

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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

Direct Testimony of Dan Mechtenberg

Vice President, Nebraska Operations

Policy

December 1, 2009

Dan Mechtenberg
1600 Windhoek Drive
Lincoln, NE 68512
402-437-1705

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS..... 1

II. PURPOSE OF TESTIMONY..... 2

III. BUSINESS OVERVIEW OF BLACK HILLS ENERGY..... 3

IV. RECENT EVENTS 7

V. REASONS FOR THE RATE INCREASE..... 12

VI. CUSTOMER SERVICE AND RELIABILITY 14

VII. WITNESSES 19

VIII. SUMMARY..... 20

EXHIBITS

- Exhibit No. __ DJM - 1: Black Hills Corporate Organization Chart
- Exhibit No. __ DJM- 2: Nebraska Operation Organization Chart
- Exhibit No. __ DJM - 3: Capital Investment Chart

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS:**

3 A. My name is Dan Mechtenberg. My business address is 1600 Windhoek Drive,
4 Lincoln NE, 68512.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills
7 Energy (hereafter "Black Hills Energy") in the position of Vice President, Nebraska
8 Operations.

9 **Q. WOULD YOU PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED**
10 **TO BLACK HILLS ENERGY'S NEBRASKA NATURAL GAS OPERATIONS?**

11 A. I am responsible for the financial and operational performance of Black Hills Energy's
12 natural gas operations in the State of Nebraska. I directly oversee state operating
13 functions, including natural gas distribution network operations, maintenance,
14 construction, customer service, customer relations, economic development and
15 government affairs related to Nebraska operations. I am indirectly involved in the
16 oversight of certain other functions that are centralized within Black Hills Corporation.
17 Examples of central functions include regulatory affairs, human resources, information
18 technology, and call center functions.

19 **Q. WHAT IS YOUR EDUCATIONAL, TRAINING AND EMPLOYMENT**
20 **BACKGROUND?**

21 A. I graduated from the University of South Dakota in May 1979 with a Bachelor of Science
22 degree in Construction Technology. I have over 30 years in the natural gas distribution
23 industry, all here in Nebraska, and have held several positions during my career. My

1 management career began in 1988 when I was named Manager, Residential/ Commercial
2 Energy Services for Minnegasco, Inc. in its Nebraska service area. My responsibilities
3 included providing direction and leadership in the development and implementation of
4 residential and commercial natural gas sales programs and directing the sales staff. From
5 1993 through 2004 I was Operations Manager for Peoples Natural Gas, division of
6 UtiliCorp United, Inc. which eventually renamed itself to Aquila, Inc. d/b/a Aquila
7 Networks (“Aquila”). Aquila’s Nebraska north region was located in Columbus, NE. My
8 responsibilities included managing the natural gas distribution business, financial
9 performance, customer and community relations. In 2004, I was named Aquila’s
10 Director, Business Operations for Nebraska. My responsibilities included business
11 planning, directing state operations service functions including field engineering,
12 measurement, safety and compliance, and assisting in regulatory proceedings and
13 legislative initiatives. I continued in that position through the sale of the Aquila’s
14 Nebraska assets to Black Hills Corporation. In July 2008, when the sale was complete
15 with Black Hills Corporation, I was named Vice President, Nebraska Operations for
16 Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy.

17
18 **II. PURPOSE OF TESTIMONY**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 A. The purpose of my testimony is to support the rate application and to explain in general
21 terms why Black Hills Energy is seeking rate relief. I will also give an overview of Black
22 Hills Corporation, including a description of the relationship between that entity and
23 Black Hills Energy, and a description of other regulated utilities and non-regulated
24 businesses owned by Black Hills Corporation. I will present the policy of Black Hills

1 Energy with regards to this rate application. Finally, I will provide an introduction to the
2 other Black Hills Energy witnesses supporting all aspects of the rate application of Black
3 Hills Energy.

