

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Black Hills Nebraska Gas, LLC)
d/b/a Black Hills Energy, Rapid City, South) Application No. NG-111.3
Dakota, Seeking to Modify its Tariff Due to the)
February 2021 Cold Weather Event and Implement)
a Conversion Fee for Commercial Sales Customers)
Who Convert to Transportation Service.)

PREFILED

ANSWER TESTIMONY AND EXHIBITS

OF

DON KRATTENMAKER

ON BEHALF OF

WOODRIVER ENERGY, LLC

October 22, 2021

RECEIVED
10/22/21
NAT GAS DEPT

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EXHIBITS

Testimony Exhibits	
Exhibit No. DK-1	Statement of Qualifications
Exhibit No. DK-2	Black Hills’ Response to WoodRiver Request No. WRE-1 and Attachment WRE-001-001 Conversion Fee Calculation
Exhibit No. DK-3	Black Hills’ Response to WoodRiver Energy Data Request WRE-8
Exhibit No. DK-4	Black Hills’ Response to WoodRiver Energy Data Request WRE-9
Confidential Exhibit No. DK-5 (OMITTED)	Confidential Attachment PA 001-004 (OMITTED)
Exhibit No. DK-6	Black Hills’ Response to WoodRiver Energy Data Request WRE-12
Exhibit No. DK-7	Black Hills’ Response to WoodRiver Energy Data Request WRE-13
Exhibit No. DK-8	Black Hills’ Response to Public Advocate Data Request PA-01
Exhibit No. DK-9	Black Hills’ Response to WoodRiver Energy Data Request WRE-5
Exhibit No. DK-10	Black Hills’ Response to WoodRiver Energy Data Request WRE-6
Exhibit No. DK-11	Objection to Application for Conversion Fee

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Krattenmaker. My business address is 633 17th Street, Suite 1410, Denver, Colorado 80202.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am the Vice President of Business Development and Chief Operating Officer (COO) for WoodRiver Energy, LLC (“WoodRiver”).

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. On behalf of WoodRiver.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF BUSINESS FOR WOODRIVER.

A. As Vice President of Business am responsible for finding opportunities for WoodRiver to grow our business. That entails exploring new markets, book of business acquisition, and talent acquisition for growth. I also manage WoodRiver’s regulatory compliance, regulatory advocacy, and utility partnerships.

Q. HAVE YOU PREPARED A STATEMENT OF YOUR EXPERIENCE AND QUALIFICATIONS?

A. Yes. My Statement of Qualifications is attached to this answer testimony as **Exhibit DK-1**.

Q. ARE YOU GENERALLY FAMILIAR WITH THE FILINGS IN PROCEEDING NO. NG-111.3?

A. Yes.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
2 **COMMISSIONS?**

3 **A.** Yes. I frequently testify before the Public Utilities Commission of Colorado, the Iowa
4 Utilities Board, the Kansas Corporation Commission, and other state public utilities
5 commissions and boards.

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

7 **A.** The purpose of my testimony is to challenge the conversion fee as proposed by Black Hills
8 Nebraska Gas, LLC (“Black Hills”) as unjust, unnecessary, and unreasonable and to
9 propose alternative methods of implementing a fairer conversion charge.

10 **Q: ARE YOU PROVIDING ANY EXHIBITS IN YOUR ANSWER TESTIMONY?**

11 **A:** Yes. I am sponsoring the following exhibits:

Testimony Exhibits	
Exhibit No. DK-1	Statement of Qualifications
Exhibit No. DK-2	Black Hills’ Response to WoodRiver Request No. WRE-1 and Attachment WRE-001-001 Conversion Fee Calculation
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12

II. BACKGROUND

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Q. CAN YOU EXPLAIN WHO WOODRIVER ENERGY IS AND WHAT SERVICES IT PROVIDES?

A. WoodRiver is a natural gas transportation company, sometimes referred to as a natural gas retail marketer or a Competitive Natural Gas Provider (CNGP). A gas transport company buys wholesale natural gas then sells that gas directly to consumers. A natural gas transport company does not own gas distribution infrastructure, instead it relies on local distribution companies (LDCs) to transport gas to its customers. Gas transport customers have the option of rate certainty due to fixed rate contracts and often have the same or lower rates than comparable gas sales customers. While in the past gas transport services were only available to large volume customers, WoodRiver has worked with LDCs across the United States to make the benefits of gas transport available to small volume customers.

