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September 21, 2017

**VIA HAND DELIVERY AND ELECTRONIC DELIVERY**

Mike Hybl  
Executive Director  
Nebraska Public Service Commission  
300 The Atrium, 1200 "N" Street  
P.O. Box 94927  
Lincoln, NE 68509-4927

**RE:** APPLICATION FOR APPROVAL OF ACCOUNTING AND REGULATORY TREATMENT RELATIVE TO A REGULATORY ASSET COMPRISED OF THE INCREASED LOCATION COSTS WITH THE ALLO FIBER OPTICS PROJECT IN LINCOLN, NE, AND OBTAINING COMMISSION APPROVAL, AND OTHER SPECIFIED RELIEF  
DOCKET NO. NG-00\_\_ - BLACK HILLS/NEBRASKA GAS UTILITY COMPANY, LLC

Dear Mr. Hybl:

Enclosed please find for filing the following original and 8 copies of Black Hills Energy regarding the above referenced:

- Cover Letter
- Application
- Testimony of Jeff Sylvester

Please stamp-date the extra copy of the filing for our records.

Thank you for your assistance.

Respectfully,

Adam Buhrman  
Corporate Counsel

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

IN THE MATTER OF BLACK )  
HILLS/NEBRASKA GAS UTILITY, LLC )  
d/b/a BLACK HILLS ENERGY, ) Application No. NG-00\_\_  
SEEKING AN ACCOUNTING ORDER )  
TO DEFER EXTRAORDINARY GAS )  
LINE LOCATION COSTS )

**APPLICATION**

Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy (“Black Hills Energy” or the “Company”) is filing this Application pursuant to Neb. Rev. Stat. § 66-1804, and in compliance with the Rules and Regulations of the Nebraska Public Service Commission (the “Commission”). Black Hills Energy respectfully requests that the Commission issue an Order approving the creation of a regulatory asset on the Company's books and records comprised of the 2017-2018 gas line location costs that the Company will incur in order to accommodate ALLO’s plans to bring high speed internet service to all residences and businesses within and around the City of Lincoln by 2019 (the “ALLO Project”). The Company also requests that the Commission grant any waivers that it deems required or appropriate in the circumstances.

**DESCRIPTION OF BLACK HILLS/NEBRASKA GAS UTILITY COMPANY, LLC**

Black Hills Energy is a public utility in the State of Nebraska and is subject to the Commission’s jurisdiction with respect to its rates charged and terms of natural gas service provided to jurisdictional customers in Nebraska. Black Hills Energy provides gas service in the eastern-third of Nebraska, serving a total of approximately 300,000 jurisdictional residential, commercial and agricultural customers. The Company also provides retail natural gas service to customers in the states of Colorado, Kansas, Iowa, Arkansas, and Wyoming. Another affiliate,

Black Hills Gas Distribution, LLC, provides retail natural gas service in the western two-thirds of the State of Nebraska.

### **COMMUNICATIONS**

Communications regarding this filing should be addressed to:

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### **DIRECT TESTIMONY AND EXHIBITS SUPPORTING THIS APPLICATION**

In support of this Application, Black Hills Energy is filing herewith the Direct Testimony and Exhibits of the following Company witness:

- Mr. Jeff Sylvester. Mr. Sylvester is Vice President of Operations for Nebraska. Mr. Sylvester is responsible for the financial and operational performance of the Company's natural gas utility business in the State of Nebraska. Mr. Sylvester's Testimony provides background on Nebraska's 811 One Call laws, the impact the ALLO Project is having on the Company, Company mitigation efforts, and why the Company is requesting deferral and future recover of the extraordinary gas line location costs through an Accounting Order from the Commission.