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

5 A. Yes. I am sponsoring Exhibit Nos. __ DJM -1 through __DJM-3. The exhibits attached
6 to my testimony are as follows:

Exhibit No. __ DJM - 1: Black Hills Corporate Organization Chart

Exhibit No. __ DJM- 2: Nebraska Operation Organization Chart

7 Exhibit No. __DJM - 3: Capital Investment Chart
8

9 **III. BUSINESS OVERVIEW OF BLACK HILLS ENERGY**

10 **Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS ENERGY’S HISTORY.**

11 A. Black Hills Energy, and its predecessors-in-interest, Aquila, Inc. d/b/a Aquila Networks –
12 Nebraska, Peoples Natural Gas, division of UtiliCorp United Inc, Minnegasco, Inc., and
13 others have been providing natural gas to Nebraska customers since the 1930’s. Black
14 Hills/Nebraska Gas Utility Company, LLC was formed by Black Hills Corporation as the
15 registered legal entity in Nebraska to hold assets acquired by Black Hills Corporation
16 from Aquila, Inc. Black Hills Corporation purchased the assets of Aquila under a
17 transaction that became effective on July 14, 2008 (hereafter “Aquila Transaction”).
18 Black Hills/Nebraska Gas Utility Company, LLC is a subsidiary of Black Hills Utility
19 Holdings, Inc. (hereafter “Black Hills Utility Holdings”). Black Hills Utility Holdings
20 was formed to hold the assets under the Aquila Transaction. Black Hills/Nebraska Gas
21 Utility Company, LLC conducts its business in Nebraska under the brand name “Black
22 Hills Energy.”

1 **Q. PLEASE DESCRIBE BLACK HILLS CORPORATION.**

2 A. Black Hills Corporation (stock symbol: BKH) is a diversified energy company with a 126
3 year history that is headquartered in Rapid City, South Dakota. Black Hills Corporation
4 operates as a “holding company” under the Public Utility Holding Company Act of 2005.
5 It operates principally in the United States with two major business groups: 1) Utilities –
6 which deliver retail electric and natural gas service, and 2) Non-regulated Energy – which
7 is involved in various wholesale energy businesses.

8 **Q. WHAT IS BLACK HILLS CORPORATION’S BUSINESS PHILOSOPHY?**

9 A. Black Hills Corporation is a strong, diversified energy company that holds itself to a high
10 standard of customer service that provides safe, reliable and affordable service to its
11 customers. Black Hills Corporation and its subsidiaries are active partners in the
12 communities they serve and work diligently to be a positive source of support within
13 those communities.

14 In addition to that philosophy, each of the following actions is intended to demonstrate
15 that Black Hills Energy is committed to providing its service to the public in a manner
16 that is in full compliance with federal, state, and local law and regulation over its
17 regulated services:

- 18 • Maintain state-based legal entities;
- 19 • Maintain open communications with regulatory commissions;
- 20 • Maintain a Cost Allocation Manual;
- 21 • Adhere to affiliate transactions requirements;
- 22 and
- 23 • Continue Code of Business Conduct education/training

1 **Q. WHAT IS THE RELATIONSHIP BETWEEN BLACK HILLS CORPORATION**
2 **AND BLACK HILLS ENERGY?**

3 A. As noted above, Black Hills Corporation is the parent corporation of Black Hills Utility
4 Holdings. Black Hills/Nebraska Gas Utility Company, LLC is a subsidiary of Black Hills
5 Utility Holdings. Black Hills Energy does business as “Black Hills Energy.” Thus,
6 Black Hills Energy is the name used by Black Hills Corporation for the regulated utility
7 assets purchased from Aquila. The reference to “Black Hills Energy” in the remainder of
8 this testimony refers to the Nebraska operations and assets.