Q. WHO ARE WOODRIVER’S CUSTOMERS?

A. WoodRiver has a wide variety of 468 Black Hills Nebraska Energy Options Program customers, but the majority of our Nebraska customers are small businesses, school districts, and municipalities.

Q. GENERALLY SPEAKING, WHY IS IT IMPORTANT FOR WOODRIVER TO PARTICIPATE IN REGULATORY PROCEEDINGS SUCH AS THIS ONE?

A. Like all gas transport companies, WoodRiver does not own the distribution infrastructure necessary to transport its gas to its customers. Instead, WoodRiver relies on LDCs, in this case Black Hills, to deliver its gas to the end user. WoodRiver’s transport gas competes with gas sales by LDCs for market share. Transport gas and sales gas utilize the same distribution system to reach customers. However, because LDCs own the distribution

1 system on which both sales and transport gas rely, the LDCs are incentivized to increase
2 costs and barriers to entry on transport gas, thereby making the LDCs' own sales gas more
3 attractive to customers. WoodRiver's position is that all rate classes, whether sales or
4 transport, should only be charged for costs they actually cause to the LDCs' gas system
5 and that barriers to convert between sales and transport gas are limited to the costs caused
6 by that conversion. The State Natural Gas Regulation Act, Neb. Rev. Stat. § 66-1801 *et*
7 *seq.*, shares this position and makes rates and conditions of service which are "unjust,
8 unreasonable, unjustly discriminatory, or unduly preferential" unlawful. WoodRiver
9 participates in regulatory proceedings in Nebraska and other states in which it operates to
10 ensure that these principles are faithfully administered.

11 **III. WOODRIVER SUPPORTS A FAIR CONVERSION FEE**

12 **Q: CAN YOU EXPLAIN YOUR UNDERSTANDING OF WHY BLACK HILLS IS**
13 **REQUESTING THE IMPLEMENTATION OF A CONVERSION CHARGE?**

14 **A.** Yes. The gas supply costs related to the February 2021 Cold Weather Event ("Cold
15 Weather Event") lead to approximately \$86.5 million in Black Hills customer impacts.
16 Recovery of these costs has been approved by the Nebraska Public Service Commission
17 ("Commission") for Residential and Commercial sales customers through the
18 implementation of a Commission-approved Cold Weather Event recovery mechanism
19 ("Cold Weather Gas Cost Recovery Mechanism"). Because the Cold Weather Gas Cost
20 Recovery Mechanism is only applicable to Residential and Commercial sales customers, a
21 Commercial or Small Firm gas sales customer who elects to convert its natural gas service
22 from Commercial or Small Firm rate schedules to the Energy Options Program or High
23 Volume Customer Transportation programs could avoid payment of the Cold Weather Gas

1 Cost Recovery Mechanism. The Conversion Fee is proposed to ensure that customers who
2 convert from sales gas to the Energy Options Program cannot avoid paying their share of
3 the Cold Weather Gas Cost Recovery Mechanism.

4 **Q: DOES WOODRIVER SUPPORT THE RECOVERY OF COLD WEATHER**
5 **EVENT COSTS BY BLACK HILLS?**

6 **A.** Yes. While WoodRiver did not participate in the Cold Weather Event Cost Recovery
7 proceeding in Nebraska, as a principle WoodRiver supports utilities being able to recover
8 their costs related to the Cold Weather Event. In other jurisdictions, WoodRiver has filed
9 testimony in support of investor-owned utility plans to recover Cold Weather Event costs.

10 **Q: IN THE APPLICATION FOR THIS PROCEEDING, BLACK HILLS STATES**
11 **THAT GAS SUPPLY MARKETERS ARE SOLICITING SALES CUSTOMERS**
12 **UNDER THE PREMISE OF AVOIDING COLD WEATHER GAS COST**
13 **RECOVERY COSTS. HAS WOODRIVER ENGAGED IN THESE ALLEGED**
14 **EFFORTS?**

15 **A.** No. As previously stated WoodRiver supports the recovery of Cold Weather Event related
16 costs and fundamentally disagrees with aiding in the avoidance of these costs.

