

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 Richard Petersen

Director of Gas Regulatory Accounting

Base Year Accounting

Accounting Adjustments

December 1, 2009

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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Richard G. Petersen and my business address is 1815 Capitol
3 Avenue, Omaha, Nebraska.

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

5 A. I am employed by Black Hills Corporation. Among other duties I am responsible
6 for overseeing the regulatory accounting for Black Hills/Nebraska Gas Utility
7 Company, LLC d/b/a Black Hills Energy (hereafter "Black Hills Energy") in the
8 Regulatory Services Group. My position is Director of Gas Regulatory
9 Accounting.

10 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
11 **EXPERIENCE.**

12 A. I attended Dana College in Blair, Nebraska, from which I received a Bachelor of
13 Science Degree in Business Administration. In 1968, I began working for
14 Northern Natural Gas Company, a division of InterNorth, Inc., and held various
15 positions in the accounting and regulatory departments. I later transferred to
16 InterNorth's Peoples Natural Gas Division. In 1985, UtiliCorp United, Inc. (later
17 renamed to "Aquila, Inc.") purchased the Peoples Natural Gas division assets
18 from Northern Natural Gas. I held various positions in the accounting areas within
19 Northern Natural Gas, Peoples Natural Gas, UtiliCorp United, Inc., and Aquila
20 since beginning my employment. In July 2008 Black Hills Corporation purchased
21 from Aquila natural gas and electric assets located in the states of Iowa, Nebraska,
22 Kansas and Colorado (hereafter "Aquila Transaction"). I assumed my current

1 position over the regulatory accounting activity of Black Hills Energy in July
2 2008. My position also covers regulatory accounting for Black Hills Energy in
3 Iowa, Kansas, and Colorado.

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE ANY**
5 **REGULATORY BODIES?**

6 A. Yes. I have filed testimony before the Iowa Utilities Board, the West Virginia
7 Public Service Commission, the Michigan Public Service Commission, the
8 Missouri Public Service Commission, the Nebraska Public Service Commission,
9 the State Corporation Commission of Kansas and the Colorado Public Utilities
10 Commission.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

12 A. The purpose of my testimony is to present and sponsor accounting schedules in
13 support of the proposed rate increase by Black Hills Energy.

14 **Q. PLEASE IDENTIFY THE SCHEDULES YOU ARE SPONSORING.**

15 A. I will be sponsoring Base Year accounting data, which is unadjusted from the
16 Company's books and records, and certain accounting adjustments related to
17 payroll, depreciation, property taxes and other expenses.

18 **Q. WERE THE SCHEDULES AND ADJUSTMENTS YOU ARE**
19 **SPONSORING PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

20 A. Yes.

21 **Q. ARE THE FACTS AND AMOUNTS CONTAINED IN THESE**
22 **SCHEDULES AND ADJUSTMENTS CORRECT, TO THE BEST OF**
23 **YOUR KNOWLEDGE, INFORMATION AND BELIEF?**

1 A. Yes.

2 **Q. HOW DOES BLACK HILLS ENERGY MAINTAIN ITS BOOKS AND**
3 **RECORDS?**

4 A. Black Hills Energy maintains its books and records in accordance with the
5 Federal Energy Regulatory Commission Uniform System of Accounts, as adopted
6 by the Commission.

7 **II. BASE YEAR**

8 **Q. WHAT IS THE BASE YEAR FOR THIS RATE CASE FILING?**

9 A. The Base Year is the twelve month period ending July 31, 2009.

10 **III. TEST YEAR**

11 **Q. WHAT IS THE TEST YEAR FOR THIS RATE CASE FILING?**

12 A. Black Hills Energy used the historical Base Year for the twelve months ending
13 July 31, 2009 and adjusted the base year for known and measurable changes to
14 arrive at the test year.

15 **Q. PLEASE EXPLAIN THE FINANCIAL SCHEDULES YOU ARE**
16 **SUPPORTING.**

17 A. Financial schedules justifying this general rate filing can be found in material
18 filed as part of Black Hills Energy's application in this proceeding. For example,
19 Exhibit I, Schedule A calculates the Base Year and Test Year revenue
20 deficiencies. Exhibit I, Schedule B assigns the Test Year deficiency to customer
21 classes per the Cost of Service Study performed by Black Hills Energy's
22 consultant. Exhibit II, Schedules A, B and C, provide Base Year data for
23 capitalization (Schedule A), rate base by FERC account (Schedule B), and

1 operating revenues and expenses by FERC account (Schedule C). Schedule D
2 provides the Base Year Income Tax Calculation.