## **REASON FOR APPLICATION AND RELIEF REQUESTED**

In November of 2015, ALLO announced plans to bring high speed internet service to all residences and business within and around the City of Lincoln, Nebraska by 2019. A majority of the new fiber optic infrastructure installed by ALLO will be placed in the City's right-of-way near other utility services like electric, telephone, cable and natural gas. Construction for the ALLO Project began in 2016, and is expected to continue until the ALLO Project is completed by 2019. As addressed in Mr. Sylvester's testimony, Black Hills Energy has seen a significant increase in gas line location requests as a direct result of the ALLO Project. Under Nebraska's 811 One Call laws (the "Act"), Black Hills Energy is required to locate its underground facilities whether there is a single line location or there are many requests within a short period of time as is the case with the ALLO Project. The Act requires Black Hills Energy to locate and mark its facilities within 48 hours of the excavation notification issues by the Nebraska 811 One Call Operator. In order to meet the Company's statutorily mandated obligation, Black Hills Energy has significantly increased its line locating staffing resources. However, the extraordinary demand resulting directly from the ALLO Project is overwhelming the Company's established natural gas line locate resource model. Black Hills Energy has pursued, and will pursue, all remedies with Allo, but those requests have been denied. Black Hills Energy does not have the resources to meet the demands of the ALLO Project in the time and scope necessary to comply with existing laws.

Black Hills Energy respectfully requests approval to establish, for accounting and ratemaking purposes, a regulatory asset equal to the Company's 2017-2018 increase in gas line location costs associated with the ALLO Project.

No changes are required to Black Hills Energy's approved Nebraska Tariff. Once the regulatory asset is authorized, Black Hills Energy would move all of the 2017 and 2018 natural

gas line location costs related to the ALLO Project from Black Hills Energy's Income Statement (account no. 874001) to a Regulatory Asset (account no. 182300). The Company is not seeking immediate recovery of the ALLO Project costs. Black Hills Energy would capture the ALLO Project costs until Black Hills Energy's next general rate application under the State Natural Gas Regulation Act. Black Hills Energy respectfully requests the Commission issue this order by December 31, 2017, so the costs can be moved to the proper deferral account by year end, as required by generally accepted accounting principles.

### **LEGAL AND REGULATORY BASIS FOR ACCOUNTING ORDER**

The ALLO Project costs are appropriate to be captured in a regulatory asset and presented for recovery in a future rate proceeding of Black Hills Energy as the costs incurred are (1) unavoidable due to the statutory mandates under Nebraska's 811 One Call Act, (2) uncontrollable as Black Hills Energy must respond to every gas line location call that arises under the ALLO Project, (3) uncollectable from ALLO as Nebraska's 811 One Call Act does not provide for recovery of multiple facility location requests from ALLO, and (4) extraordinary as the significant cost imposed on Black Hills Energy by the ALLO Project significantly exceed the existing and historic level of expense required of Black Hills Energy to comply with Nebraska's 811 One Call Act. The Commission's approval of an Accounting Order establishing a regulatory asset for recovery of the costs in a future rate proceeding is supported on legal and regulatory grounds as it is similar to other extraordinary costs that the Commission has approved for recovery through a regulatory asset.<sup>1</sup>

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<sup>1</sup> See, e.g., *In re, Application of SourceGas Distribution LLC, Golden, Colorado seeking Approval of the Regulatory Treatment of the Net Buyout Costs of Two Gas Supply-Related Contracts, the Costs Associated Financing the Buyout Costs and Other Specified Relief* (Docket No. NG-0088, April 19, 2016)

### **VERIFICATION**

A Verification that is signed by Black Hills Energy's Vice President of Operations, Mr. Jeff Sylvester, a person authorized to act on behalf of Black Hills Energy, and that affirms that the contents of this Application and the supporting documents are true, accurate and correct is included as part of this Application.

### **CONCLUSION**

WHEREFORE, for the reasons stated herein and in the supporting witness testimony provided herewith, Black Hills Energy respectfully requests that the Commission, with or without a hearing, issue an Order:

- i. Authorizing Black Hills Energy to establish, for accounting and ratemaking purposes, a regulatory asset equal to (i) Company's net increase in gas line location costs associated with the ALLO Project;
- ii. Granting such other relief that the Commission finds to be required or appropriate in the circumstances.