9 **Q. WHAT OTHER REGULATED UTILITIES ARE OWNED BY BLACK HILLS**
10 **CORPORATION?**

11 A. Headquartered in Rapid City, Black Hills Power, Inc. is a wholly owned subsidiary of
12 Black Hills Corporation. Black Hills Power is a regulated electric utility engaged in the
13 generation, transmission and distribution of electricity to approximately 69,000
14 customers in western South Dakota, northeastern Wyoming, and southeastern Montana
15 with a service territory of approximately 9,300 square miles.

16 In January 2005, Black Hills Corporation acquired Cheyenne Light, Fuel and Power
17 Company, which provides both electric and natural gas services. Cheyenne Light is a
18 regulated utility and serves approximately 38,700 electric and 32,500 natural gas
19 customers in Cheyenne, Wyoming, and parts of Laramie County, Wyoming.

20 In July, 2008, Black Hills Corporation acquired the natural gas assets of Aquila, Inc. in
21 Nebraska, Kansas, Colorado and Iowa, and the electric utility assets of Aquila, Inc. in
22 Colorado. The individual Black Hills Utility Holdings subsidiaries operated in states are
23 listed on Exhibit No. __DJM-1. The Black Hills Utility Holdings utilities serve

1 approximately 523,000 natural gas customers in Nebraska, Kansas, Colorado and Iowa
2 and 92,000 electric customers in Colorado.

3 **Q. WHAT ARE THE COMPANIES INCLUDED IN THE NON-REGULATED**
4 **ENERGY GROUP OF BLACK HILLS CORPORATION?**

5 A. Black Hills Corporation's Non-regulated Energy businesses include: Wyodak Resources
6 Development Corporation, that is engaged in coal production and sales; Black Hills
7 Exploration and Production, Inc., that is engaged in oil and natural gas production;
8 Enserco Energy, Inc., that is engaged primarily in natural gas and oil marketing; and
9 Black Hills Electric Generation, LLC and its subsidiaries, that are engaged in
10 independent energy production. The non-regulated companies are shown on Exhibit No.
11 ___DJM-1.

12 **Q. WHAT IS THE FINANCIAL OUTLOOK FOR BLACK HILLS CORPORATION?**

13 A. Black Hills Corporation's Vice President and Chief Financial Officer, Anthony Cleberg
14 will provide further support on the financial philosophy of Black Hills Corporation.
15 However, as far as Nebraska operations are concerned, with the approval of the proposals
16 contained in this Nebraska rate case application, the expectation is that Black Hills
17 Energy's Nebraska operations will experience continued modest revenue growth and
18 stable earnings for the next few years. Black Hills Energy continues to focus on
19 customer service, high reliability, and safety, while continuing its commitment to
20 community support.

21 **Q. WHAT PURPOSE DOES BLACK HILLS UTILITY HOLDINGS SERVE?**

22 A. As noted above, Black Hills Corporation formed Black Hills Utility Holdings to
23 accommodate Black Hills Corporation's regulated utility operations located in Colorado,

1 Iowa, Kansas and Nebraska under the Aquila Transaction. The regulated utility business
2 conducted under the state-specific subsidiaries of Black Hills Utility Holdings is
3 conducted under the trade name of “Black Hills Energy.” Black Hills Utility Holdings
4 was formed to hold and clearly separate the newly acquired regulated utility holdings
5 (i.e., former Aquila assets) of Black Hills Corporation from the existing regulated utilities
6 of Black Hills Power, Inc, Cheyenne Light, Fuel & Power, and the various non-regulated
7 holdings of Black Hills Corporation. Individual subsidiaries under Black Hills Utility
8 Holdings were established to provide for further separation of regulated business units
9 between states. For example, as noted above, Black Hills/Nebraska Gas Utility
10 Company, LLC is the separate subsidiary holding Nebraska assets under Black Hills
11 Utility Holdings. Similar legal entities were established for other state operations. To
12 avoid confusion for our customers, Black Hills Corporation elected to conduct its
13 business under the Black Hills Utility Holdings company business units as “Black Hills
14 Energy.”

15 Black Hills Corporation organizational chart, including Black Hills Utility Holdings’
16 subsidiaries, is attached as Exhibit No. __DJM-1.