17 **Q: DOES WOODRIVER SUPPORT THE IMPLEMENTATION OF A CONVERSION**
18 **FEE AS A CONCEPT?**

19 **A.** Yes. WoodRiver supports the recovery of Cold Weather Event costs and disagrees with
20 customers being able to avoid those costs. Thus, conceptually WoodRiver supports a
21 conversion fee which ensures customers cannot avoid Cold Weather Event Costs.
22 WoodRiver has supported conversion fees in other jurisdictions. However, WoodRiver

1 does not support the implementation of the Conversion Fee as proposed by Black Hills in
2 this proceeding.

3 **IV. BLACK HILLS' IMPLEMENTATION OF THE CONVERSION FEE IS AN**
4 **UNNECESSARY, UNJUST AND UNREASONABLE BARRIER TO ENERGY**
5 **OPTIONS PROGRAM PARTICIPATION**
6

7 **Q: CAN YOU EXPLAIN YOUR UNDERSTANDING OF HOW THE CONVERSION**
8 **FEE WAS CALCULATED BY BLACK HILLS?**

9 **A.** Yes. Black Hills set the Conversion Fee by calculating the Cold Weather Gas Cost
10 Recovery Mechanism recovery for a customer which had a 98-percentile annual
11 Commercial gas usage. I have attached Black Hills' Discovery Response to WoodRiver
12 Request No. WRE-1 and Attachment WRE-001-001 Conversion Fee Calculation as
13 **Exhibit DK-2** which shows Black Hills' calculation of the conversion fee. Based on
14 **Exhibit DK-2**, a 98th Percentile Customer uses 24,999 dekatherms (dth) of natural gas.
15 The Cold Weather Gas Cost Recovery Mechanism recovery for a customer which uses
16 24,999 dth of gas is \$13,000 (**Exhibit DK-2**). Consequently, the Conversion Fee is set at
17 \$13,000. Additionally, the Cold Weather Gas Cost Recovery Mechanism is paid over a
18 three-year period and accordingly the conversion fee is reduced by a third for each year of
19 the Cold Weather Gas Cost Recovery Mechanism is in effect. Thus, in year two the
20 Conversion Fee is \$9,000 and in year three the conversion fee is \$4,300 (**Exhibit DK-2**).

1 **Q: DOES THE CONVERSION FEE TAKE INTO ACCOUNT THE GAS USAGE OF**
2 **THE CUSTOMER IN DETERMINING THE AMOUNT OF AVOID COLD**
3 **WEATHER EVENT COSTS PAID BY THE CONVERTING CUSTOMER?**

4 **A.** No. The Conversion Fee is a “flat fee” required to be paid by all Commercial customers
5 who convert to the Energy Options Program. A customer’s gas usage could be 1 dth or
6 200,000 dth and the Conversion Fee is still \$13,000.

7 **Q: WHAT IS THE ANNUAL GAS USAGE OF THE MAJORITY OF COMMERCIAL**
8 **SALES CUSTOMERS ON THE BLACK HILLS SYSTEM?**

9 **A.** The vast majority of Black Hills Commercial Sales customers are small volume users of
10 natural gas. As reflected in Black Hills’ Response to WoodRiver Energy Data Request
11 WRE-8 and WRE-9, attached as **Exhibits DK-3** and **DK-4** respectively, 169,753 of Black
12 Hills’ roughly 200,000 Commercial Sales customers collectively account for less than 25
13 percent of the total gas usage of the Commercial class. [REDACTED]

14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]

20 [REDACTED] Overall, the distribution of Black Hills’
21 Commercial customer annual usage can be characterized as heavily skewed with most
22 customers using small volumes of gas and a few customers using very large volumes of
23 gas.

1 **Q: WHAT ARE THE CONSEQUENCES FOR CUSTOMERS IF THE CONVERSION**
2 **FEE IS CALCULATED BASED ON THE USAGE OF A 98th PERCENTILE**
3 **CUSTOMER AS PROPOSED BY BLACK HILLS?**

4 **A.** There are two primary consequences for customers. First, the vast majority of customers
5 who convert from Commercial sales to the Energy Options Program will pay significantly
6 more Cold Weather Event costs than they otherwise would by staying on the Commercial
7 sales rate class. Second, calculating the Conversion Fee based on the usage of 98th
8 percentile customers creates a *de facto* barrier to participation in the Energy Options
9 Program.

