MONTANA-DAKOTA UTILITIES CO.

Before the Public Utilities Commission of South Dakota

Docket No. EL23-___

Direct Testimony

Of

Nicole A. Kivisto

Q. Please state your name and business address.

A. My name is Nicole A. Kivisto and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. By whom are you employed and in what capacity?

A. I am the President and Chief Executive Officer (CEO) of Montana-Dakota Utilities Co. (Montana-Dakota or Company), Cascade Natural Gas Corporation, and Intermountain Gas Company, all subsidiaries of MDU Resources Group, Inc., and Great Plains Natural Gas Co., a division of Montana-Dakota, collectively the MDU Utilities Group.

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

A. I have executive responsibility for the development, coordination, and implementation of strategies and policies relative to operations of the above-mentioned companies that, in combination, serve over 1.182 million customers in eight states.

Q. Please outline your educational and professional background.

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

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

Q. Have you testified in other proceedings before regulatory bodies?

A. Yes. I have previously presented testimony before this Commission, the Public Service Commissions of North Dakota, Montana, and Wyoming, the Public Utilities Commissions of Idaho and Minnesota, the Public Utility Commission of Oregon and the Washington Utilities and Transportation Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of Montana-Dakota's electric operations in the state of South Dakota. I will also provide an overview of the Company's request for an electric rate increase and discuss the policies and reasons underlying the major aspects of the request. Finally, I will introduce the other Company witnesses who will present testimony and exhibits in further support of the Company's request.

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

A. South Dakota is a part of Montana-Dakota’s interconnected electric system, which consists of generation, transmission, distribution, and general plant facilities serving approximately 8,500 customers in 32 communities in South Dakota. The Company’s South Dakota electric service area is served under one operating region with the regional office located in Bismarck, North Dakota and a number of district offices located in communities throughout South Dakota. As of December 31, 2022, the Company had 73 full and part-time employees who live and work throughout our South Dakota electric and gas service area.

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

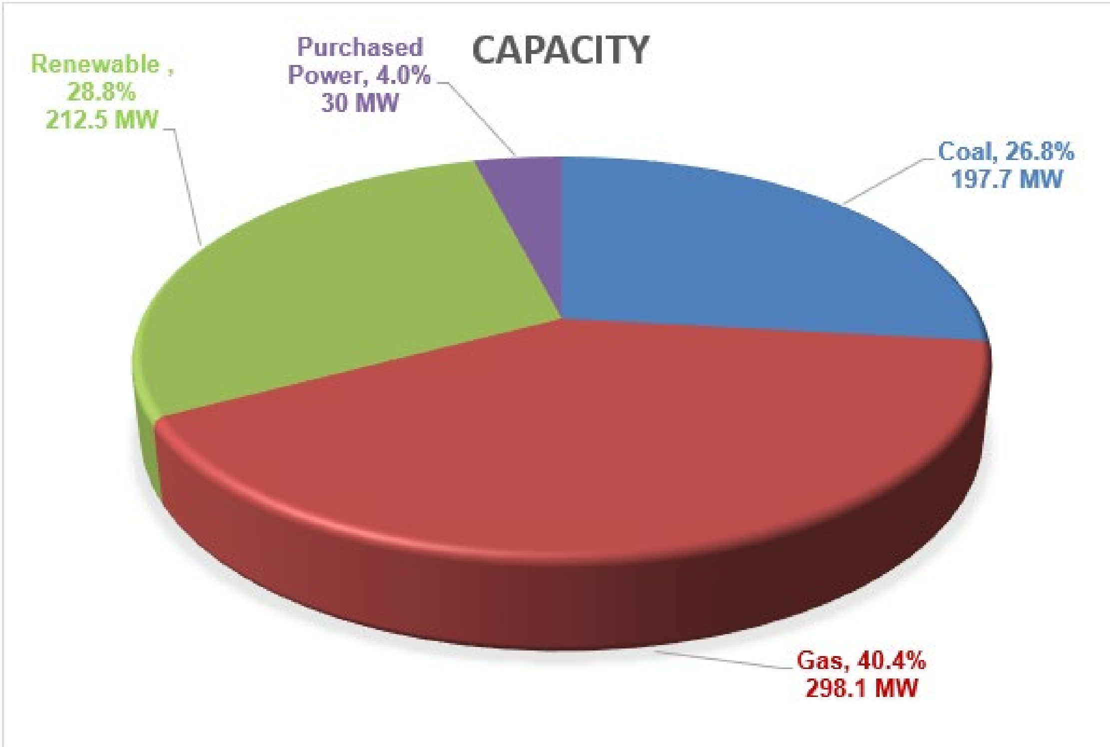
Q. Would you describe Montana-Dakota’s interconnected electric system?