17
18 **IV. RECENT EVENTS**

19 **Q. PLEASE GIVE A GENERAL DESCRIPTION OF THE AQUILA**
20 **TRANSACTION.**

21 **A.** Black Hills Corporation purchased the natural gas utility assets of Aquila, Inc. in
22 Nebraska, Kansas, Colorado and Iowa as well as the electric utility assets in Colorado
23 under the Aquila Transaction effective on July 14, 2008. The Nebraska Commission

1 approved the transfer of assets from Aquila to Black Hills Corporation (“Aquila
2 Transaction”) by its order dated October 16, 2007 in Docket No. NG-0044. The
3 operating employees working for Aquila at that time in Nebraska and other former
4 Aquila Transaction states were retained by Black Hills Corporation. With corporate and
5 other support, those Nebraska employees have continued to operate the acquired assets in
6 Nebraska.

7 **Q. HOW HAS THE TRANSITION FROM AQUILA TO BLACK HILLS ENERGY**
8 **PROCEEDED IN NEBRASKA?**

9 A. Due to significant planning and pre-acquisition efforts, the transition from Aquila to
10 Black Hills Energy was seamless to customers of Black Hills Energy.

11 As set forth by the Commission in its October 2007 transfer approval order, Black Hills
12 Energy was directed to address five primary areas. Those areas are as follows:

- 13 • Management;
- 14 • Local Commitments;
- 15 • Impact on Rates and Services;
- 16 • Investment and Planned Long-term Ownership; and
- 17 • Stability.

18 **Management.** Black Hills Energy has maintained a strong management team in
19 Nebraska which is responsible for operations, customer service, and financial results.
20 Black Hills Utility Holdings has added to its Nebraska-based employment base by
21 increasing the number of Call Center and Information Technology employees located in
22 Nebraska. There have been no disruptions in the transition from Aquila to Black Hills.

1 **Local Commitments.** Black Hills Energy also committed to continue making capital
2 investment to maintain or improve the Nebraska natural gas distribution systems. Black
3 Hills Energy invests approximately \$14 million a year in capital in Nebraska. In
4 addition, Black Hills Energy has maintained significant Operations/Engineering,
5 Information Technology, Accounting, Customer Service, Regulatory, and Gas Supply
6 offices in Lincoln, Omaha, Papillion, and several other locations in Nebraska. Black
7 Hills Energy remains focused on its local community involvement and values its
8 relationships with community leaders in Nebraska. As a community partner, Black Hills
9 Energy remains active in numerous civic and community events through economic
10 development initiatives, financial contributions, and the involvement of its dedicated
11 employees. In 2007, Black Hills Energy was named the Business of the Year by the
12 Sarpy County Chamber of Commerce and granted the Community Loyalty Award in
13 2008 by the Gretna Chamber of Commerce. Black Hills Energy has been involved in a
14 broad range of projects to improve its local communities, focusing on economic
15 development and other community relations activities. Black Hills Energy encourages its
16 employees to be involved in their local community events and organizations. Black Hills
17 Energy continues to support social and community betterment programs, including, but
18 not limited to active employee involvement in local United Way campaigns, Power of
19 Trees tree planting programs, employee organized Home Weatherization initiatives in
20 coordination with local social service agencies, and many other community initiatives
21 across our service territory.

22 **Impact on Rates and Services.** Black Hills Energy adopted the rates and tariff of
23 Aquila. In addition, Black Hills Energy adopted the Operation and Maintenance Manual

1 and practices adopted by Aquila. Black Hills Energy has worked hard to fulfill the
2 commitments related to maintaining or improving customer service in Nebraska.

3 **Investment and Planned Long Term Investment.** Black Hills Energy plans to
4 continue its investment in Nebraska to accommodate both expected customer growth and
5 to maintain the safety and reliability of its distribution system.