10 **Q: WHY WILL THE VAST MAJORITY OF CUSTOMERS WHO CONVERT FROM**
11 **COMMERCIAL SALES TO THE ENERGY OPTIONS PROGRAM WILL PAY**
12 **SIGNIFICANTLY MORE OF THE COLD WEATHER EVENT COSTS THAN**
13 **THEY OTHERWISE WOULD BY STAYING ON THE COMMERCIAL SALES**
14 **RATE CLASS?**

15 **A.** As I have explained earlier in my testimony, the Conversion Fee is calculated based on the
16 Cold Weather Gas Cost Recovery Mechanism obligation for Commercial sales customers
17 which annual consumes 24,999 dth of gas. The vast majority of Commercial sales
18 customers annually consume only a small fraction of 24,999 dth of gas. Consequently,
19 most customers who convert from Commercial sales to the Energy Options Program will
20 pay significantly more of the Cold Weather Event costs than they otherwise would by
21 staying on the Commercial sales rate class. As reflected in Black Hills' Response to
22 WoodRiver Energy Data Request WRE-12, attached as **Exhibit DK-6**, Black Hills agrees
23 that customers who pay the conversion charge "may voluntarily pay more than it would

1 otherwise pay if the customer remained on BH Nebraska Gas sales service.” Given the
2 distribution of annual usage by Commercial sales customers, it is more accurate to say that
3 *most* customers who convert will pay more.

4 **Q: IS BLACK HILLS PROPOSING TO REFUND CUSTOMERS WHO CONVERT**
5 **AND THEREFORE OVERPAY COLD WEATHER EVENT COSTS?**

6 **A.** Not directly or substantially. As provided for in Black Hills’ Response to WoodRiver
7 Energy Data Request WRE-13, attached as **Exhibit DK-7**, Black Hills intends to refund
8 overcollection of Cold Weather Event costs through the Gas Cost Adjustment (GCA)
9 surcharge. The GCA is paid by most gas customers, not just Energy Options Customers.
10 Thus, the overpayment from converting Energy Options Program customers will subsidize
11 the GCA costs of a much larger class of customers and will only marginally reduce the
12 overall conversion costs of Energy Options Program customers. Thus, an interclass
13 subsidy will be created between Energy Options Customers to other rate classes upon
14 payment of the Conversion Fee.

15 **Q: WHY HAVE YOU CHARACTERIZED THE CONVERSION FEE AS A *DE FACTO***
16 **BARRIER TO PARTICIPATION IN THE ENERGY OPTIONS PROGRAM?**

17 **A.** In **Exhibits DK-12** and **DK-13**, Black Hills characterizes the decision to convert from
18 Commercial sales to the Energy Options Program as a “voluntary choice.” While a
19 theoretical choice may exist in deciding to remain on Commercial sales or paying the
20 Conversion Fee and participating in the Energy Options Program, in practice no rational
21 customer will choose to convert if they will be responsible for paying significantly more
22 Cold Weather Event costs upon conversion. For this reason, I have characterized the
23 Conversion Fee as a *de facto* barrier, meaning that while it is not an explicit barrier to

1 participation in the Energy Options Program for existing Commercial sales customers it is
2 a barrier in fact, or in effect.

3 **Q: DOES THIS BARRIER, CREATED BY THE CONVERSION FEE AS PROPOSED,**
4 **BENEFIT BLACK HILLS?**

5 **A.** Yes. As I explained in the introduction to my testimony, CNGPs, like WoodRiver, and
6 LDCs, like Black Hills, compete for customers. By creating a barrier which prevents
7 CNGPs from competing for Black Hills' existing customers, Black Hills benefits.

8 **V. MORE REASONABLE AND FAIR METHODS OF IMPLEMENTING THE**
9 **CONVERSION FEE EXIST**

10
11 **Q: DO OTHER METHODS OF IMPLEMENTING A CONVERSION FEE EXIST?**

12 **A.** Yes. WoodRiver advocates that a converting customer's conversion fee be calculated
13 based on customer's actual usage rather than a "flat fee" based on the annual consumption
14 of the largest industrial gas users as proposed by Black Hills. Calculations based on actual
15 usage is fairer and more reasonable to customers and does not take away the ability of
16 customers to participate in the Energy Options Program.

17 **Q: HAS BLACK HILLS EXPLORED ALTERNATIVE METHODS OF**
18 **CALCULATING THE CONVERSION FEE?**

19 **A.** In Black Hills' Response to Public Advocate Data Request PA-01, attached as **Exhibit**
20 **DK-8**, Black Hills discusses that it considered and ultimately rejected three alternative
21 methods of Conversion Fee billing which will enable a Conversion Fee based on individual
22 customer usage. In summary, implementing a Conversion Fee based on usage was rejected
23 by Black Hills due to the existing limitations of Black Hills' billing system and the
24 perceived costs of either implementing improvements to the billing system or manual
25 administration of a Conversion Fee based on actual usage.