3 **IV. ADJUSTMENTS**

4 **Q. PLEASE EXPLAIN WHO WILL SUPPORT ADJUSTMENTS TO THE**
5 **BASE YEAR RATE BASE AND INCOME STATEMENT DATA.**

6 A. The adjustments to the Base Year are needed to provide for a more representative
7 level of cost or revenues. The adjustments identified as part of this rate
8 application will be supported by several Company witnesses. Don Nordell will
9 support capital additions (Rate Base Adjustment No. 1). Glenn Dee will support
10 the cash working capital calculation, and the amortization of deferred rate case
11 costs (Income Statement Adjustment No. 7). Tom Sullivan, Larry Loos and Dr.
12 Robert Livezey, outside expert witnesses, will provide support for the weather
13 normalization adjustment (Income Statement Adjustment Nos. 1 and 11).

14 **Q. WILL YOU SUPPORT THE REMAINING ADJUSTMENTS?**

15 A. Yes. I will support the remaining adjustments. These include adjustments to per
16 book plant reserve accounts (Rate Base Adjustment No. 2), and adjustments to the
17 income statement. These income statement adjustments include the depreciation
18 annualization (Income Statement Adjustment No. 2); annualization of payroll
19 costs (Adjustment No. 3); the impact of four staff additions in Gas Supply
20 Services group (Adjustment No. 4); merit salary increases for non-union
21 employees (Adjustment No. 5); contractual union employee payroll increases
22 (Adjustment No. 6); a property tax adjustment (Adjustment No. 8); the

1 elimination of certain advertising costs (Adjustment No. 9) and an adjustment to
2 organization fees and dues (Adjustment No. 10).

3 **V. ADJUSTMENTS TO RATE BASE**

4 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO PER BOOK PLANT DATA.**

5 A. Two adjustments were made to the book plant data for rate base. First, capital
6 additions, as contained in the direct testimony of Don Nordell, were added to
7 gross plant; this adjustment also included the impact on plant depreciation
8 reserves.

9 The second adjustment to rate base reflects the impact on reserves resulting from
10 the annualization of depreciation expense for existing plant.

11 **VI. ADJUSTMENTS TO INCOME STATEMENT**

12 **Q. PLEASE EXPLAIN THE PRO FORMA ADJUSTMENTS TO THE**
13 **INCOME STATEMENT.**

14 A. **Adjustment No. 1** reflects a weather normalization adjustment supported by
15 Black Hills Energy's expert witnesses Tom Sullivan, Larry Loos and Dr. Robert
16 Livezey.

17 **Adjustment No. 2** is an annualized adjustment to depreciation expense.
18 Depreciation expense was adjusted to reflect the annualized expenses based on
19 July 31, 2009 plant balances. The adjustment is the difference between the actual
20 expense for the twelve months ended July 31, 2009 and the annualized year-end
21 amount and recognizes changes in the annual level of expense associated with
22 additions and retirements occurring during the base year.

1 **Adjustment No. 3** was made to annualize payroll expense to reflect changes in
2 payroll costs through September 15, 2009. Nebraska direct and allocable Black
3 Hills Utility Holdings, Inc. (hereafter “Black Hills Utility Holdings”) payroll
4 expense was annualized by using base payroll by department at September 15,
5 2009. This reflects the most current pay levels in effect at the time the adjustment
6 was prepared.

7 Allocable payroll for the Black Hills Service Company annualized payroll is
8 based on July 2009 booked payroll expense.

9 **Q. PLEASE DETAIL NEW POSITIONS FOUND IN ADJUSTMENT NO. 4.**

10 A. **Adjustment No. 4** relates to four new positions in the Gas Control Area that were
11 approved, posted and filled by the end of October 2009. The new Omaha Gas
12 Control facility will be fully operational by mid-December 2009. My
13 understanding is that the primary purpose of the Omaha Gas Control facility is to
14 ensure overall system reliability by monitoring the Black Hills Energy systems at
15 various points, control the distribution systems to maximize existing assets,
16 control the distribution systems to avoid pipeline penalties, and to call
17 curtailments for interruptible customers when pipeline system conditions require
18 interruption. Accordingly, I’m sponsoring the accounting adjustment related to
19 these new positions.

20 **Q. PLEASE CONTINUE WITH THE EXPLANATION OF ADJUSTMENTS.**

21 A. **Adjustment No. 5** reflects the impact of merit increases for non-union employees
22 that will become effective March 1, 2010. These increases will average 3% over

1 current payroll levels and are part of the traditional salary plan for Black Hills
2 Energy employees.