6 As noted in the testimony of Anthony Cleberg and Dr. William Avera, Black Hills
7 Corporation also has established a reasonable and prudent capital structure of 52 percent
8 equity and 48 percent debt for its gas distribution operations in Nebraska.

9 **Stability.** The Aquila Transaction actually reduced financial risks to Nebraska customers
10 by moving assets located in Nebraska under Black Hills Corporation's utility holding
11 company structure. Black Hills Energy customers are served by a corporation that has
12 maintained its financial strength. As Black Hills Energy witness Anthony Cleberg
13 testifies, Black Hills Corporation has maintained an investment grade credit rating in the
14 most turbulent credit market this nation has experienced since the 1930's. Nebraska
15 assets and operations are separated from non-regulated business units.

16 Overall, I believe that the transition from Aquila to Black Hills Corporation for Nebraska
17 operations has been positive for the foregoing reasons.

18 **Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS ENERGY'S NEBRASKA**
19 **OPERATIONS.**

20 **A.** Black Hills Energy is a regulated natural gas utility engaged in the distribution of natural
21 gas to approximately 196,210 customers in Nebraska with 3,386 miles of natural gas
22 pipeline mains. Black Hills Energy's Nebraska distribution system serves 110
23 communities. The majority of the customers served by Black Hills Energy at retail are

1 residential and commercial customers. Black Hills Energy also serves agricultural and
2 high-volume customers, and provides transportation services. Black Hills Energy also
3 provides non-utility products and services in its Nebraska distribution service territory,
4 including the service of customer-owned natural gas-burning and electric appliances,
5 customer appliance protection programs, and Technical Services for certain projects.

6 Black Hills Energy in Nebraska is organized into four operating regions; Lincoln, Omaha
7 Metro, South and North. The management in these regions are responsible for operations,
8 customer service and community relations. Operations Centers are located in key
9 locations served by Black Hills and include Lincoln, Papillion, Beatrice, Columbus,
10 Norfolk and York. There is also a Customer Relations Manager responsible for
11 maintaining relationships with our larger customers and promoting the use of natural gas,
12 External Affairs Managers responsible for community support and economic
13 development and a Government Affairs Manager. See Exhibit No.____ DJM- 2 for a
14 chart of Black Hills Energy's Nebraska Operations.

15 **Q. PLEASE PROVIDE A BREAKDOWN OF BLACK HILLS ENERGY'S**
16 **NEBRASKA CUSTOMER CLASSES AND CUSTOMER COUNTS,**
17 **RESPECTIVELY.**

18 A. As of July 31, 2009. Black Hills Energy provided service to the following number of retail
19 customers in Nebraska by customer class.

1 Nebraska Retail Customers as of July 31, 2009

2 Residential	176,386
3 Commercial	14,735
4 Industrial	151
5 Other	4,938
6 Total	196,210

7
8 **V. REASONS FOR THE RATE INCREASE**

9 **Q WHAT IS THE LEVEL OF INCREASE BEING REQUESTED?**

10 A. Black Hills Energy is requesting an annual increase in rates in Nebraska of approximately
11 \$ 12.1 Million.

12 **Q. PLEASE EXPLAIN THE REASONS FOR BLACK HILLS REQUEST FOR RATE
13 RELIEF?**

14 A. Black Hills Energy owns and operates natural gas distribution systems in 110
15 communities. Safe operations and reliability are our top priorities. Since 2006, we have
16 invested approximately \$28.8 million in Nebraska to replace obsolete pipes and other
17 equipment, made system upgrades, and implemented new technology so that the gas
18 distribution systems continue to be safe and reliable. While Black Hills Energy has made
19 these improvements and customers are receiving the benefit of them, that investment is
20 not reflected in the current rates. In addition, existing rates do not recover the increased
21 operating and maintenance costs. As a consequence, Black Hills Energy is requesting
22 rate relief as permitted under the State natural Gas Regulation Act. Black Hills Energy
23 recognizes that there is no good time to request an increase in rates.

