

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF BLACK HILLS/)
NEBRASKA GAS UTILITY COMPANY, LLC)
D/B/A BLACK HILLS ENERGY, OMAHA,) **DOCKET NO. NG ____**
SEEKING A GENERAL RATE INCREASE FOR)
BLACK HILLS ENERGY'S RATE AREAS ONE,)
TWO AND THREE (CONSOLIDATED))

Direct Testimony of Don Nordell

Director, Nebraska Business Operations

Operating Metrics and Capital Additions

December 1, 2009

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EXHIBITS

Exhibit No. _____ DJN-1:	Coding Guide
Exhibit No. _____ DJN-1.1:	Town Codes
Exhibit No. _____ DJN-2:	Capital Additions Spreadsheet

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

3 A. My name is Don Nordell. I am the Director, Business Operations for Black
4 Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy (hereafter
5 referred to as “Black Hills Energy”). My business address is 1600 Windhoek
6 Drive, Lincoln, Nebraska, 68512.

7 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE?**

9 A. I received a Bachelor of Science in Business Administration from the University
10 of Nebraska in Omaha in 1989. I began my employment with Peoples Natural
11 Gas, division of InterNorth in May of 1980. That business unit was later
12 purchased by UtiliCorp United Inc. in 1985, which later changed the Peoples
13 Natural Gas name to Aquila, Inc. and conducted its business under the “Aquila”
14 or “Aquila Networks” name. Black Hills Corporation purchased Aquila’s gas
15 assets in Nebraska effective July 14, 2008. As noted by Dan Mechtenberg, Black
16 Hills Corporation established Black Hills/Nebraska Gas Utility Company, LLC as
17 the legal entity holding its Nebraska natural gas assets. Black Hills/Nebraska Gas
18 Utility Company, LLC conducts business in Nebraska as “Black Hills Energy.”
19 While employed with Black Hills Energy, and its predecessors-in-interest, I have
20 held numerous positions. I recently completed my 29th year of employment in
21 2009 with the Company. During the first eight years of my career, I held several
22 field operating positions including meter reader, service technician, and consumer
23 sales representative. In November 1988, I was promoted as the Local Manager of
24 our Schuyler, NE operations. During the next twenty-one years, I have held

1 various management positions, including region sales manager, customer service
2 manager, customer service director, and region operations manager. All positions
3 have provided me an opportunity to expand my operational experience and
4 interact within our local customers and community leaders. All of my
5 employment has occurred within the State of Nebraska.

6 **Q. WHAT ARE THE PRINCIPLE DUTIES IN YOUR PRESENT POSITION?**

7 A. As the Director, Business Operations for Nebraska, I am responsible for the
8 general business operations for the state. Among other duties, I am responsible
9 for managing the cost of the state operations, complying with legal and regulatory
10 requirements, and supporting the strategic direction of Black Hills Energy in
11 Nebraska. The principle duties and responsibilities include network asset
12 management decisions, establishing operational goals, interface with functional
13 partners supporting our state operations, partner with Black Hills Energy's
14 Human Resources department in dealing with employee and labor relations
15 issues, and oversee state operational support areas such as field engineering,
16 operation compliance, appliance technical training, measurement, and corrosion.

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

18 A. I will address: (a) the customer operating metrics that are used to measure levels
19 of customer service and, (b) and the proposed recovery of costs for projects listed
20 in our capital additions adjustment that Black Hills Energy is requesting as part of
21 its current rate application.

22 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

23 A. Yes. I am sponsoring Exhibit Nos. __ DJN -1, __DJN-1.1, and __DJN-2.
24

1 The exhibits attached to my testimony are as follows:

2 Exhibit No. ___ DJN- 1: Coding Guide

3 Exhibit No. ___ DJN-1.1: Town Codes

4 Exhibit No. ___ DJN-2: Capital Additions Spreadsheet

5

6

II. OPERATING METRICS

7 Q. **WHAT ARE THE KEY OPERATING METRICS USED BY THE**
8 **COMPANY TO MEASURE CUSTOMER SERVICE LEVELS?**

9 A. Black Hills Energy has identified three customer service metrics to determine
10 whether we are providing safe, reliable, and customer responsive service. A
11 customer service metric is defined as an interaction between the Company and the
12 customer.