A. Through its interconnected electric system, Montana-Dakota serves approximately 127,800 retail customers in portions of Montana, North Dakota, and South Dakota. Montana-Dakota's current portfolio of generation assets is comprised of baseload coal-fired generation, natural gas-fired peaking generation, wind generation, portable diesel units, and a waste heat generating unit. Capacity and energy are also provided through a Power Purchase Agreement. Montana-Dakota plans to maintain and operate its current fleet of generation resources which provides the best cost power supply for our customers. The Company's pro forma December 2023 capacity mix is as shown below and is comprised of:

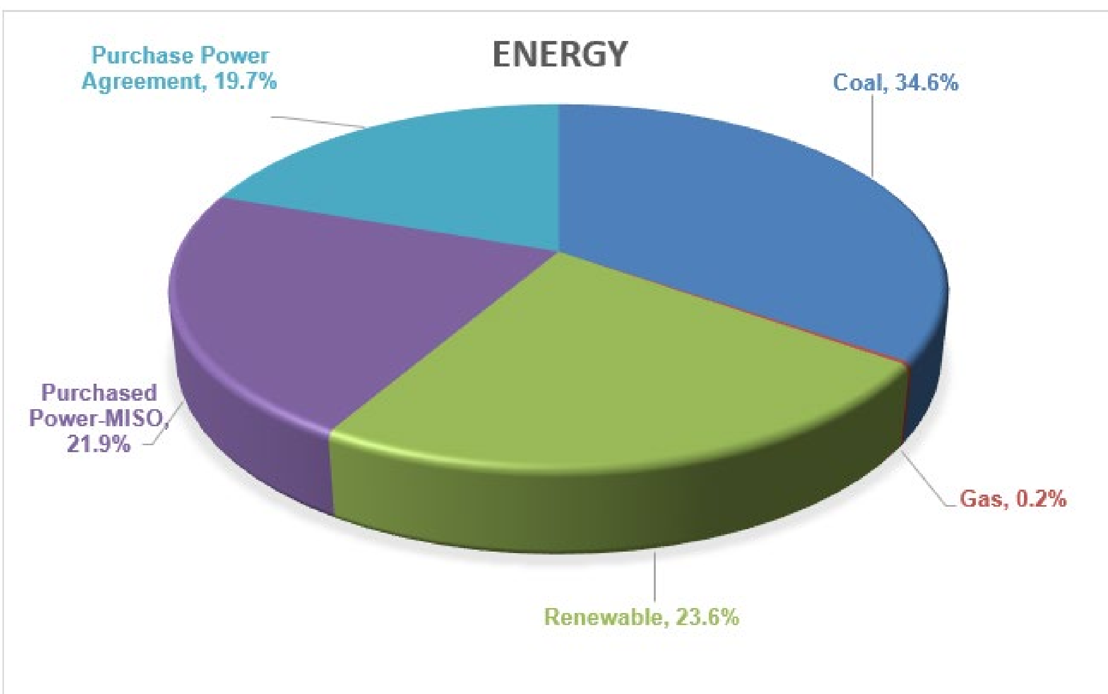
MONTANA-DAKOTA UTILITIES CO.
ELECTRIC UTILITY
GENERATION FACILITIES
CAPACITY
PRO FORMA DECEMBER 2023

