

BEFORE THE PUBLIC SERVICE COMMISSION OF NEBRASKA

**IN THE MATTER OF THE JOINT)
APPLICATION OF SOURCEGAS)
DISTRIBUTION LLC, SOURCEGAS LLC,)
SOURCEGAS HOLDINGS LLC, AND)
BLACK HILLS UTILITY HOLDINGS, INC.) Application No. NG-0084
FOR ALL NECESSARY)
AUTHORIZATIONS AND APPROVALS)
FOR BLACK HILLS UTILITY HOLDINGS,)
INC. TO ACQUIRE SOURCEGAS)
HOLDINGS LLC)**

**DIRECT TESTIMONY OF STEVE SORENSON
CONSTELLATION NEWENERGY – GAS DIVISION, LLC**

1 ***Q1. WHAT IS YOUR NAME AND BUSINESS ADDRESS?***

2 ***A1.*** My name is Steve Sorenson. My business address is 10588 Shea De Lane, Blair, Nebraska
3 68008.

4 ***Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?***

5 ***A2.*** I am employed by CNE Gas Holdings, LLC as Regional Sales Manager for the retail commercial
6 and industrial (“C&I”) natural gas customer segment of Constellation NewEnergy – Gas
7 Division, LLC. Constellation provides competitive wholesale and retail electricity and gas
8 supply, energy management and consulting services nationwide.

9 ***Q3. WHAT IS YOUR EDUCATIONAL BACKGROUND?***

10 ***A3.*** I have a Bachelor of Business Administration degree from the University of Minnesota – Duluth
11 campus.

12

13 ***Q4. HAVE YOU COMPLETED ANY COURSE OF STUDY OR ATTENDED ANY***
14 ***PROFESSIONAL SEMINARS?***

15 ***A4.*** Yes, early in my career I was certified as a Residential Conservation Service Auditor, a position
16 in which my primary duties included managing the Northern MN Utilities Conservation
17 Investment Program and providing home energy audits to NMU residential customers. As the
18 natural gas industry has migrated from fully bundled to unbundled and my own career has
19 transitioned through a myriad of mergers and acquisitions, I have received extensive corporate
20 training related to natural gas. In addition, over the years I have attended many conferences and
21 seminars in the energy industry focusing mainly on LDC transportation, wholesales supply,
22 changing market conditions for natural gas and energy strategy options for end use customers. .

23 ***Q5. CAN YOU DESCRIBE YOUR EMPLOYMENT HISTORY?***

24 ***A5.*** Yes, I have nearly 30 years in the energy industry with experience in both competitive and
25 regulated gas markets. My gas supply experience includes the management of all facets of the
26 supply chain across the wholesale, C&I and mass market segments. My career began in
27 accounting and conservation programs at Northern Minnesota Utilities in 1987. From 1994 until
28 2001 I was a key account executive with UtiliCorp Energy Delivery in Minnesota, responsible for
29 35 major industrial and municipal customers. In 2001 I accepted a position as the general
30 manager with AlintaGas LTD in Perth, Western Australia. At AlintaGas I managed a natural gas
31 retail sales organization of 70 employees through the transition from a government owned utility
32 to a private entity. In 2002 I returned to the US and joined Cornerstone Energy, which was
33 acquired by Constellation five years later, to lead the account manager team in Minnesota. In
34 2009 I was promoted to regional sales director at Constellation and moved to Omaha.

35 ***Q6. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION WITH***
36 ***CONSTELLATION?***

37 **A6.** I am responsible for managing a team of eight (8) Business Development Managers (“BDM”)
38 who cover Nebraska, Wyoming, Colorado, Iowa, North and South Dakota, Minnesota and Texas.
39 The team has expertise across eight pipelines and services approximately 700 customers in these
40 eight states. The primary duties of the BDM are the acquisition of new customers and the
41 retention of existing customers. Duties include prospecting, meeting with customers, generating
42 proposals, and following up on marketing campaigns. Along with maintaining relationships with
43 customers, the BDM works closing with other internal functional groups including operations,
44 supply, legal/contracts, and billing/collections.

