309,955	\$18,828,716	44.32%
Total Excluding Cost of Gas	\$9,840,294	\$14,522,624	\$4,682,330	<u>47.58%</u>

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

7 A. Montana-Dakota's projected labor expenses for the year ending  
 8 December 2023 have increased approximately 34 percent since the  
 9 approved 2015 rate case which represents a 3.71 percent compounded  
 10 year over year increase.

11 Additionally, Montana-Dakota, like many other organizations in the  
 12 country, has struggled to recruit, train, and retain personnel in the current  
 13 competitive job market. Furthermore, the Company has faced increased  
 14 labor market costs, particularly for those in entry level positions.

15 In late 2021 Montana-Dakota finalized its labor contract with the  
 16 System Council U-13 of the IBEW. This contract, which runs through April



1 2024, defined an approximately 3.00 percent labor expense increase per  
2 year, and its effect is discussed in the testimony of Ms. Vesey.

3 **Q. Have there been other increases in expenses since the last case?**

4 A. Montana-Dakota has seen other increases to O&M expenses since  
5 the last case, such as subcontract labor, vehicles and work equipment,  
6 and software maintenance. The operation and maintenance expenses  
7 associated with subcontract labor have increased approximately \$1.1  
8 million primarily for third party line locating and reconnecting meters.  
9 Vehicles and Work equipment increased approximately \$832,000 primarily  
10 due to increased depreciation rates for Power Operated Equipment within  
11 the study supported by Mr. Kennedy. Software maintenance expense  
12 increased approximately \$448,000 from the approved 2015 rate case due  
13 to increases in subscription renewals and mandated security needs.

14 **Q. Have you performed a depreciation study for inclusion in this  
15 request?**

16 A. Yes. Depreciation studies for Montana-Dakota's gas and common  
17 plant in service were performed by Mr. Larry Kennedy of Concentric  
18 Advisors, ULC. Mr. Kennedy has provided testimony on behalf of the  
19 Company and is recommending a composite gas plant depreciation rate of  
20 3.77 percent and a 5.31 percent common depreciation rate, both of which  
21 are based on plant in service as of December 31, 2021. The impact of the  
22 depreciation study results in a South Dakota gas jurisdiction increase of

1 approximately \$153,000 in the revenue requirement, as compared to the  
2 previously approved rates.

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

5 A. In addition to the increase in rate base and the associated  
6 operating expenses including the updated depreciation rates, the  
7 Company is requesting the inclusion of the provision for pension and  
8 benefits, provision for post retirement, and a cash working capital  
9 adjustment, net of the associated deferred taxes, to be added to rate  
10 base.

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

13 A. The cash contributions made by the Company have significantly  
14 exceeded the pension expense, which is the amount included in the  
15 Company's revenue requirement as a component of O&M expenses and  
16 recovered through rates charged to customers. Similar to other  
17 investments, Montana-Dakota has a significant outlay in cash and its only  
18 opportunity to earn a return on the outlay of cash is by inclusion in the  
19 Company's rate base.

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

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

4           Due in large part to the Company's recent contributions, pension  
5 and post retirement annual expenses have been reduced as they are  
6 recovered through the revenue requirement. In this case, pension and  
7 post retirement reflect approximately a negative cost of \$236,000 which is  
8 a savings to customers and largely offsets the inclusion of the pension and  
9 post retirement net assets.

10           The inclusion of pension and post retirement is fully explained by  
11 Ms. Vesey.

12 **Q. Has the Company added any other new adjustments to be**  
13 **considered?**

14 A.           Montana-Dakota has included a Cash Working Capital adjustment  
15 that reduces the rate base by approximately \$395,400. This adjustment  
16 reduces the revenue requirement by approximately \$36,000.

17           This adjustment will be more fully explained by Mr. Adams and Ms.  
18 Vesey.

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

21 A.           In summary, as shown in the table below, the \$7.4 million increase  
22 in revenue is driven primarily by:

	Amount (in millions)
O&M Increase	\$4.7
Rate Base	\$1.0
SSIP	\$0.4
Depreciation Increase	\$1.5
Income Tax Reduction	(\$0.3)
Other	\$0.1
	<u>\$7.4</u>

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11 **Q. What incremental investments are included in this case as pro forma**  
 12 **December 2023?**

13 A.

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Montana-Dakota's cost of doing business in South Dakota is increasing despite the Company's effort to control costs and increase efficiency. The Company is experiencing a \$4.7 million increase in O&M expenses due to increased labor, subcontract labor, vehicles and work equipment, and software maintenance. Other plant additions, including System Safety Integrity Program (SSIP), represents another \$1.4 million increase. Finally, increases in depreciation expense, primarily driven by the implementation of the updated depreciation studies, result in a revenue requirement increase of approximately \$1.5 million.