1 **Q. WHAT ARE THE MAIN DRIVERS CAUSING THE NEED TO INCREASE**
2 **RATES?**

3 A. Generally, the main drivers of the proposed rate increase for Nebraska are:

- 4 • Capital Investment;
- 5 • Operating Expenses; and
- 6 • Declining Customer Use.

7 **Q. PLEASE EXPLAIN IN MORE DETAIL.**

8 A. As identified above, there are a variety of factors causing the need for a rate increase.
9 However, the more significant or key drivers are explained in more detail below:

10 1) Capital Investment -- Investment in plant and equipment has increased significantly
11 since the time of the last rate case filing. We have invested \$28.8 million in plant since
12 the last rate case, and our investment will continue into the future. The investment is
13 needed to maintain a high level of customer service, as well as the safety and reliability
14 of the distribution system.

15 2) Operating Expenses -- Despite operating efficiently to keep costs low and to minimize
16 the amount of the increase, overall operating expenses (e.g., O&M, Depreciation and
17 Taxes Other Than Income Taxes) have increased since the last rate case.

18 3) Declining Customer Use – Consistent with trends nationally, natural gas conservation
19 continues to erode natural gas revenue as more efficient homes and appliances are added
20 and customer conservation continues. Because most operating costs do not vary directly
21 with sales of gas, conservation tends to reduce margins more than the associated costs
22 can be reduced.

23

1 customers who place Black Hills Energy in the top box and indicate a high level of
2 satisfaction with the company's service. We evaluate the quality of our service based on
3 the number of customers that have rated us in the top box because Gallup believes that
4 the top box score is most indicative of customer satisfaction. Black Hills Energy's third
5 quarter Gallup results show that fifty-nine (59%) percent of respondents have a favorable
6 opinion (i.e. rate us in the top two box) of the service provided by Black Hills Energy.
7 It's significant to note that this score doesn't include middle box range responses, which
8 would bolster the already strong satisfaction level to an even higher score since the
9 middle box scores are still favorable ratings.

10 **Commission Complaints.** A second important indicator of customer satisfaction is the
11 number of formal complaints filed with this Commission and the number of contacts
12 made with Commission staff. Set forth below is a summary of customer contacts and
13 formal complaints made to this Commission for the years 2007, 2008 and year-to-date
14 July 31, 2009.

15 Nebraska Public Service Commission

16 Customer Contacts and Formal Complaints

	<u>2007</u>	<u>2008</u>	<u>2009 YTD</u>
18 Contacts	65	47	25
19 Formal Complaints	0	1	0

20 Given the scope of our utility operations, the period of transition during the Aquila
21 transaction, and the reliance of our customers on our services, we believe the low number
22 of Commission contacts and formal Commission complaints speaks well of the Black
23 Hills Energy's focus on quality customer service.

1 **Public Official and Community Leader Surveys.** Third, in May 2009 Black Hills
2 Energy enlisted The Eidex Group to conduct a survey of Nebraska public officials and
3 community leaders to assess its performance as a community partner. Surveys were
4 mailed by The Eidex Group to 487 community leaders in the Black Hills Energy service
5 area, and 128 responses (26%) were received. Community leaders rated Black Hills
6 Energy on a variety of categories. It is worthwhile to note that 79% of respondents gave
7 top box ratings of 4 or 5 on a 5-point scale for Black Hills Energy's performance as a
8 residential service provider. In addition, 76% gave top box ratings to our performance as
9 a commercial service provider. If the negative responses that totaled to only 5% in both
10 of those service categories are removed, the satisfaction rating reaches 95%. Finally, 74%
11 of respondents rated Black Hills Energy's relationship with its communities in the top
12 box measurement. While the term "community partner" could be viewed as a qualitative
13 concept, we view the results of this survey as yet another objective, quantitative measure
14 of Black Hills Energy's continued commitment to its customers and communities.