45 **Q7. *HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY AGENCY?***

46 **A7.** No.

47 **Q8. *WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR***
48 ***TESTIMONY?***

49 **A8.** In this docket, I have reviewed the Joint Application filed by SourceGas Distribution, LLC,
50 SourceGas Holdings, LLC and Black Hills Utility Holdings, Inc. and the testimony of Michael
51 Noone, Linden Evans, Richard Kinzley and Kyle White on behalf of the joint applicants. In
52 addition I have reviewed the responses to discovery served by Constellation NewEnergy – Gas
53 Division, LLC and the Public Alliance for Community Energy (“ACE”) upon Black Hills and
54 SourceGas.

55 **Q9. *WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?***

56 **A9.** The primary purpose of my testimony is to state Constellation’s concerns, if the merger is
57 approved, with the level of commitment to competitive supply options and third party suppliers
58 the merged company will exhibit within the service territories of Black Hills and SourceGas and

59 to provide recommendations to the Nebraska Public Service Commission (“Commission”) in the
60 context of this proceeding.

61 ***Q10. WHAT ARE YOUR RECOMMENDATIONS FOR THIS PROCEEDING?***

62 ***A10.*** First, Constellation recommends and requests the continuation of the SourceGas Choice Gas
63 program in materially the same format as it currently exists in Nebraska. Second, Constellation
64 would like a meaningful residential Choice program to be implemented in the Black Hills service
65 territory. Ideally it would be modeled after the existing SourceGas program design where
66 consumers can choose a competitive gas supplier and avail themselves of various competitive
67 products. Third, Constellation recommends and request that the existing gas transportation
68 programs for C&I customers remain unchanged in both SourceGas and Black Hills services
69 territories. Fourth, Constellation recommends and requests that the Commission require
70 separation between the distribution companies with the retail affiliated natural gas sales business,
71 i.e. SourceGas Energy Services, and that affiliated interest standards are enforced to deter
72 manipulation and abuses that may harm competitive markets. Fifth, Constellation recommends
73 and requests a working group of interested stakeholders, including interested suppliers and
74 affected parties, be established by the Commission to evaluate implementation of a natural gas
75 municipal aggregation program applicable to residential and small commercial customers within
76 the service territories of Black Hills and SourceGas. The Commission has the discretion to call
77 for such a working group and to evaluate the work performed by such a group. In the context
78 here of the threat of elimination of competitive suppliers, the Commission should exercise its
79 discretion and consider information not readily available from the sponsors of the merger. The
80 working group should be required to submit a preliminary report to the Commission prior to any
81 approval of the merger. The report should include details on what would be required, including
82 any necessary legislative changes, in order to implement natural gas municipal aggregation, the
83 working group’s recommendations for program design, and if a consensus position on a

84 municipal aggregation program is not reached, identification of the disparate positions, with
85 attendant rationales, taken by participants.

86

87 ***Q11. WHAT IS THE EXISTING RELATIONSHIP BETWEEN CONSTELLATION,***
88 ***SOURCEGAS, AND BLACK HILLS?***

89 ***A11.*** Constellation is currently a major retailer providing third party supply to Black Hills Energy C&I
90 Sector customers in Nebraska. In addition, through the balloting process Constellation is the
91 number one retail supplier to the small commercial and residential customers in SourceGas’
92 Choice Gas program in Nebraska. Due to Constellation’s success in the Choice markets in
93 Nebraska and Wyoming, Constellation has increased its focus in growing its C&I customer base
94 behind Source Gas. Constellation currently supplies nearly seven (7) Bcf of natural gas to
95 customers located in the SourceGas service territories of Nebraska, Wyoming and Colorado.