13 The three customer service metrics are as follows:

- 14 (1) Customer Leak Calls
15 (2) Timely “Actual” Meter Reads; and
16 (3) Customer Call Center Response Time.

17 Q. **HOW DO THESE CUSTOMER SERVICE METRICS HELP YOU**
18 **MEASURE PERFORMANCE?**

19 A. **Customer Leak Calls:** Emergency response time to all gas leak calls is recorded.
20 From the moment a customer contacts a Black Hills Energy employee, the clock
21 starts rolling on the response time. It is important to note that although not all gas
22 leaks present a clear and immediate danger to customers, Black Hills Energy
23 treats every customer gas leak call with the highest priority. The Company’s goal
24 is to respond to all customer gas leak calls within one hour of receiving the report,

1 which is a common industry practice. For example, there were 7,691 gas leak
2 calls in 2008 and 7,654 were responded to within 60 minutes of receiving the call.

3 **Timely “Actual” Meter Reads:** Black Hills Energy prides itself on providing an
4 accurate natural gas billing to over 196,000 Nebraska customers on a monthly
5 basis. A timely, accurate monthly bill is an important step in building a strong
6 relationship with our customers. The Company’s goal is to ensure the customer
7 receives an accurate bill for the service they obtained. Therefore, Black Hills
8 Energy measures its ability to attain timely and accurate *actual* meter readings.
9 Nebraska weather, equipment failures, hostile animals, and barriers to enter
10 customer premises can make this requirement a very challenging task.
11 Nevertheless, the BHE meter readers pride themselves on achieving a high level
12 of monthly accurate meter readings, thereby eliminating estimated meter readings.
13 In 2008, Black Hills Energy read over 2,394,531 customer meters. Over that same
14 period, Black Hills Energy needed to read only 20,725 by “estimating the meter
15 usage”, and thereby achieved a 99.1% meter reading on-time score.

16 **Customer Call Center Response Time:** Black Hills Energy measures the level
17 of service received by customers from the Call Centers. Although all calls are
18 handled as soon as possible, Black Hills Energy tracks and measures the percent
19 of customer calls handled within 20 seconds. The Company goal is to answer
20 80% or more of the incoming customer calls within 20 seconds. Through July of
21 this year, the Call Center responded 83% of the time within 20 seconds.

1 **Q. HAVE THE METRICS IMPROVED OVER THE PAST THREE YEARS?**

2 A. As you can see from the chart listed below, the customer service metrics have not
3 only held steady during the Aquila transition but have shown improvement over
4 both last year and 2007, which was the last full year of Aquila ownership.

5

	METRIC	2007	2008	2009
1	Emergency Response	99.6%	99.5%	99.7%
2	On-Time Meter Reading	98.4%	99.1%	99.5%
3	Call Center – Service Level	81%	75%	83%
***	Metrics thru July 2009			

6

7 **Q. WHAT OTHER WAYS DOES BLACK HILLS ENERGY INTERFACE**
8 **WITH ITS CUSTOMERS?**

9 A. Customers can also access their account information via our web site at
10 www.blackhillsenergy.com. All customer interface options are available to our
11 customers 24 hours a day, 7 days a week.

12 **Q. HOW DO THESE OPERATING METRICS AFFECT THIS RATE**
13 **APPLICATION?**

14 A. The required operation staffing, training, and customer information systems, and
15 all other assets used in providing the level of customer service expected by Black
16 Hills Energy’s Nebraska customers requires the commitment of significant capital
17 and incurrence of ongoing cost. This testimony intends to support the portions of
18 the rate application related to supporting the level of significant capital and
19 ongoing cost into the future.

20

21

1 **III. CAPITAL ADDITIONS**

2 **Q. WHAT TYPES OF CAPITAL ADDITION ADJUSTMENTS ARE**
3 **INCLUDED IN THIS RATE APPLICATION?**

4 A. Black Hills Energy included government mandated line relocations, system
5 integrity replacements, system integrity capacity improvements, replacement of
6 tools and equipment, and some non-revenue producing capital additions. All
7 capital projects are identified in our accounting system as “Specific” or “Blanket”
8 projects. Projects are listed in the exhibits by one of these categories.