Dated this 21st day of September, 2017.

Respectfully Submitted,

BLACK HILLS/NEBRASKA GAS UTILITY  
COMPANY, LLC d/b/a BLACK HILLS ENERGY,  
Applicant.

BY:



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Attorneys for Black Hills Energy

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

IN THE MATTER OF BLACK HILLS/  
NEBRASKA GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY, SEEKING AN  
ACCOUNTING ORDER TO DEFER  
EXTRAORDINARY GAS LINE LOCATION  
COSTS

DOCKET NO. NG-\_\_\_\_\_

**Direct Testimony of Jeff Sylvester**

September 21, 2017

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Lincoln, NE 68512  
jeff.sylvester@blackhillscorp.com  
(402) 858-3553



## **I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

A. My name is Jeff Sylvester. My business address is 1600 Windhoek, Lincoln, Nebraska, 68512. I am employed by Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy (hereinafter “Black Hills Energy or “Company”) in the position of Vice President of Operations.

**Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.**

A. I have been employed by the Company in my current role since October, 2012. Previously, I was employed by Florida Public Utilities, an affiliate of Chesapeake Utilities, from August, 2010 through October 2012 as Vice President of Customer Care. Prior to my time with Florida Public Utilities, I served as a General Manager of Peninsula Energy Services (PESCO), which is also an affiliate of Chesapeake Utilities, from November 2006 through June 2009. I’ve also held positions as a Director of Business Analysis and Systems and Manager of Field Financing earlier in my career. My role in each of the positions throughout my career has increased in scope and responsibility, but from approximately 1998 through the present, I’ve been involved in various aspects of public utility service to the public.

**Q. PLEASE DESCRIBE YOUR CURRENT JOB RESPONSIBILITIES.**

A. I am responsible for the financial and operational performance of the Company’s natural gas utility business in the State of Nebraska, overseeing all state operating functions, including gas distribution operations, maintenance, construction, and field customer service. I am also indirectly involved in the oversight of certain other functions that are centralized within Black Hills Energy that provide support to Nebraska operations, which

include human resources, gas supply, regulatory affairs, community affairs, communications, government affairs and gas engineering. In addition, I have responsibility for managing the above-described Company assets and investments in providing safe, reliable service to approximately 300,000 customers of Company located in 300 communities across the state.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. My testimony will describe and support the following areas of concern to Black Hills Energy:

(1) **811 One Call** - how the legislative mandates under the Nebraska (811) One-Call Notification System Act impact the Company;

(2) **Company Impact** - how the extraordinary increase in natural gas line location cost, both experienced to date and anticipated in the future by Company, as a direct result of the ALLO Communications (“ALLO”) project impacts the Company;

(3) **Mitigation Effort** - how the Company will mitigate these extraordinary gas line location costs; and

(4) **Accounting Order** - why the Company is requesting deferral and future recovery of the extraordinary gas line location costs through an Accounting Order from the Nebraska Public Service Commission (“Commission”).

**Q. ARE YOU SPONSORING ANY DIRECT TESTIMONY EXHIBITS?**

A. No.

## **II. THE ALLO PROJECT**

### **Q. WHAT IS THE ALLO PROJECT?**

A. In November of 2015, ALLO announced plans to bring high speed Internet service to all residences and businesses within and around the City of Lincoln (“City” or “Lincoln”) by 2019 (“ALLO Project”). A majority of the new fiber optic infrastructure installed by ALLO will be placed in the City’s right-of-way near other utility services like electric, telephone, cable and natural gas. Construction for the ALLO Project began mid-year 2016, and is expected to continue until the ALLO Project is completed by 2019.