96 ***Q12. PLEASE EXPLAIN WHAT YOU MEAN BY “THIRD PARTY SUPPLY”?***

97 ***A12.*** With the restructuring of the natural gas industry through open access and unbundling
98 requirements ordered by the Federal Energy Regulatory Commission (“FERC”) in the 1980’s and
99 1990’s, it became common for local distribution companies such as SourceGas and Black Hills to
100 implement tariffs to facilitate gas transportation services for C&I customers. Large customers
101 could then competitively purchase their natural gas and arrange for its delivery to the utility city
102 gate from parties other than the legacy utility, i.e., third party suppliers such as Constellation.
103 Generally speaking, Constellation buys wholesale supply, arranges pipeline transportation of that
104 supply from where it is produced to be delivered to the utility pipeline interconnect or city gate
105 where the local utility then takes title to the gas and delivers it to the end-use customers. While
106 restructuring of the natural gas industry began with C&I customers in many locales, it eventually
107 expanded to include residential and small commercial customers. Typically the ability to select a

108 supplier in the C&I segment is called gas transportation service, while among residential and
109 small commercial customers is it referred to as a choice program or tariff.

110

111 ***Q13. PLEASE DESCRIBE THE BLACK HILLS AND SOURCEGAS CHOICE PROGRAMS?***

112 ***A13.*** Both Black Hills and SourceGas allow C&I customer to select who will provide their natural gas
113 commodity through gas transportation tariffs. However there are marked differences between
114 Black Hills and SourceGas with regard to residential and small commercial choice programs.
115 When Black Hills references its provision of choice, it is limited to Black Hills providing
116 residential customers with two options within the ambit of Black Hills relative to how Black Hills
117 provides and charges for natural gas. It does not however mean that its residential customers
118 have the option to select a supplier other than Black Hills to provide that commodity. In sharp
119 contrast, SourceGas offers a Choice Gas program in Nebraska. With SourceGas' Choice Gas
120 program, each year customers have a two week window in Nebraska to select a competitive
121 natural gas supplier for their home and/or business. Customers satisfied with their current
122 supplier have the option to rollover at the same pricing option with the same supplier by taking no
123 action. The Choice Gas program promotes competition by giving consumers a choice as to who
124 will supply them with their gas supply. As a result, is has required suppliers to compete with one
125 another and to be innovative with the products and services they offer. SourceGas has been
126 supportive of competition over the years which had been demonstrated by their earlier plan to
127 expand the Choice Gas program into Colorado.

128 ***Q14. IS CONSTELLATION CONCERNED THAT THIS PROCEEDING COULD AFFECT ITS***
129 ***TRANSPORTATION OF NATURAL GAS?***

130 ***A14.*** Yes. Black Hills does not currently offer a choice of supplier to its residential customer base.
131 Across its five state footprint of Colorado, Iowa, Nebraska, Kansas, and Wyoming, Black Hills

132 has about 586,100 natural gas customers. In comparison, SourceGas is slightly smaller with a
 133 total of approximately 425,000 natural gas customers in Arkansas, Colorado, Nebraska and
 134 Wyoming. Yet, nearly 140,00 SourceGas residential customers are able to select their preferred
 135 supplier whereas no Black Hills residential customers have a similar opportunity to select a
 136 competitive supplier. This is especially striking as SourceGas currently only offers Residential
 137 Choice Gas in Nebraska and Wyoming.

	Black Hills	SourceGas
Natural Gas Customers¹	586,100	425,000
Residential Choice Customers²	0	139,443

138

139 In addition, recent statements during investor presentations on July 13, 2015, Acquisition of
 140 SourceGas, and October 8, 2015, BKH Analyst Day, along with documents contained in
 141 applications made at several state commissions for a Cost of Service Gas (“COSG”) Program
 142 further concern Constellation and underscores the competitiveness concern. For example, during
 143 the July 13th call, Mr. David Emery, Black Hills Corp. Chairman, President & CEO, stated in
 144 response to a question regarding the COSG Program that “So when we look at integrating a cost
 145 of service gas program with SourceGas, we obviously have to work through the differences in the
 146 programs. One is very short-term in nature for customers [Choice Gas]. The COSG program is
 147 very long-term in nature.”³ Mr. Emery continues on to explain that the SourceGas opportunity
 148 for a cost of service gas program is similar to that for Black Hills, maybe slightly less, and states
 149 the objective is to provide about 50% of both SourceGas and Black Hills gas from the COSG
 150 Program.