9 **Q. WHAT IS THE DIFFERENCE BETWEEN “BLANKET PROJECTS” AND**
10 **“SPECIFIC PROJECTS”?**

11 A. Blanket projects are capital projects that will (i) occur daily, (ii) cost less than
12 \$10,000, and (iii) are not tracked by individual project numbers. The blanket
13 numbers are assigned to a specific town plant. The blanket code identifies the
14 expenditure as a service line, main replacement, or large volume meter set, and it
15 classifies the expense as a replacement, retirement, or new project. After a
16 blanket project is completed, the project is identified in Black Hills Energy’s
17 accounting system and the actual cost is recorded on the Company’s books and
18 records. An example of the blanket coding guide can be found in Exhibit
19 No. __DJN-1. The corresponding town codes that are part of the blanket project
20 numbers can be found in Exhibit No. __DJN-1.1.

21 Specific projects normally cost over \$10,000, project duration is longer than a few
22 days, and the project description describes the type of work being completed.

23 Specific projects include replacing large sections of deteriorating gas main,
24 rebuilding district regulator stations, updating obsolete odorizer systems,

1 relocating mains for street improvement projects. After the project is closed by
2 the responsible region manager, the actual cost is recorded on the Company's
3 books and records.

4 **Q. DOES THE CAPITAL ADDITIONS ADJUSTMENT THAT YOU ARE**
5 **SPONSORING CONTAIN AMOUNTS INTENDED FOR "GROWTH"**
6 **PROJECTS?**

7 A. No. The capital additions adjustment does not include capital expenditure
8 projects devoted primarily to "growth" and instead relates to the projects noted
9 above.

10 **Q. WHAT IS THE DIFFERENCE BETWEEN "INTEGRITY" AND**
11 **"GROWTH" PROJECTS?**

12 A. Integrity projects are generally defined as line relocations, line replacements, and
13 other non-revenue producing investments required to maintain the overall natural
14 gas distribution system. On the other hand, "growth" projects are projects such as
15 building a new subdivision for the expanding areas of Sarpy County, Lincoln, or
16 elsewhere on our system. Those projects are distinct and different than integrity
17 projects. Our information system records a project as either an "integrity" project
18 or a "growth" project, but not both. While it is true that a particular "integrity"
19 project, such as a replacement line may have some component of growth to it, the
20 primary purpose of an "integrity" project is for system reliability, safety, and
21 integrity. A "growth" project intends to "grow" the system and the purpose is to
22 serve new natural gas customers in that growth area. Both types of capital
23 investment are required by Black Hills Energy.

1 **Q. HOW DOES BLACK HILLS ENERGY PRIORITIZE CAPITAL**
2 **INTEGRITY PROJECTS?**

3 A. There are several types of integrity projects that are prioritized, including
4 government mandated relocations, system integrity replacements, system integrity
5 capacity improvements, and replacement of worn and outdated tools &
6 equipment. Black Hills Energy uses the planning resource tool to prioritize its
7 capital expenditures. In Section 7 of the Black Hills Energy Operating Standards,
8 the tool provides managers an objective way to evaluate the replacement criteria
9 for each project. This rating is an important factor in evaluating the capital
10 budget requirements from year to year.

11 **Q. WHAT TYPE OF CAPITAL ADDITIONS WERE INCLUDED AS PART**
12 **OF RATE BASE ADJUSTMENT NO. 1?**

13 A. Black Hills Energy seeks a capital addition adjustment, which increases total state
14 plant in service by \$8,984,756 relating to projects that will be completed within
15 12 months after the end of the test year. These projects meet the requirements
16 outlined in Nebraska Revised Statute § 66-1817. The criteria set forth in section
17 66-1817 is as follows:

18 1) Any jurisdictional utility property may be deemed to be completed and
19 dedicated to commercial service if construction of the property will be
20 commenced and completed in one year or less.