### **Q. AS BLACK HILLS ENERGY UNDERSTANDS NEBRASKA LAW, IS BLACK HILLS ENERGY PERMITTED TO CHARGE ITS ALLO PROJECT GAS LINE LOCATE COSTS TO ALLO?**

A. Black Hills Energy’s interpretation of the Nebraska One-Call Notification System Act (“Act” or “811 One Call Act”) is that the Act never contemplated excavation or other infrastructure projects to be installed with the speed and scope of the ALLO Project in Lincoln. Black Hills Energy further understands that the Nebraska 811 One-Call Act does not contain an express provision under the Act to permit Black Hills Energy to pass on the extraordinary natural gas line location costs to ALLO or to the contractors hired to install the fiber optic cable. Thus, as Black Hills Energy understands the language in the Act, whether there is a single line location requested by ALLO or many requests within a short period of time, the Act requires Black Hills Energy to locate and mark its underground facilities. However, the Act does not appear to permit Black Hills Energy to recover those costs from ALLO or its contractors.

**Q. AS BLACK HILLS ENERGY UNDERSTANDS NEBRASKA LAW, WHAT ACTION DOES THE 811 ONE CALL ACT REQUIRE OF BLACK HILLS ENERGY?**

A. As Black Hills Energy understands the Act, the purpose of the Nebraska 811 One-Call Act is to aid the public by preventing injury to persons and damage to property and the interruption of utility services resulting from accidents caused by damage to underground facilities. For example, Neb. Rev. Stat. § 76-2321 of the Act requires any individual who will be excavating to submit a formal notice (“locate request”) to the Nebraska One Call Center. That location request will then be relayed to all underground facility owners in the area of excavation. Upon receiving a notice of excavation, Neb. Rev. Stat. § 76-2323 of the Act requires the “owner” of an underground facility to “mark” the underground location of a facility.

For Black Hills Energy, the underground facility marks are typically done by a Company service technician or contractor (e.g., United States Infrastructure Company or “USIC”) hired by the Company to mark the area of excavation. The marks are normally completed by applying both spray paint and color-coded utility stake flags. The Act requires that these marks be completed within 48 hours of the excavation notification issued by the Nebraska 811 One Call Operator.

**Q. DOES BLACK HILLS ENERGY COMPLY WITH THE 811 ONE CALL ACT?**

A. Yes. Safety is a primary focus for the Company. Black Hills Energy has allocated and invested significant Company resources in information systems, safety, employees, training, location contractors, customer education, legal support, and other areas of its business to comply with the requirements set forth in the Act.

**Q. HAS THE ALLO PROJECT HAD AN IMPACT ON THE COMPANY'S OPERATIONS?**

A. Yes. The ALLO Project has caused a significant increase in Black Hills Energy's pre-excavation natural gas line location requests required under 811 One Call statutes. This incremental and extraordinary cost associated with these requests is directly due to the rapid pace (i.e., less than two- year buildout) and scope (over 100,000 services) of the ALLO Project. In order to meet our statutorily mandated obligation to locate the Company's natural gas lines prior to excavation, Black Hills Energy has significantly increased our line locating staffing and resources. The chart below shows the number of requests received, by year, by Black Hills Energy in Lincoln:



As shown on the chart, the forecasted ALLO Project line locate requests for the years of 2017 and 2018 in the City of Lincoln, Nebraska represent approximately 50% of the overall natural gas line locate requests during those years.

As forecasted, Black Hills Energy anticipates that it will receive twice as many natural gas line location requests in the City of Lincoln in 2017 and that same level again for 2018. The extraordinary demand placed on Black Hills Energy to locate the Company's natural gas lines resulting directly from the Allo Project has strained the Company's established natural gas line locate resource model absent the addition of new employees and increase line location contractor costs. Specifically, Black Hills Energy does not have the resources within our existing base of employees to meet the demands of this project in the time and scope necessary to comply with existing laws. In addition, as noted, contracting with external natural gas line location companies will add significant costs for Black Hills Energy and its customers.

**Q. WHAT ARE THE INCREMENTAL COSTS ASSOCIATED WITH THE PROJECT?**

A. As stated above, the Company has contracted with a utility locating firm (USIC) to provide locate services on Black Hills Energy's behalf. The Company pays for these services on a "per locate" basis under the terms of the Company's contract with USIC. The costs are listed in the table below:

<u>Year</u>	<u>Cost</u>
2016	\$151,855
2017 (projected)	\$747,856
2018 (projected)	\$778,256

All of the costs in the above table were generated solely by the Allo Project and were not associated with any other excavation project.