Facility	Nameplate Capacity (MW)	Percent of Total
Coal		
Big Stone	94.1	
Coyote	103.6	
Total	197.7	26.8%
Gas		
Miles City	23.2	
Glendive Unit I and II	75.5	
Heskett Unit III	89.0	
Heskett Unit IV 1/	88.0	
Lewis and Clark Unit II - RICE	18.7	
Portables	3.7	
Total	298.1	40.4%
Renewable		
Diamond Willow	30.0	
Ormat	7.5	
Cedar Hills	19.5	
Thunder Spirit	155.5	
Total	212.5	28.8%
Purchased Power 2/	30.0	4.0%
Grand Total 3/	738.3	100.0%

1/ Heskett Unit IV will be in service late 2023.
2/ Capacity is 90.0 MW until June 2023.
3/ Additionally the Company has a Demand-Side Management program that can reduce demand by 13.7 MW for Interuptible customers and 25.0 MW for Commercial customers.



Customers' pro forma December 2023 energy requirements are provided by the following resources as shown below.



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

A. Yes, I did.

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

A. Montana-Dakota is requesting an increase in its electric rates because our current rates do not reflect the cost of providing electric service to Montana-Dakota's South Dakota customers. For the twelve months ending December 31, 2022, the Company's Rate of Return was 5.600 percent. This is below the last authorized Rate of Return of 7.216 percent in Docket No. EL15-024.

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

A. The Company's last rate case was filed eight years ago in Docket No. EL15-024, which resulted in an increase of $1.4 million or a 9.9 percent overall increase. Final rates in the case became effective on July 1, 2016.

Q. What is the amount of the increase requested?

A. As will be fully explained by other Company witnesses, the Company is requesting $2,984,237 which represents a 17.3 percent increase, based on a 2023 test year adjusted for known and measurable changes and presented on Statement O, page 1. This equates to an average annual increase of approximately 2.2 percent per year.

Montana-Dakota currently has three riders: the Infrastructure Rider Rate 56 (Infrastructure Rider), the Transmission Cost Recovery Rider Rate 59 (Transmission Rider), and the Environmental Cost Recovery Rider Rate 57 (Environmental Rider) (with no current recovery). The net increase of 17.3 percent includes the effect on the base electric rates and the changes in the Infrastructure and Transmission Riders.

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

- Move the regulatory asset and related amortization of Lewis & Clark Unit I and Heskett Units I and II from base retail rates to the Infrastructure Rider.
- Move the assets currently recovered in the Infrastructure Rider, including those associated with the Thunder Spirit Wind Facility, to base rates.
- Move the transmission investment and related expenses currently recovered through the Transmission Rider to base retail rates.
- Recover the production investment and related expenses of Heskett Unit IV in base retail rates.