21 2) The commission may determine that property of the jurisdictional utility which
22 has not been completed and dedicated to commercial service may be deemed to
23 be used and useful in the utility's service to the public.

1 Exhibit No. __DJN-2 identifies the capital additions planned for the 12 months
2 following the end of the test year. Capital projects are monitored on a monthly
3 basis for costs associated with each project and related completion dates.

4 **Q. HAVE ANY OF THESE PROJECTS BEEN COMPLETED SINCE THE**
5 **END OF THE TEST YEAR, JULY 31, 2009?**

6 A. As of the date of this filing, Black Hills Energy can identify several projects that
7 have already been completed which are included in the Capital Additions
8 Adjustment. Those projects are identified in spreadsheet tabs identified as *2009*
9 *Blanket Additions (2.1)* and *2009 Specific Additions (2.2)* on the spreadsheet
10 attached as Exhibit No. __DJN-2. In addition, Black Hills Energy will update
11 these Exhibits to note the completion of the projects included in the Capital
12 Additions Adjustment in both (a) Black Hills Energy's response to data requests
13 on this Adjustment and (b) in Black Hills Energy's Rebuttal Testimony. As noted
14 below, Black Hills Energy will provide the information related to its Capital
15 Additions Adjustment that the Commission found lacking in its last rate
16 proceeding.

17 **Q. THE COMMISSION SET FORTH SEVERAL REQUIREMENTS**
18 **RELATED TO CAPITAL ADDITIONS IN AQUILA'S LAST RATE CASE.**
19 **HAS BLACK HILLS ENERGY ATTEMPTED TO COMPLY WITH**
20 **THOSE REQUIREMENTS?**

21 A. Yes. Exhibit No. __DJN-2 is a spreadsheet that contains several tabs identifying
22 the capital additions information requested by the Commission in its rate case
23 order in Docket No. NG-0041. The spreadsheet tabs in Exhibit No. __DJN-2 are
24 identified as *2009 Blanket Additions (2.1)*, *2009 Specific Additions (2.2)*, *2010*

1 **Capital Budget (2.3) and Summary of Additions (2.4).** The information found in
2 Exhibit No. __ DJN-2 supports the capital additions adjustment made by Black
3 Hills Energy in this rate application.

4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE CATEGORIES AND**
5 **PROJECTS CONTAINED IN THE TABS IN EXHIBIT NO. __DJN-2**
6 **IDENTIFIED AS 2009 BLANKET ADDITIONS (2.1), 2009 SPECIFIC**
7 **ADDITIONS (2.2), AND 2010 CAPITAL BUDGET (2.3)?**

8 A. As noted above, Exhibit No. __DJN-2 is divided into separate spreadsheets to
9 identify the 2009 blanket projects, 2009 specific projects, and a forecast of 2010
10 budgeted projects. The testimony below discusses the various pieces of
11 information included in the spreadsheets under the separate tabs in Exhibit No.
12 __DJN-2.

13 **2009 Blanket Additions (2.1):** The first tab is ***Blanket Additions (2.1)***. There are
14 twelve columns on the spreadsheet. Column (A) identifies the type of project,
15 such as, general plant, integrity large volume meter set, integrity main
16 replacement, and integrity service line replacement. Column (B) identifies the
17 project type which is distribution capital blanket system integrity or DCBSI.
18 Column (C) is the blanket project number that is covered in the Blanket Coding
19 Guide. Column (D) provides a brief description of the work being completed.
20 Columns (E-F) are the actual expenditures that have been charged to these
21 blankets in August and September. Columns (G-I) are the forecasted
22 expenditures for October, November, and December. Column (J) is the total
23 amount for each blanket project. Column (K) is the priority code assigned for
24 each blanket project. The final Column (L) lists the appropriate FERC account

1 number for the project. The capital additions for 2009 blankets projects equals
2 \$984,532.