**Q. WHY IS DAMAGE PREVENTION IMPORTANT TO BLACK HILLS ENERGY?**

A. The Company's fulfillment of its duties under Nebraska law to provide safe and reliable natural gas service and a prudently operated natural gas distribution system begins with damage prevention. A leading risk to Black Hills Energy's natural gas distribution system is damage to our system caused by third-party excavation crews like ALLO and their contractors. Reducing or eliminating natural gas line hits by excavators is why Black Hills Energy makes system damage prevention a priority for the Company. The Allo Project has introduced an extraordinary amount of excavation risk to management of Black Hills Energy's ongoing network operations. Black Hills Energy has and will continue to do what is prudent and necessary to provide safe natural gas distribution service.

**III. FINANCIAL IMPACT**

**Q. HAS THERE BEEN A FINANCIAL IMPACT ON BLACK HILLS ENERGY AS A RESULT OF THE ALLO PROJECT?**

A. Yes, there has been a significant financial impact on Black Hills Energy. These costs are incurred in compliance with Nebraska's 811 One Call Act, and are therefore unavoidable and uncontrollable costs.

**Q. PLEASE EXPLAIN.**

A. The expense to Black Hills Energy in responding to natural gas line location requests arising under the Allo Project are considered extraordinary by Black Hills Energy because the volume of requests is substantially higher than the representative level of gas line location costs included in the Company's cost of service in its 2010 rate case in Commission Docket No. NG-0041.

For example, since 2009 Black Hills Energy has experienced a 12 percent per year growth rate in line location requests. In 2009, Black Hills Energy completed 22,520 locates in Lincoln. The cost of these Company natural gas line locates were included in Black Hills Energy's last rate case before the Commission in Docket No. NG-0041. The forecast of natural gas line locate requests for 2017 without the Allo Project (i.e., assuming a 12 percent per year growth) would have been 55,759 location requests. The forecast of natural gas line locate requests for the Allo Project in 2017 by itself is 67,869. In other words, the Allo Project has doubled<sup>1</sup> the forecast of Black Hills Energy's 2017 total natural gas line location requests to a forecasted total of 123,655 require natural gas line locates.

**Q. WHAT IS THE FINANCIAL IMPACT TO BLACK HILLS ENERGY FOR THIS ADDITIONAL STATUTORY MANDATED LINE LOCATION?**

A. The Allo Project required Black Hills Energy to respond to 14,197 natural gas line location requests in 2016. As shown in the chart above, that level of natural gas line locates resulted in \$151,855 in cost to the Company during 2016.

For the first six months of 2017, the Allo Project required Black Hills Energy to respond to a total 34,669 natural gas line location requests under the Nebraska 811 One Call Act. That level of natural gas line locates resulted in \$376,348 in cost to the Company. As stated above, for the full year 2017, Allo Project natural gas line location requests are forecast to be 67,869. That level of natural gas line locates will cause Black Hills Energy to incur \$747,856 in incremental natural gas line location cost. ALLO representatives have informed Black Hills Energy that the Allo Project will be completed by 2019.

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<sup>1</sup> 123,655 is a 222 percent increase over 55,759.



Accordingly, Black Hills Energy reasonably expects that the Allo Project line location requests during 2017 and 2018 will cause Black Hills Energy to respond to approximately the same amount of line locate requests and costs. In other words, Black Hills Energy expects to respond to approximately 135,738 ALLO Project natural gas line location requests (i.e., two years @ 67,869 locates) for the 2017- 2018 period. That level of natural gas line locations will cause Black Hills Energy to incur an estimated incremental cost of \$1,677,966 for 2017 and 2018 over its line location expense without the Allo Project.