¹ BKH Analyst Day presentation, October 8, 2015 and Acquisition of SourceGas presentation, July 13, 2015.

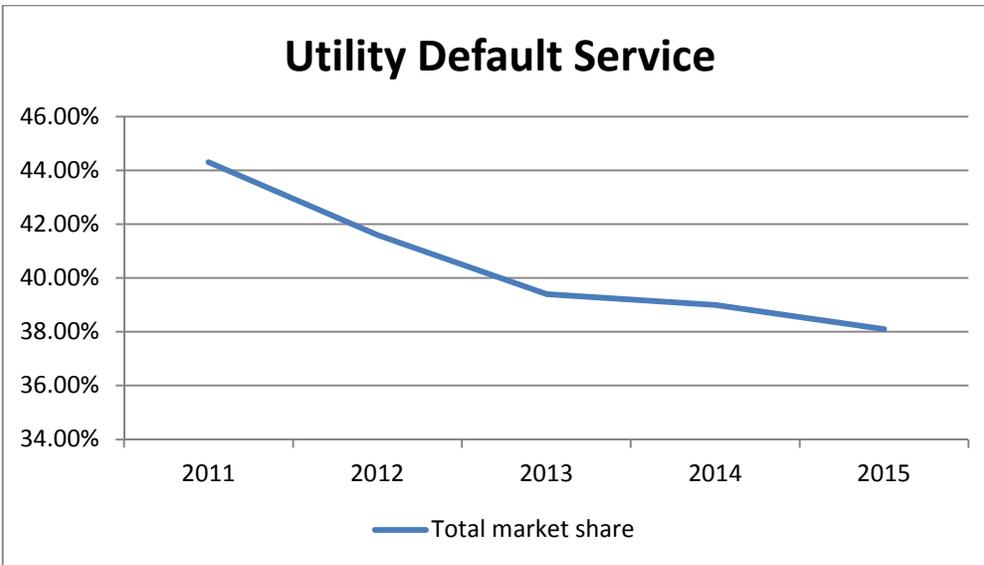
² Response of Joint Applicants to First Set of Data Requests of Constellation NewEnergy.

³ Transcript of the July 13, 2015 Black Hills Corp to Acquire Sourcegas Holdings LLC – Conference Call.

151 These statements cause Constellation to be concerned that Black Hills is not committed to
152 competitive gas markets and Choice programs for the long-term. Black Hills' objective for its
153 own COSG Program suggests limited future opportunity for suppliers to continue to flow
154 commodity to their existing Choice Gas customers. Constellation is concerned that Black Hills
155 will roll back the progress that has been made by SourceGas to foster competition and offer
156 Choice Gas in existing jurisdictions as well as derail the implementation of Choice Gas for
157 residential and small commercial customers in Colorado.

158 ***Q15. BASED ON CONSTELLATION'S EXPERIENCE, IS THE SOURCEGAS CHOICE GAS***
159 ***PROGRAM PRO-COMPETITION?***

160 ***A15.*** Yes. Customers are allowed to choose from a total of four competitive suppliers in the Nebraska
161 Choice Gas program. Each supplier offers a variety of products and service options that are not
162 available through the utility's standard bundled tariff rate. These offerings include a monthly
163 floating index price, one, two or three year fixed price products, and a guaranteed fixed monthly
164 bill offering for terms of up to three years. In addition, these product types are all tailored by the
165 individual supplier in order to attract and retain customers. Over time, as the testimony of my
166 colleague Mr. Ed Brolin illustrates, competitive markets motivate retailers to enhance existing
167 offerings, to further develop new products and services and to design solutions that meet the
168 needs of consumers. Without competitive forces at work, it is doubtful that innovative products
169 and unique pricing opportunities would develop for consumers. In Wyoming, customers can
170 select a fully bundled tariff rate yet each subsequent year the number of customers taking the
171 utility tariffed service continues to decline. Currently there are more customers electing retail
172 supply from a third party than those taking the utility tariffed rate, indicating the majority of
173 customers recognize and prefer competitive offerings. Indeed, Nebraska consumers are
174 sophisticated purchasers of energy and that is reflected in the Choice programs available within
175 this state.