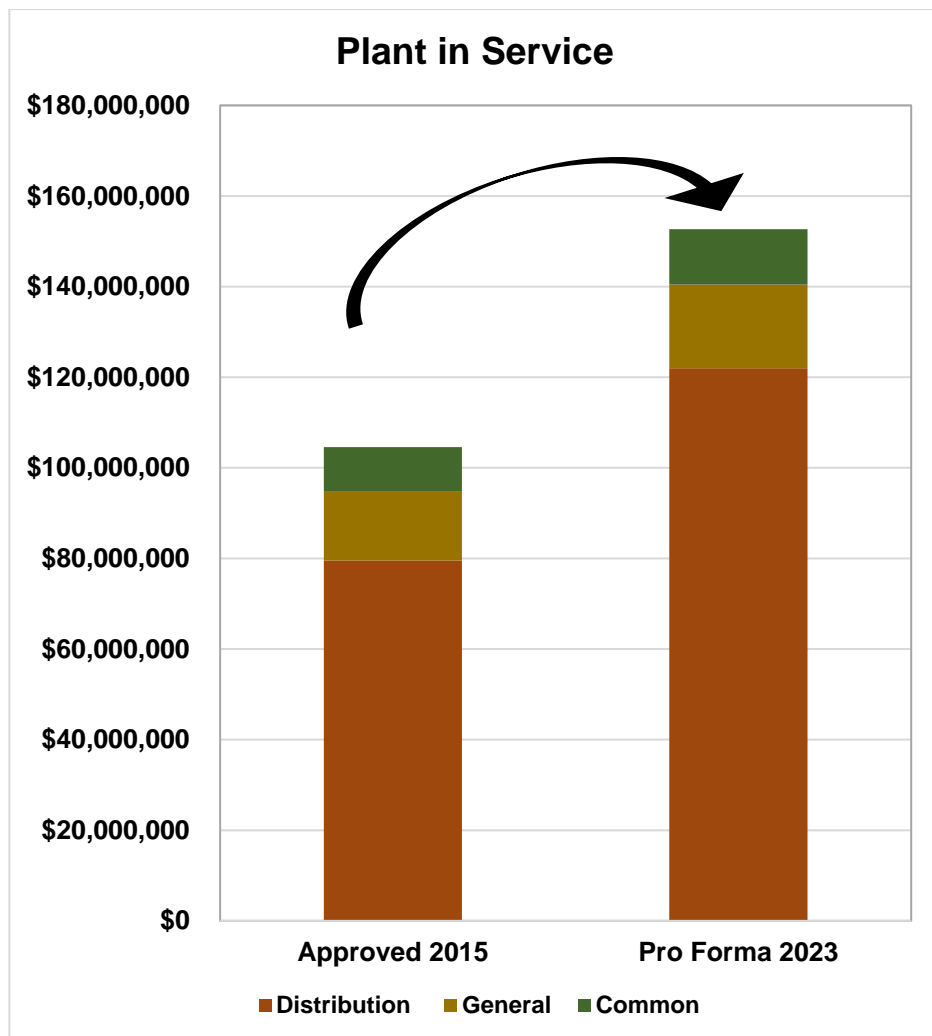
The Company has included incremental investments for 2023 of approximately \$10.3 million and are associated with the following investments:

- Distribution investment of approximately \$8.8 million including distribution mains and service line replacements and upgrades

1 required to maintain reliable service, as discussed in greater detail  
2 by Mr. Nishikawa and Mr. Volk;

- 3 • General and common plant additions of approximately \$1.5 million  
4 primarily associated with work equipment, structures, and  
5 improvements.

6 The table below shows the investment in plant assigned and  
7 allocated to South Dakota gas operations from 2015 to pro forma 2023.



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

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

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

<u>Rate Class</u>	<u>Overall Class Impact</u>
Residential Service	15.9%
Firm General Service	4.9%
Small Interruptible Service	1.9%
Large Interruptible Service	6.1%
Total	11.2%

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

14 A. Montana-Dakota is requesting an overall return of 7.600 percent,  
15 inclusive of a return on equity (ROE) of 10.5 percent. Mr. Wall's analysis

1 indicates that a 10.5 percent ROE is fully justified and supported based on  
2 the results of his studies.

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

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

- 7 • Ms. Tammy J. Nygard, Controller for Montana-Dakota, will testify  
8 regarding the overall cost of capital, capital structure, and overall debt  
9 costs.
- 10 • Mr. Christopher M. Wall, Senior Associate of The Brattle Group, will  
11 testify regarding the appropriate cost of common equity for Montana-  
12 Dakota's South Dakota gas operations.
- 13 • Mr. Larry E. Kennedy, Senior Vice President for Concentric Advisors,  
14 ULC., will testify regarding the depreciation studies for Montana-  
15 Dakota's gas and common operations of the plant in service as of  
16 December 31, 2021, that supports the proposed depreciation rates in  
17 this filing.
- 18 • Mr. Michael J. Adams, Senior Vice President for Concentric Energy  
19 Advisors, Inc., will testify regarding Montana-Dakota's lead lag study  
20 and cash working capital adjustment.
- 21 • Mr. Russel Nishikawa, Engineering Services Manager for Montana-  
22 Dakota will testify regarding South Dakota gas distribution capital  
23 expenditures.

- 1 • Mr. Jesse Volk, System Integrity Manager for Montana-Dakota will  
2 testify regarding South Dakota gas System Safety and Integrity capital  
3 expenditures.
- 4 • Mr. Nathan A. Bensen, Regulatory Analyst for Montana-Dakota will  
5 testify regarding the pro forma volumes in this case.
- 6 • Ms. Tara R. Vesey, Regulatory Affairs Manager for Montana-Dakota,  
7 will testify regarding the total revenue requirement.
- 8 • Mr. Ron J. Amen, Managing Partner for Atrium Economics, LLC, will  
9 testify regarding Montana-Dakota's embedded class cost of service  
10 study and proposed rate design.
- 11 • Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota,  
12 will testify regarding proposed tariff changes.

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 natural gas service to its customers. The  
18 proposed rates will provide Montana-Dakota the opportunity to earn a fair  
19 and reasonable return on its South Dakota gas operations.

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

21 A. Yes, it does.