15 **Customer Service and Operation Metrics.** Black Hills Energy tracks its customer
16 service metrics too. In his direct testimony, Mr. Nordell presents information on the high
17 level of service that Black Hills Energy works to achieve for its customers.

18 **Q. HAS YOUR COMMITMENT TO INVEST IN YOUR UTILITY**
19 **INFRASTRUCTURE REMAINED?**

20 **A.** Yes, in fact, our investment in the Nebraska distribution system has remained constant
21 over the past three years. Our total average annual capital investment is nearly \$14
22 million. Some examples of the type of projects in which Black Hills Energy has made
23 investments in its distribution system, are contained in the attached Exhibit No. _____

1 DJM- 3. These capital investments are covered in more detail in the testimony of Mr.
2 Nordell.

3 **Q. PLEASE EXPLAIN HOW APPROPRIATE CAPITAL SPENDING IMPACTS**
4 **CUSTOMER SERVICE.**

5 A. The State Natural Gas Regulation Act and the Pipeline Safety Act require Black Hills
6 Energy to maintain a safe and reliable natural gas system. In addition, Nebraska
7 communities we serve demand that Black Hills Energy maintain and grow its distribution
8 system where it is economically feasible to do so. In response to these business demands
9 or as required by these laws, Black Hills Energy invests significantly in extending and
10 improving its natural gas distribution system. Black Hills Energy looks at numerous
11 requests to extend its system, and continually monitors its system and software to make
12 the appropriate capital investments consistent with our business and state and federal
13 mandates.

14 **Q. PLEASE EXPLAIN HOW ADEQUATE STAFFING IMPACTS CUSTOMER**
15 **SERVICE.**

16 A. Black Hills Energy's focus on its customers and service obligations in Nebraska demands
17 that it has qualified employees in sufficient numbers to provide the customer service and
18 support needed in Nebraska. All of the employees needed to operate and maintain the
19 distribution system whether located in Nebraska or elsewhere are committed to assuring
20 that a high quality of customer service is provided to Black Hills Energy's Nebraska
21 customers.

1 Q. EXPLAIN HOW DECLINING CUSTOMER USE AND ENERGY
2 EFFICIENCY OF CUSTOMERS IMPACTS COST RECOVERY OF
3 BLACK HILLS ENERGY?

4 A. As appliances, primarily furnaces, become more efficient, the consumption of natural gas
5 by our customers decreases. Generally stated, the total number of customers on our
6 system normally increases each year because of growth in the Lincoln and Sarpy County
7 service areas; however, at the same time the overall consumption of natural gas per
8 customer decreases with energy efficiency and customer conservation. While Black Hills
9 Energy supports the efficient use of energy by its customers, current billing rates do not
10 take into account the loss of revenue that comes with energy efficiency and customer
11 conservation. The fact that full revenue decoupling rate mechanisms are not in place still
12 puts Black Hills Energy at risk for declining revenues as it is continuing to invest in
13 system improvements and facing increased operating costs.

14 Again, to be clear, this testimony does not criticize the Commission – in any way -- for
15 the rate design adopted in Aquila’s last rate case. Instead, this testimony points out that
16 energy efficient appliances – and those yet to be installed by our customers – are yet
17 another factor influencing the need for more frequent rate relief and/or a change in rate
18 design to address the under-recovery of fixed costs approved for recovery by the
19 Commission. Black Hills Energy can’t quantify the exact impact of more energy
20 efficient appliances on its under-recovery of revenues; however, it reasonably believes
21 and maintains that energy efficiency is part of the cause of prior unrecovered fixed costs.