3 **Adjustment No. 6** adds the impact of a Nebraska union employee direct payroll
4 increase required per contract for an average 3.0 percent annual wage increase
5 effective January 1, 2010; an average 3.0% increase effective January 1, 2010 for
6 call center employees allocated to Nebraska; and an estimated average 3.0%
7 increase for union meter shop employees allocated to Nebraska, effective April
8 28, 2010. Only the increases assigned direct or allocated to Nebraska gas utility
9 operations have been included in this adjustment.

10 **Q. ARE THERE OTHER ADJUSTMENTS RELATED TO THE ABOVE**
11 **ADJUSTMENTS TO PAYROLL EXPENSE?**

12 A. Yes. Employee benefits and taxes other than income taxes were adjusted to reflect
13 the impact on benefits and associated payroll taxes based on the above changes
14 made to payroll expense.

15 **Q. WERE ANY ADJUSTMENTS MADE TO THE VARIABLE**
16 **COMPENSATION COMPONENT OF EMPLOYEE PAYROLL?**

17 A. No. Variable compensation amounts are accrued monthly to reflect expected
18 payments in March 2010 for completion of employee objectives. No adjustments
19 were made to the amounts accrued during the base year. The amount accrued
20 reflects variable compensation payments at the midpoint of the variable
21 compensation payout schedule applicable to each employee.

22 **Q. PLEASE CONTINUE.**

1 A. Adjustment No. 7 reflects the amortization of anticipated rate case expenses over
2 a three year period. Glenn Dee will support this adjustment.

3 Adjustment No. 8 relates to property tax expense. This expense was adjusted to
4 reflect revised Nebraska net taxable value. The resulting taxes calculated using
5 this valuation were then compared to 12-months ended July 31, 2009 direct
6 accrued property tax expense.

7 Adjustment No. 9 provides for advertising expenses that have been adjusted to
8 reflect only those advertising costs associated with informational and safety issues
9 for our customers.

10 Adjustment No. 10 requests recovery of 100% of trade association (such as
11 AGA) and Chamber of Commerce dues. Other business-related organizations are
12 included at 50% of the total cost. No dues for corporate costs in South Dakota
13 have been included. This adjustment was made in accordance with the
14 commission's order in NG-0041.

15 Adjustment No. 11 is a revenue synchronization that will be supported by
16 witness Tom Sullivan.

17 **VII. ALLOCATIONS**

18 **Q. PLEASE EXPLAIN THE CURRENT COST ALLOCATION PROCESS.**

19 A. Corporate and support costs that are not charged directly to Nebraska gas
20 operations (and to the similar Black Hills Energy gas states of Iowa, Kansas and
21 Colorado and electric operations in Colorado), are allocated from departments
22 classified under two activities; the Service Company and the Black Hills Utility
23 Holdings. As explained in the testimony of Black Hills Energy's witness,

1 Anthony Cleberg, Executive Vice President and Chief Financial Officer, Black
2 Hills Service Company provides various services to all of the Black Hills
3 Corporation subsidiaries. See Exhibit No. __ASC-1 attached to the testimony of
4 Anthony Cleberg. Costs are allocated to the subsidiaries in a consistent and fair
5 manner as detailed in the Cost Allocation Manual related to Black Hills Service
6 Company. See Exhibit No. __ASC-3 attached to the testimony of Anthony
7 Cleberg. An example of Black Hills Service Company's support activity would
8 be the Treasury Department.

9 Also, as noted in the testimony of Anthony Cleberg, Black Hills Utility Holdings
10 supports customer service functions for the state operations obtained through the
11 asset purchase of former Aquila, Inc. gas operations in Iowa, Kansas, Colorado
12 and Nebraska, and for electric properties in Colorado. See Exhibit No. __ASC-2.
13 Examples of Black Hills Utility Holdings support would be for the Customer Call
14 Centers, and for Billing and Information Technology support.

15 As noted in the Cost Allocation manual for Black Hills Utility Holdings, the first
16 priority in the cost assignment process is to charge costs directly to a business
17 unit's operations, if at all possible. If this is not possible, then costs are allocated
18 on a specific cost driver applicable to the specific providing department. See
19 Exhibit No. __ASC-4 attached to the testimony of Anthony Cleberg. An example
20 of this would be to assign corporate human resource costs on the number of
21 employees by state. Finally, if costs are not charged directly, or allocated on a
22 specific cost driver, the costs are allocated to states based on a general allocator.
23 An example of a general allocator is an average of payroll, gross margin and net

1 plant percentages by state that would be used to allocate the costs of the Treasury
2 Department. Both the service agreements and cost allocation manuals submitted
3 as part of this rate application govern and support the services and allocations
4 used by Black Hills Energy.