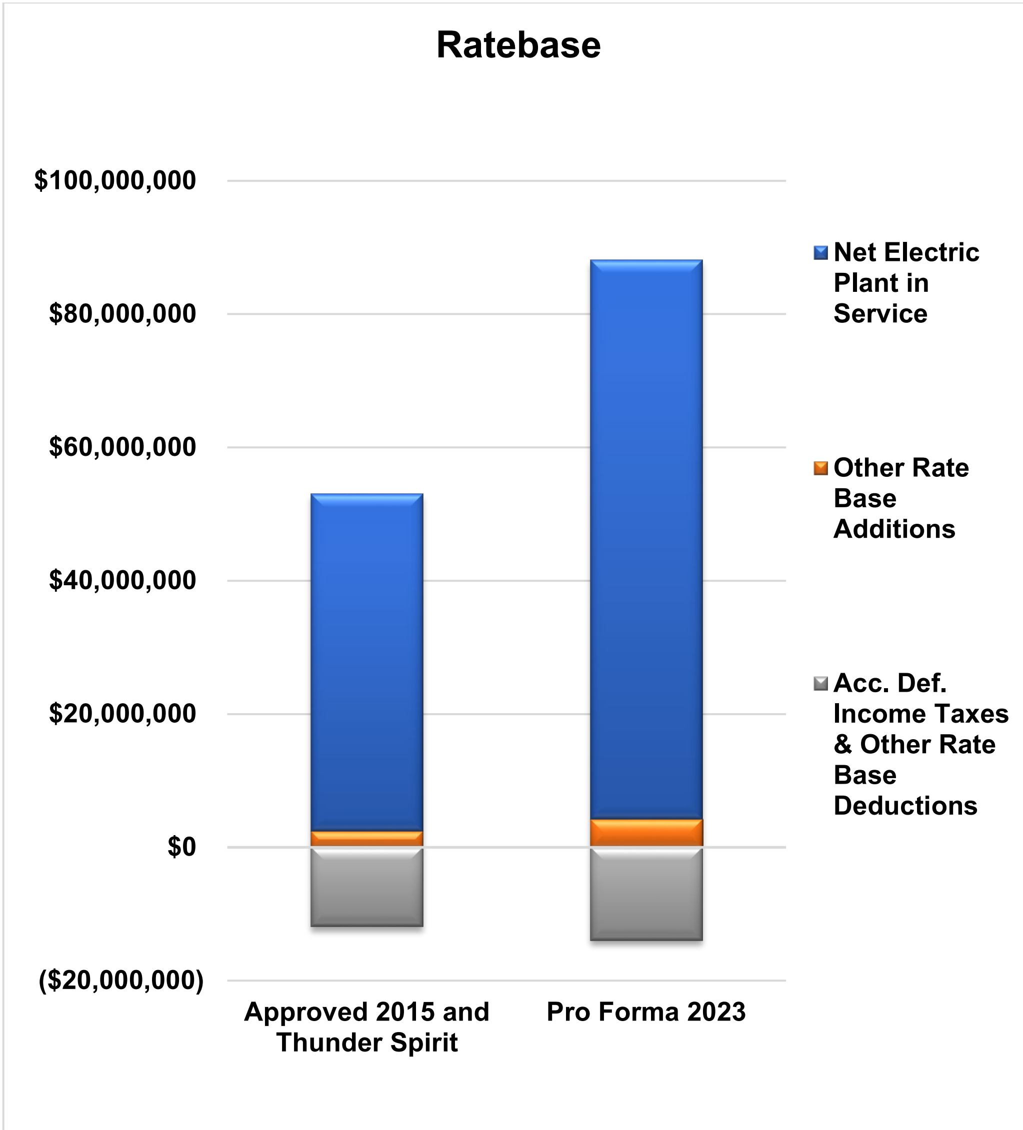
- Move the production tax credits (PTCs) related to the Thunder Spirit Wind Facility from the Infrastructure Rider to become an offset to fuel and purchase power costs in the Fuel and Purchase Power Adjustment Rate 58 (FPPA).
- PTCs related to the Diamond Willow Wind Facility, which are currently retained by the Company pursuant to Docket No. EL22-021, are proposed to become an offset to fuel and purchase power costs in the FPPA.

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

A. The Company's residential class of customers would see a net increase of 17.6 percent. As a result, an individual residential customer using approximately 900 kWh per month will see a net increase of approximately $20 per month. This equates to an average annual increase of 2.2% per year.

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

A. The need for an increase in electric rates is driven primarily by the investments made since the last rate case, including the Heskett IV gas turbine, and increases in O&M expenses, depreciation, and property taxes. As depicted in the graph below, the Company's adjusted rate base has grown approximately $33 million or 80.2 percent since the last case.



As shown in the table below, the Company's total O&M costs have increased over those approved in the Company's last electric rate case. After adjusting the 2015 Authorized O&M to exclude the costs associated with fuel and purchase power and include the costs associated with the Thunder Spirit Wind Facility, the Company's Pro Forma O&M expenses are projected to increase approximately 6.39 percent. This represents a 0.88 percent increase per year since the last filing.