176

177 ***Q16. HOW DOES YOUR CONCERN REGARDING BLACK HILL'S APPARENT LACK OF***
 178 ***COMMITMENT TO COMPETITIVE MARKETS AFFECT CONSTELLATION?***

179 ***A16.*** There are essentially two concerns that Constellation has in this regard. First, Constellation is
 180 concerned that the proposed merger could affect its existing relationships with its larger C&I
 181 customers by causing a change in the SourceGas Choice program which is linked with the C&I
 182 business as it relates to pipeline capacity and overall supply pool in an identical geographic
 183 footprint. In addition the lack of clarity and detail around the breadth and depth of the COGS
 184 program makes it unclear how it could impact C&I customers.. This could negatively impact our
 185 short- and long-term business strategies and growth opportunities. It could also impact existing
 186 contractual agreements that are in place with these customers, contracts that were entered into by
 187 Constellation with the existing service regime in Nebraska well in hand. Second, Constellation is
 188 concerned about the future availability of the Choice Gas program. Black Hills, the acquiring
 189 company, does not currently provide choice to its residential customers as does Source Gas. Thus
 190 far Black Hills has made no commitments beyond merger close to the continuation of the Choice
 191 Gas program, and the action of suspending the program application in Colorado helps flag the
 192 high prospect that such programs may be eliminated once Black Hills is allowed to move forward

193 on its acquisition strategy and eliminates competition. The apparent conflict between operation
194 of both a Choice Gas and a COSG Program has not been addressed. Black Hills' public
195 comments, the absence of residential choice at Black Hills, the suspension of the proceeding to
196 secure approval of a Choice Gas program in Colorado, and the recent filing of the COSG
197 Program by Black Hills suggests that a pro-competition program that has been in place for many
198 years at Source Gas may be in jeopardy when under the management of Black Hills. While this
199 jeopardy may not come to fruition at the time of close of the merger, these recent actions and
200 statements suggest at least two related potential scenarios: approval of the merger without
201 accounting for how it might inadvertently (by the Commission) trigger, otherwise set in motion
202 adverse impacts on the salutary Choice Gas program, or constrain the Choice Gas program
203 subsequent to the merger; and the discontinuation of Choice Gas may be effectuated shortly after
204 the close of the merger if due consideration is not given to these important competitiveness
205 considerations in this proceeding.

206 ***Q17. WHY DO YOU BELIEVE THE COST OF SERVICE GAS PROGRAM CONFLICTS WITH A***
207 ***COMPETITIVE MARKETPLACE?***

208 ***A17.*** If Black Hills' premise is true and the COSG Program allows Black Hills to offer customers long-
209 term, stable pricing that is in fact lower than market prices, it will be extremely challenging for
210 competitive retail suppliers to offer products and services that are competitive against the utility's
211 below market price. The approach also seems implausible and therefore subject to scrutiny.
212 Providing gas at less than market prices might be possible in the near term, but no business
213 person will abide that kind of sale for long. Rather, there is a methodology for recovering the
214 apparent "loss" by spreading the cost equation across differing and affiliate "costs" including for
215 the production of the gas. However, I recognize that protection of retail suppliers against below
216 market prices is not, per se, the responsibility of the Commission. The Commission, we
217 understand, is more focused on the overall best market structure to minimize ratepayer price and

218 risk. Constellation’s view is that the forces of competition bring discipline into the market and
219 encourage a low price environment over the long-term. This is especially true when compared to
220 a monopoly system with few, if any, alternatives for consumers and only a regulatory process to
221 govern fairness. Further, as the impacts of shale discoveries and hydraulic fracturing have
222 shown, the market is not static, but is rather a dynamic environment. Market changes can occur
223 quickly in either direction. Thus, if over time the COSG Program results in higher prices than the
224 current market prices, ratepayers will by necessity absorb above market costs. Since the future is
225 uncertain, a COSG Program places future price risk clearly on the ratepayer, whereas the
226 competitive market offers consumers control over price risk through the products and services
227 selected across the array of what is available in the market.