3 **2009 Specific Additions (2.2):** The next spreadsheet to review is ***2009 Specific***
4 ***Additions (2.2)***. Once again, there are twelve columns on the spreadsheet.
5 Column (A) indicates that all these projects are identified as specifics. Column
6 (B) identifies the project type. Here is a listing of the various project types used
7 in the spreadsheet:

8 DCSOT – Distribution Capital Specific Common Facilities

9 DCSSI – Distribution Capital Specific System Integrity

10 GCSGP – General Capital Specific General Plant

11 CCSOT – Capital Common Facilities

12 Column (C) is the specific number assigned to this project. Column (D) is a brief
13 description of the project. Columns (L-M) are the actual expenses that have been
14 coded to these projects in August and September. Columns (N-P) are the
15 forecasted expenditures for October, November, and December. Column (Q) is
16 the total amount for each specific project. Column (R) identifies the priority code
17 for the project and the last Column (S) list the FERC account number. The capital
18 additions for 2009 specific projects equals \$2,772,574.

19 **2010 Capital Budget (2.3):** The next spreadsheet, ***2010 Capital Budget (2.3)***, is
20 in a slightly different format since all of these projects will occur in 2010.
21 Column (A) describes the type of project, which all are listed as integrity.
22 Column (B) is a general description of the project, such as, integrity, cast iron, or
23 relocation. Column (C) is the location where the project will be completed.
24 Column (D) is the number assigned to the project. Column (E) identifies the

1 expense as a Blanket or Specific project. Column (F) is a brief description of the
2 project. Column (G) is the priority code that has been assigned. Column (H) lists
3 additional details describing the project. Column (I) identifies the full-year
4 budget amount for 2010. Column (J) is the amount that will be spent by July 31,
5 2010. Column (K) lists the FERC account number. Column (L) provides sub-
6 totals for each FERC account number. The capital additions for 2010 blanket and
7 specific projects equal \$5,227,650. This spreadsheet will be updated as the
8 projects start in 2010. The revised spreadsheet will be similar to the spreadsheets
9 found in Exhibit No. __ (DJN-2) under tabs identified as *2009 Blanket Additions*
10 *(2.1)*, *2009 Specific Additions (2.2)*.

11 **Q. THE CAPITAL ADDITIONS TOTAL ON EXHIBIT NO. __ DJN-2 UNDER**
12 **TABS MARKED 2010 CAPITAL BUDGET (2.3) AND SUMMARY OF**
13 **ADDITIONS (2.4) DIFFER FROM THE CAPITAL ADDITIONS**
14 **ADJUSTMENT CONTAINED IN THE FINANCIAL EXHIBIT**
15 **CONTAINED IN THE FILING. WHAT IS THE DIFFERENCE?**

16 **A.** The financial exhibit rounds the capital additions to “thousands” while the capital
17 additions projects set forth in Exhibit No. __DJN-2 under the “Capital Budget
18 (2.3)” tab and “Summary of Additions (2.4)” tab expands the number to the actual
19 dollar amount. Thus, several plant accounts differ from what Black Hills Energy
20 has included in the financial schedule, Exhibit IV, schedule A, Rate Base
21 Adjustment No. 1, used for the revenue deficiency. It is a difference of only \$50
22 on capital additions and \$13 dollars on depreciation expense, but this testimony
23 explains the difference between those two schedules. The numbers are the same
24 when the same level of rounding is used.

1 Q. DO YOU HAVE A SUMMARY OF THE CAPITAL ADDITIONS YOU
2 ARE REQUESTING?

3 A. Yes, there is a summary of the total state capital additions listed in Exhibit No.
4 (DJN-2) identified as *Summary of Additions (2.4)*.

5 Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

6 A. Yes it does.

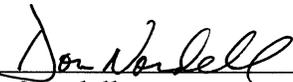
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NEBRASKA GAS UTILITY COMPANY, LLC)
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BLACK HILLS ENERGY'S RATE AREAS ONE)
TWO AND THREE (CONSOLIDATED))

VERIFICATION

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

Don Nordell, of lawful age, being first duly sworn, deposes and says that he is the Director of Business Operations for Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy, that he has read the foregoing testimony on behalf of Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy, knows the contents thereof, and that the statements and allegations therein contained, including the information provided herewith pursuant to the State Natural Gas Regulation Act, are true to the best of his information, knowledge, and belief.



Don Nordell

SUBSCRIBED AND SWORN TO before me this 24th day of November, 2009.



Notary Public