	Approved 2015	Pro Forma 2023	Variance	Percent Variance
Fuel and Purchased Power	$3,895,338	$3,344,686	($550,652)	-14.14%
Labor	2,243,125	2,545,428	302,303	13.48%
Benefits	588,811	446,136	(142,675)	-24.23%
Subcontract Labor	580,986	649,444	68,458	11.78%
Big Stone and Coyote	563,937	562,239	(1,698)	-0.30%
Insurance	154,253	199,821	45,568	29.54%
Software Maintenance	84,059	195,606	111,547	132.70%
Other O&M	1,189,341	1,151,117	(38,224)	-3.21%
Total O&M Expense	$9,299,850	$9,094,477	($205,373)	-2.21%
Total Excluding Fuel and Purchased Power	$5,404,512	$5,749,791	$345,279	6.39%

Finally, the fuel and purchased power costs requested in this filing reflects the savings associated with the closures of the Heskett and Lewis & Clark coal units and other changes since the last rate case. Customers have already been receiving the benefit of those savings as these have been passed on to customers through the monthly fuel and purchased power filings (FPPA) that reflect the actual costs incurred.

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

A. Montana-Dakota's projected labor expenses for the year ending December 2023 have increased 13.5 percent since the approved 2015 rate case which represents a 1.59 percent compounded year over year increase. As noted above, annual increases have been largely offset by coal plant closure savings.

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

In late 2021 Montana-Dakota finalized its labor contract with the System Council U-13 of the IBEW. This contract, which runs through April 2024, defined an approximately 3.00 percent labor expense increase per year, and its effect is discussed in the testimony of Ms. Tara R. Vesey.

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

A. Montana-Dakota has seen other increases to O&M expenses since the last case, such as software maintenance, subcontract labor, and insurance. Software maintenance expense increased approximately $112,000 from the approved 2015 rate case due to increased subscription renewals and mandated security needs. The subcontract labor and insurance expenses also increased approximately $68,000 and $46,000, respectively, since the last case.

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

A. Yes. Depreciation studies for Montana-Dakota's electric and common plant in service was performed by Mr. Larry Kennedy of Concentric Advisors, ULC. Mr. Kennedy has provided testimony on behalf of the Company and is recommending a composite electric plant depreciation rate of 2.98 percent based on plant in service as of December 31, 2020 and a composite 5.31 percent common depreciation rate based on plant in service as of December 31, 2022. The impact of the depreciation study results in a South Dakota electric jurisdiction increase of approximately $460,000 in the revenue requirement, as compared to the previously approved rates.

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

A. In addition to the increase in rate base and the associated operating expenses including the updated depreciation rates, the Company is requesting the inclusion of the provision for pension and benefits and the provision for post retirement, net of the associated deferred taxes, to be added to rate base.

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

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

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

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

Due in large part to the Company's recent contributions, pension and post retirement annual expenses have been reduced as they are recovered through the revenue requirement. In this case, pension and post retirement reflect approximately a negative cost of $87,000 which is a savings to customers and largely offsets the inclusion of the pension and post retirement net assets.

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

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

A. Montana-Dakota has included a Cash Working Capital adjustment that reduces the rate base by approximately $373,000. This adjustment reduces the revenue requirement by approximately $34,000.

This adjustment will be more fully explained by Mr. Michael J. Adams and Ms. Vesey.

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

A. In summary, as shown in the table below, the $3.0 million increase in revenue is driven primarily by:

	Amount (in millions)
O&M Increase	$0.4
Other RB Additions	$1.0
Heskett IV	$0.4
Depreciation Increase	$0.4
Increased Property Taxes	$0.2
Other	$0.2
	$2.6
Amortization of L&C and Heskett	$0.4
	$3.0

The Heskett Unit IV addition is included in the Rate Base and represents approximately $400,000 of the increase. Other plant additions, represents another $1.0 million increase. Estimated Property Taxes are projected with an increase of approximately $200,000. Depreciation increases are a result of the updated Depreciation Study previously discussed, the Lewis & Clark Unit I and Heskett Unit I & II amortization, and other additions to rate base. These increases are partially offset by the Lewis & Clark Unit I and Heskett Unit I & II plant closures.