228

229 ***Q18. WHY SHOULD THE COMMISSION BE CONCERNED WHETHER APPROVAL OF THE***
230 ***MERGER BETWEEN BLACK HILLS AND SOURCEGAS IMPACTS THE LEVEL OF***
231 ***COMPETITIVE OPTIONS FOR NEBRASKA RATEPAYERS?***

232 ***A18.*** Exelon and its subsidiaries, including Constellation, offer wholesale and retail electric and natural
233 services throughout much of the US. Exelon is one of the nation’s leading competitive energy
234 providers and is a strong supporter of competitive markets due to their superior ability to deliver
235 choice, innovation and value for customers. The bottom line value proposition is rather
236 straightforward: it is our experience that competitive markets function better than regulated
237 markets. A more in-depth explanation of why that occurs is presented in the testimony of
238 Constellation witness Ed Brolin.

239 ***Q19. WHAT ARE YOUR RECOMMENDATIONS FOR THIS PROCEEDING?***

240 ***A19.*** If the Commission determines it is in the public interest of Nebraska ratepayers to approve the
241 merger application, Constellation respectfully requests that the Commission, as conditions of
242 approval, order:

- 243 • Continuation of the SourceGas Choice Gas program in Nebraska for a period of time not less
244 than the next ten (10) years;
- 245 • Implementation of a meaningful residential Choice program in Black Hills service territory;
- 246 • Retention of a Black Hills and a SourceGas gas transportation tariff for C&I customers;
- 247 • Implementation and enforcement of strong affiliated interest rules to prevent inappropriate
248 conduct that could harm competitive markets between the regulated distribution companies
249 and its retail affiliated natural gas sales business;
- 250 • Establishment of a working group of interested stakeholders, including interested suppliers
251 and affected parties, to evaluate implementation of a natural gas municipal aggregation
252 program applicable to residential and small commercial customers within the service
253 territories of Black Hills and SourceGas and a requirement that Black Hills submit a
254 preliminary report to the Commission prior to any approval of the merger detailing what
255 would be required, including any necessary legislative changes, in order to implement natural
256 gas municipal aggregation, the working group’s recommendations for program design, and if
257 a consensus position on a municipal aggregation program is not reached, identify the
258 disparate positions, with attendant rationales, taken by participants; and
- 259 • Agreement not to expand the Black Hills COSG Program to SourceGas customers until
260 analysis has been conducted on the impact the Program would have on competitive markets
261 and Choice Gas within SourceGas.

262 ***Q20. DOES THIS CONCLUDE YOUR TESTIMONY?***

263 ***A20.*** Yes, reserving the right to comment further on statement and submissions submitted to the
264 Commission after this date.

THE STATE OF NEBRASKA
COUNTY OF Washington

§
§
§

Before me, the undersigned notary public, on this day personally appeared Steve Sorenson, to me known to be the person whose name is subscribed to the foregoing instrument, who being duly sworn according to law, deposes and says:

“My name is Steve Sorenson. I am over the age of eighteen years and am competent to make this affidavit. All facts stated herein are based on personal knowledge.

I am employed by CNE Gas Holdings, LLC (“CNG”) as Regional Sales Manager, and in the course of my employment have personal knowledge of the facts stated in the testimony for Constellation NewEnergy-Gas Division, LLC.

The information contained in the testimony is true and correct to the best of my knowledge and belief.”

Further affiant sayeth not.

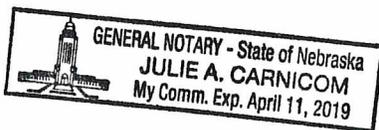
Steve Sorenson

Given under my hand and seal of office this 5 day of November, A.D., 2015.

Julie A Carnicom
Notary Public in and for the State of Nebraska

My Commission Expires On:

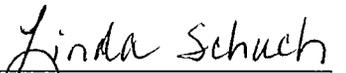
4-11-19



CERTIFICATE OF SERVICE

I hereby certify that on November 6, 2015, the foregoing document was served by delivering copies thereof to the individuals/entities below, by e-mail:

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