5 **Q. DOES BLACK HILLS ENERGY HAVE A SUMMARY OF THE**
6 **ALLOCATION FORMULAS AND PROCEDURES?**

7 A. Yes. As noted above, the allocation formulas and procedures are detailed in Cost
8 Allocation Manuals for Black Hills Service Company and Black Hills Utility
9 Holdings. These documents are submitted as exhibits to the testimony of
10 Anthony Cleberg as part of his testimony in the rate application.

11 **Q. WERE THERE SIGNIFICANT CHANGES IN THE ALLOCATION**
12 **PROCESS AFTER THE SALE OF FORMER AQUILA OPERATIONS IN**
13 **IOWA, KANSAS, COLORADO AND NEBRASKA IN JULY OF 2008?**

14 A. No. Similar allocation processes and cost drivers previously used by Aquila are
15 also used by Black Hills Energy in its Cost Allocation Manuals.

16 **Q. HOW WERE THE SERVICE COMPANY AND THE BLACK HILLS**
17 **UTILITY HOLDINGS' COSTS ASSIGNED TO NEBRASKA GAS**
18 **OPERATIONS FOR THE TEST PERIOD ENDED JULY 31, 2009?**

19 A. All adjustments in this filing have been allocated to Nebraska based on the
20 allocation percentages in effect at January 1, 2009.

21

22

23

1 **VIII. ADJUSTMENT EXCLUSIONS**

2 **Q. HAVE ANY ADJUSTMENTS MADE IN PRIOR NEBRASKA RATE CASE**
3 **FILINGS (FILED AS AQUILA, INC.) BEEN EXCLUDED IN THIS**
4 **CURRENT FILING?**

5 A. Yes. In its order in the prior rate case (Application No. NG-0041) the
6 Commission stated that job vacancies should be excluded since they are not
7 known and measurable, and because some vacancies always exist. Therefore,
8 even though Black Hills Energy has vacant job positions, the cost of those
9 vacancies is not included in this rate application.

10 Also, it is important to clarify that even though it anticipates an increase in health
11 care costs, Black Hills Energy excluded an adjustment in this rate application
12 based on its projection of health care cost increases.

13 **IX. JURISDICTIONAL CUSTOMERS**

14 **Q. EXHIBITS IN THE FILING REFLECT A NEBRASKA**
15 **JURISDICTIONAL COMPONENT AND A TOTAL STATE**
16 **COMPONENT. PLEASE EXPLAIN THE DISTINCTION BETWEEN**
17 **THESE TWO COMPONENTS.**

18 A. Customers classified as “jurisdictional” include only the residential, small
19 commercial and industrial, and small transportation / Energy Option firm sales
20 customers. The Total State component includes “ALL” Black Hills Nebraska
21 customers.

22 The Total State component includes not only “jurisdictional” customers, but also
23 those customers considered by statute to be non-regulated or complaint-based

1 customers. For example, the customers fitting the non-regulated or complaint based
2 categories defined in the State Natural Gas Regulation Act (“Act”) are as follows:

- 3 • **High volume customers** whose natural gas requirements equal or exceed five
4 hundred therms per day as determined by average daily consumption; and
- 5 • **Complaint-based customers** are those where the jurisdictional utility may
6 charge any rate or other charge demanded or received from, or terms and
7 conditions applicable to, its agricultural ratepayers and interruptible rate
8 payers not otherwise qualifying as high-volume rate payers, upon notice to the
9 Commission and to the public. The Commission may not suspend such rate or
10 charge filed by a jurisdictional utility, except upon hearing on a complaint as
11 set forth more fully in sections 66-1802 and 66-1810 of the Act.

12 **Q. IS THIS SEPARATION OF CUSTOMERS REQUIRED BY THE**
13 **COMMISSION?**

14 A. Yes. In the Commission’s order in Aquila’s last rate case for Nebraska operations,
15 the Commission stated on page 28 of its “Order Granting Application in Part” in
16 PSC Docket No. NG-0041, issued : July 24, 2007 as follows: “...we order that the
17 filing schedules used to determine the utility’s revenue requirement include both
18 total Nebraska amounts and the Commission’s jurisdictional amount. Any test
19 year adjustment should also be made to the total Nebraska amounts as well as to
20 the jurisdictional amounts.”

21 **Q. WERE TEST YEAR ADJUSTMENTS ALSO MADE TO THE TOTAL**
22 **NEBRASKA AMOUNTS AS DIRECTED IN THE ORDER?**

23 A. Yes.

1 Q. **DOES THIS COMPLETE YOUR TESTIMONY?**

2 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)

Richard Petersen, of lawful age, being first duly sworn, deposes and says that he is the Director of Gas Regulatory Accounting 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.


Richard Petersen

SUBSCRIBED AND SWORN TO before me this 23rd day of November, 2009.


Notary Public