Q. How is the Regulatory Asset for Lewis & Clark Unit I and Heskett Unit I & II included in this case?

A In Docket No. EL19-040, Montana-Dakota received approval to defer accounting costs and establish a regulatory asset related to the closure of Lewis and Clark Unit I and Heskett Units I & II. Upon closure, the Company began amortizing based on the calculation of the revenue requirement approved in the last rate case. The Company is now proposing the annual amortization of approximately $392,000 per year to be included in the Infrastructure Rider. This proposal will fully amortize these units in three years.

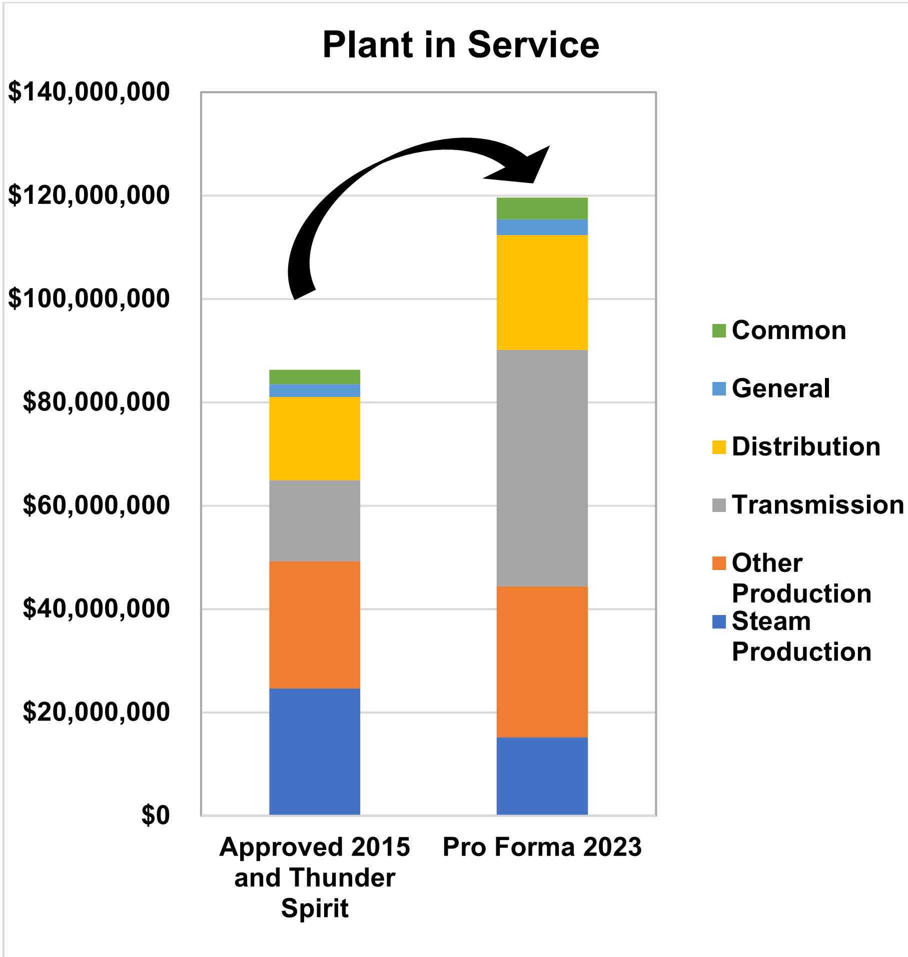
This will be more fully discussed in the testimony of Ms. Vesey.