**Q. WHAT IS THE COMPANY PROPOSING IN ITS APPLICATION FOR AN ACCOUNTING ORDER?**

A. Black Hills Energy is requesting an accounting order to establish a regulatory asset. Once that regulatory asset is authorized, Black Hills Energy would move all of the natural gas line location costs related to the Allo Project for the years 2017-2018 from Black Hills Energy's Income Statement (account no. 874001) to a Regulatory Asset (account no.182300). Black Hills Energy would hold the Allo Project costs until Black Hills Energy's next general rate application under the State Natural Gas Regulation Act. Below is an example of the accounting entry:

	<u>Debit</u>	<u>Credit</u>
Regulatory Asset – Acct. 182300	\$xxx	
Line Locates - Acct. 874001		\$xxx

Black Hills Energy would be willing to provide an annual informational filing with the Commission and the Public Advocate showing the level of costs accumulated in the Allo Project Regulatory Asset.

**Q. IS BLACK HILLS ENERGY REQUESTING IMMEDIATE RECOVERY OF THE ALLO PROJECT GAS LINE LOCATION COSTS?**

A. No. Black Hills is not seeking immediate recovery of the Allo Project costs. If the Accounting Order is approved by the Commission, there is no immediate recovery of the Allo Project natural gas line locate costs. Instead, Black Hills Energy, seeks approval to defer recovery of those costs and to hold those costs as a regulatory asset. Without the Commission's approval of the Accounting Order and establishment of a regulatory asset, Black Hills Energy will be required to expense those incremental gas line location costs, and they would not qualify for recovery. As noted, Black Hills Energy would propose a plan for recovery of the captured Allo Project costs in a future rate proceeding.

**Q. PLEASE EXPLAIN THE ACTIONS YOU HAVE TAKEN TO MITIGATE THE FINANCIAL IMPACTS OF THE ALLO WORK.**

A. During the initial stages of the Allo Project, it became clear to Black Hills Energy that the speed of the Allo Project was going to create a huge operational and financial burden on our existing locating resources. Black Hills Energy representatives met with ALLO representatives to discuss the Allo Project in detail, and the Company attempted to explain the incremental operational and financial burden of the Allo Project on Black Hills Energy, its employees, and the Company's customers. ALLO's management appeared to Black Hills Energy to understand the incremental operating and financial burden the Allo Project would place on Black Hills Energy and other utilities, but informed Black Hills Energy that ALLO was unwilling to slow the project down for competitive business reasons. Black Hills Energy attempted to convince ALLO's representatives that Black Hills Energy and its customers should not be required to shoulder the cost of ALLO's decision to proceed

with the aggressive installation of its fiber optic cable system in Lincoln. Black Hills Energy asked ALLO management on several occasions if ALLO would reimburse Black Hills Energy for the incremental cost associated with locating our facilities. ALLO senior management has repeatedly rejected Black Hills Energy's requests for reimbursement of the cost to locate the Company's natural gas lines as required by the Nebraska 811 One Call Act.

**Q. WHAT OTHER ACTIONS IS BLACK HILLS ENERGY CONSIDERING TO MITIGATE GAS LINE LOCATION COSTS FROM THE ALLO PROJECT?**

A. Black Hills Energy will continually attempt to mitigate these costs. For example, Black Hills Energy will review whether it should hire more technicians, increase its contract requirements with USIC, or manage its existing resources in cooperation with other underground facility owners in the City of Lincoln. Black Hills Energy will continue to review all of the options available to it today or over the next couple of years in response to the incremental burden that the Allo Project will place on Black Hills Energy and its customers. Black Hills Energy will coordinate with ALLO representatives in compliance with the Nebraska 811 One Call Act requirements. Safety will always remain a primary focus as Black Hills Energy manages through the Allo Project.

