BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF NEBRASKA

In the Matter of the Application of Black Hills/Nebraska Gas Company, LLC d/b/a Black Hills Energy for Approval of its Cost of Service Gas Hedge Agreement with Black Hills Utility Holdings, Inc.	**)))))**	**Application No. NG-0086**

REBUTTAL TESTIMONY OF

JOHN H. BENTON

**On Behalf of Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy
And
Black Hills Utility Holdings, Inc.**

March 29, 2016

Table of Contents

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John H. Benton. My business address is 1515 Wynkoop, Suite 500, Denver, CO 80202.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am testifying on behalf of Black Hills/Nebraska Gas Utility, LLC d.b.a. Black Hills Energy (the "Company").

Q. ARE YOU THE SAME JOHN H. BENTON THAT PROVIDED DIRECT TESTIMONY IN THIS MATTER?

A. Yes.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to matters raised in the direct testimony of Nebraska Public Advocate witness Mr. Michael J. McGarry, Sr.

III. RESPONSE TO THE DIRECT TESTIMONY OF MR. MCGARRY

Q. MR. MCGARRY ASSERTS THAT YOUR DIRECT TESTIMONY "ACKNOWLEDGES THAT ACQUISITION, DRILLING, AND OPERATING COSTS COULD BE HIGHER THAN EXPECTED."[1] IS THIS AN ACCURATE ASSERTION?

A. No. My direct testimony referenced by Mr. McGarry discusses four key factors that affect the economics of investing in development of gas reserves. It does not discuss acquisition costs.

[1] McGarry Direct Testimony, Page MJM-19, Lines 15-16 (citing Benton Direct Testimony, Page 15, Lines 4-13).

The direct testimony discusses the investment in gas reserves in general. It was not specific to development of proven gas reserves potentially eligible for inclusion in the COSG Program. Mr. McGarry's statement as it relates to acquisition costs is incorrect, because the acquisition cost for a proposed property will be known when it is brought to the Commission for approval in a Phase II proceeding. Further, with regard to drilling and operating costs, the COSG Program requires properties considered for inclusion in the program to have significant proven reserves. Drilling and operating costs within a field containing significant proven reserves tend to be relatively predictable and stable. In fact, current low drilling and operating costs are motivating financially stable companies to take advantage of current market conditions to acquire low-priced reserves, often from distressed sellers. Therefore, while drilling and operating costs could vary some, from forecasted estimates, it would be unlikely that the variance would be material.

Q. MR. MCGARRY ASSERTS THE COSG PROGRAM SHIFTS "THE RISK OF EXCESSIVE COSTS" TO DEVELOP NATURAL GAS RESOURCES TO CUSTOMERS.[2] IS IT REASONABLE TO ASSUME THAT COSTS WILL BE "EXCESSIVE" AND THAT THE RISK OF ACTUAL COSTS EXCEEDING ESTIMATED COSTS WILL BE HIGH?

A. No. It is not reasonable to assume that costs will be excessive, or that there is a high risk of actual costs exceeding amounts estimated as part of a Phase II application. It is important to remember that gas assets considered for inclusion in the COSG Program will have to contain a significant amount of proven developed producing reserves. The drilling,

[2] McGarry Direct Testimony, Page MJM-7, Line 3; Page MJM-18, Lines 19-21.

operating, and maintenance costs referenced in Mr. McGarry's direct testimony will be well defined at the time a particular asset is proposed for inclusion in the COSG Program. The operating and maintenance costs will be well defined for existing and new wells. Drilling costs for new wells will be well defined as a result of significant cost history for the wells already drilled and producing. In fact, this is required by the Acquisition Criteria in Exhibit A of the COSG Agreement (*i.e.*, the property "must contain formations with (i) an established history of Gas production, (ii) low dry hole risk, and (iii) an established history of reserves per well and costs per well"). Operating history can be utilized to predict with reasonable certainty the expected future costs related to drilling, operation, and maintenance of a particular asset eligible for inclusion in the COSG Program.

Contrary to Mr. McGarry's assertion, it is reasonable to assume that the risk is high that market natural gas prices will fluctuate significantly more than development and operating costs. The EIA information presented on Page 11 of my direct testimony shows that both capital and operating costs historically have fluctuated much less than the market price for gas. The COSG Program mitigates the risk of fluctuating market gas prices, which customers currently bear, by linking a percentage of the Company's gas supply to more stable costs of production.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.