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

A. The Company has included incremental investments for 2023 of approximately $10.6 million and are associated with the following investments:

- Production investments of approximately $3.1 million, the bulk of which are associated with the new generation addition of Heskett Unit IV, as discussed in greater detail by Mr. Geiger;
- Transmission investments of approximately $6.1 million including continued reliability upgrades necessary due to aging infrastructure;
- Distribution investment of approximately $1.0 million including service line replacements and upgrades required to maintain reliable service; and
- General and common plant additions of approximately $0.4 million primarily associated with structures and improvements, work equipment, software systems such as the Outage Management System, as discussed in greater detail by Mr. Anderson.

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



Q. Montana-Dakota submitted its Integrated Resource Plan (IRP) on July 1, 2019 (Regulatory Directory- ND 2019 IRP Volume 4). Attachment I of the 2019 IRP discussed the retirement of the Lewis & Clark and Heskett coal units and indicated that the Company's projections indicated a cost savings of $20 million for the integrated system. In light of this request for additional revenue, have customers seen those benefits?

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

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

The last part of the cost savings was an offset related to the replacement generation resource, the Heskett IV gas combustion turbine, which is scheduled to be in operation in late 2023. The revenue requirement for that resource continues to be on track as the overall capital budget and anticipated operating costs are in line with those contemplated in the 2021 IRP.

Therefore, while the Company is requesting an increase in the overall revenue requirement at this time, if the 3 coal units had continued operating, rather than being retired, the requested increase would have been higher, as further explained by Ms. Vesey. Additionally, customers would have been paying higher overall rates in the meantime due to the variable costs of those plants that were included in the FPPA.

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

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

Rate Class	Overall Class Impact
Residential Service	17.6%
Small General Service	17.2%
Large General Service	15.1%
General Space Heating	29.6%
Street Lighting	11.1%
Municipal Pumping	16.2%
Outdoor Lighting Service	32.0%
Total	17.3%

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

A. Montana-Dakota is requesting an overall return of 7.600 percent, inclusive of a return on equity (ROE) of 10.5 percent. Ms. Bulkley's analysis indicates that a 10.5 percent ROE is fully justified and supported based on the results of her studies.

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

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

- Ms. Tammy J. Nygard, Controller for Montana-Dakota, will testify regarding the overall cost of capital, capital structure, and overall debt costs.
- Ms. Ann E. Bulkley, Principal of The Brattle Group, will testify regarding the appropriate cost of common equity for Montana-Dakota's South Dakota electric operations.
- Mr. Joseph E. Geiger, Director of Generation for Montana-Dakota, will testify regarding Heskett Unit IV and the Power Production capital expenditures.
- Mr. Darcy J. Neigum, Director of System Operations and Planning for Montana-Dakota will testify regarding the Company's IRP and plant closure model. Mr. Neigum will also discuss the capacity and energy of the Purchase Power Agreements.
- Mr. Daryl Anderson, Director of Electric Distribution Services for Montana-Dakota, will testify regarding the Outage Management System.
- Mr. Larry E. Kennedy, Senior Vice President for Concentric Advisors, ULC., will testify regarding the depreciation studies for Montana-Dakota's electric and common operations of the plant in service as of December 31, 2020 and 2022, respectively, that supports the proposed depreciation rates in this filing.

- Mr. Michael J. Adams, Senior Vice President for Concentric Energy Advisors, Inc., will testify regarding Montana-Dakota's lead lag study and cash working capital adjustment.
- Ms. Tara R. Vesey, Regulatory Affairs Manager for Montana-Dakota, will testify regarding the total revenue requirement.
- Mr. Ron J. Amen, Managing Partner for Atrium Economics, LLC, will testify regarding Montana-Dakota's embedded class cost of service study and proposed rate design.
- Ms. Stephanie Bosch, Regulatory Affairs Manager for Montana-Dakota, will testify regarding proposed tariff changes.

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

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

Q. Does this complete your direct testimony?

A. Yes, it does.