**Q. ARE THERE COSTS NOT PART OF THIS FILING THAT HAVE BEEN GENERATED BY THE ALLO PROJECT?**

A. Yes. None of Company's 2016 gas line location costs associated with responding to the Allo Project's natural gas line locate requests will be held for recovery in the future. Those natural gas line location costs have already been "booked" by the Company and will be borne by Black Hills Energy. In addition, Black Hills Energy has dedicated numerous

other internal resources to assisting, coordinating and monitoring the Allo Project to prevent damage to Black Hills Energy facilities. This reallocation of Company employees and resources places burdens on the Company to manage its natural gas service employee and resource model established for its Nebraska customers.

**Q. IS THE ALLO PROJECT CAUSING BLACK HILLS ENERGY TO NOT MEET ANY OF ITS OBLIGATIONS?**

A. To be clear, Black Hills Energy is not neglecting any of its statutory or regulatory duties in Nebraska. Nor is the Company ignoring any of the quality of service expectations to its Customers. However, the Allo Project is placing an unfair strain on Company resources in complying with those responsibilities. This Company filing is intended to help restore the balance to the Company between the statutory burdens placed on it under Nebraska's 811 One Call Act with the opportunity to recover the legitimate utility expense caused by the Allo Project. As demonstrated above, these costs are unavoidable, uncontrollable, and extraordinary.

**IV. CONCLUSION**

**Q. PLEASE DESCRIBE EXACTLY WHAT BLACK HILLS ENERGY IS REQUESTING OF THE COMMISSION IN THIS APPLICATION FOR AN ACCOUNTING ORDER.**

A. Black Hills Energy's application requests the Commission to grant the Company's request to establish an accounting order to allow Black Hills Energy to defer the 2017 and 2018 Black Hills Energy line location costs related to the Allo Project. Specifically, Black Hills Energy would establish a regulatory asset account and would record all of the natural gas line location costs related to the Allo Project until the Company's next rate case.

**Q. HOW WOULD THE ACCOUNTING ORDER AND THE ALLO PROJECT COSTS BE ADDRESSED IN A FUTURE BLACK HILLS ENERGY GENERAL RATE PROCEEDING?**

A. As stated above, Black Hills Energy will capture all of the Allo Project costs through 2017 and 2018. Once all of the Allo Projects are known and measurable, Black Hills Energy would present a plan for recovery of the Allo Project costs in a future Company rate proceeding.

**Q. WHY DOES BLACK HILLS ENERGY BELIEVE THAT ITS REQUEST FOR AN ACCOUNTING ORDER SHOULD BE APPROVED BY THE COMMISSION?**

A. The extraordinary natural gas line location costs incurred by Black Hills Energy and thereafter captured in the regulatory asset established by the Accounting Order: (1) will be incurred through mandates under Nebraska's 811 One Call Act, (2) are outside the control of Black Hills Energy, (3) are necessary and prudent costs incurred by the Company in fulfilling its duty to provide safe and reliable natural gas service under the State Natural Gas Regulation Act, and (4) are extraordinary. The natural gas line location costs will not be paid by ALLO or its contractors. The ability to defer these extraordinary Allo Project costs for recovery at a later time is appropriate. This request is not unique as the Commission has approved regulatory asset accounts for other extraordinary expenses in the past. Accordingly, Black Hills Energy believes strongly that its request for an Accounting Order should be approved by the Commission.

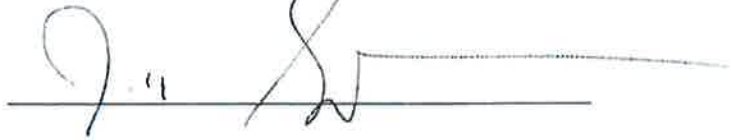
**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

VERIFICATION

STATE OF NEBRASKA            )  
  )  
COUNTY OF LANCASTER        )

Jeff Sylvester, being duly sworn upon his oath says: that he is Vice President, Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy, and is authorized to act on behalf of Black Hills Energy; that he has read the foregoing Application and supporting documentation and has personal knowledge of the matters therein set forth concerning Black Hills Energy; and that the facts therein stated are true, accurate, and correct to the best of his knowledge, information, and belief.



Jeff Sylvester

Subscribed and sworn to before me this 21<sup>st</sup> day of September, 2017.



Notary Public