22
23
24

1 **VII. WITNESSES**

2 **Q. WHAT WITNESSES WILL TESTIFY ON BEHALF OF BLACK HILLS**
3 **ENERGY IN SUPPORT OF THE APPLICATION AND EXHIBITS FILED IN**
4 **THIS CASE?**

5 **A.** Black Hills Energy will present 10 different witnesses in this case. Each will support the
6 application. Those witnesses are generally as follows:

7 **Company Witnesses**

- 8 • Company Policy -- Dan Mechtenberg, Black Hills Energy VP of Operations
- 9
- 10 • Accounting -- Richard G. Petersen, Black Hills Energy Director of Accounting
- 11
- 12 • Company Finance and Accounting -- Anthony S. Cleberg, Executive V.P. & CFO
- 13
- 14 • Accumulated Deferred Income Tax -- Robert Hollibaugh, Director of Tax
- 15
- 16 • Operations & Capital Improvements -- Don Nordell, Black Hills Energy Nebraska
- 17
- 18 • Working Capital & Adjustments -- Glenn Dee, State Mgr. of Rates and Tariffs
- 19

20 **Expert Witnesses**

- 21
- 22 • Cost of Capital & Cap Structure -- William E. Avera, President, FINCAP, Inc
- 23
- 24 • COSS & Rate Design -- Thomas J. Sullivan, Black & Veatch
- 25
- 26 • Weather Normalization -- Larry Loos, Black & Veatch
- 27
- 28 • Climate Change -- Robert E. Livezey, Independent Consultant
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38

1 **VIII. SUMMARY**

2 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

3 A. Black Hills Energy has been, and will continue to be, an effective and efficient operator
4 of its natural gas distribution system, with a high level of focus on providing safe,
5 reliable, quality service to our customers in Nebraska. Black Hills Energy emphasizes
6 compliance with all regulatory rules and policies, and works diligently to attract, train
7 and retain employees dedicated to planning, designing, constructing, operating and
8 maintaining its natural gas utility system. Black Hills Energy has built a strong tradition
9 of building and maintaining positive relationships with its customers, communities and
10 regulators and will continue to do so in the years ahead. The Commission should
11 approve the rate application of Black Hills Energy as proposed.

12 **Q. PLEASE SUMMARIZE BLACK HILLS REQUEST IN THIS APPLICATION.**

13 A. Black Hills Energy seeks to recover its investment in capital in its distribution system.
14 As presented by Tom Sullivan, Black Hills Energy seeks to align cost recovery by
15 proposing an increase in its customer charges, consistent with the results of its class cost
16 of service study, and consistent with rate designs approved by this Commission.

17 As presented by Dr. Livezey, Black Hills Energy proposes the adoption of the Optimum
18 Climate Normal or "OCN" methodology used by National Oceanographic and
19 Atmospheric Administration's (NOAA's) climate forecasters, to develop weather norms
20 instead of a 30 year normals to more accurately predict weather sensitive usage.

21 As presented by Dr. Avera, Black Hills Energy seeks an increase in the return on equity
22 to reflect the risks gas utilities face in Nebraska.

1 Black Hills Energy provides its application, testimony, and exhibits along with the books
2 and records to support this rate application.

3 We have worked diligently to avoid requesting a rate increase. However, Black Hills
4 Energy cannot eliminate the impact of declining customer usage or increasing cost of
5 service. Black Hills Energy's investment in distribution system improvements and safety
6 related replacements are necessary and critical for customer safety and system reliability.

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

8 **A. Yes.**

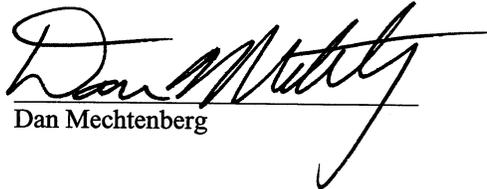
BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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

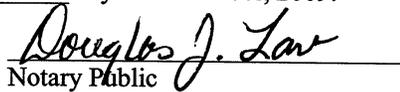
VERIFICATION

STATE OF NEBRASKA)
) ss.
COUNTY OF DOUGLAS)

Dan Mechtenberg, of lawful age, being first duly sworn, deposes and says that he is the Vice President, Nebraska 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.


Dan Mechtenberg

SUBSCRIBED AND SWORN TO before me this 25th day of November, 2009.


Notary Public