1 **Q: DO YOU FIND BLACK HILLS' REASONS FOR REJECTING A USAGE-BASED**
2 **CONVERSION FEES CONVINCING?**

3 **A.** I do not. In particular, I don't believe Black Hills has properly considered the fact that only
4 a small number of customers convert from Commercial sales to the Energy Options
5 Program. As shown in Black Hills' Response to WoodRiver Energy Data Request WRE-
6 5, attached as **Exhibit DK-9**, an average of 217 Commercial or Small Volume Firm
7 customers have converted from Commercial sales to the Energy Options Program from
8 2018-2020. Given the relatively small number of customers who choose to convert on an
9 annual basis, the difficulty and expense of manual administration of the Conversion Fee
10 seem overstated. According to Black Hills' Response to WoodRiver Energy Data Request
11 WRE-6, attached as **Exhibit DK-10**, Black Hills has the ability to manually enter line items
12 to customer bills. It is unclear why a usage-based conversion fee could not be calculated
13 at the time of conversion then simply added as a line item to customer bills. Alternatively,
14 a line item could be manually added to the few converting customers on an ongoing usage
15 basis by multiplying their ongoing meter reads by the Cold Weather Event Cost
16 Mechanism. It does not seem credible that Black Hills can perform these calculations for
17 its own Commercial sales customers, but not Energy Options Program customers.

18 **Q: DO YOU BELIEVE THE ARGUMENT THAT BILLING SYSTEM UPDATES FOR**
19 **THE PURPOSE OF IMPLEMENTING A USAGE-BASED CONVERSION FEE**
20 **ARE ECONOMICALLY INFEASIBLE HAS BEEN ADEQUATELY JUSTIFIED?**

21 **A.** No. **Exhibit DK-9** only provides rough estimates of the employee hours required to
22 implement billing system updates. No basis has been provided for these estimates, nor has
23 a cost been associated with those employee hours. **Exhibit DK-9** also attempts to argue

1 that hourly requirements to implement billing updates “increases significantly if multiple
2 states.” This does not make sense. While the overall cost of the update may be more if
3 more states were involved, it seems logical that the cost per state would be less if more
4 states were involved.

5 **Q: ARE YOU AWARE OF OTHER COMMISSIONS AND UTILITIES WHICH ARE**
6 **IMPLEMENTING CONVERSION FEES?**

7 **A.** Yes. I am familiar with a few. Black Hills has proposed conversion fees in Wyoming and
8 Iowa in addition to Nebraska. Interstate Power and Light Company d/b/a Alliant
9 (“Alliant”) has a conversion fee in Iowa.

10 **Q: WHICH CONVERSION FEES ARE A FLAT FEE VERSUS A USAGE-BASED**
11 **FEES?**

12 **A.** Black Hills Wyoming and Alliant have either proposed or implemented a usage-based
13 conversion fee. Black Hills has proposed a flat fee conversion fee in Iowa which is
14 calculated similarly as the Conversion Fee proposed in Nebraska. The Iowa Office of
15 Consumer Advocate has objected to the implementation of a flat fee conversion fee for
16 many of the same reasons WoodRiver has contested the Conversion Fee proposed by Black
17 Hills in Nebraska. I have attached the Objection to Application for Conversion Fee as
18 **Exhibit DK-11**. Alliant has implemented a usage-based Conversion fee which relies upon
19 on-going choice customers’ usage multiplied by the approved Cold Weather Event
20 recovery mechanism charge. Thus, when an alliant Customer converts they pay the same
21 amount of Cold Weather Event recovery costs as they would as a sales customer.
22 WoodRiver has supported the conversion fee implemented by Alliant.

1 **Q: DO YOU AGREE THAT THAT POTENTIAL BILLING UPDATES WHICH**
2 **WOULD PERMIT A USAGE BASED CONVERSION FEE WOULD ONLY BE**
3 **USEFUL FOR THIS PROCEEDING?**

4 **A:** No. It seems likely future extreme weather events will require usage-based surcharges on
5 customer bills. Part of the justification for a three-year amortization of Cold Weather Event
6 costs is the possibility of a similar event in the future and that a longer amortization period
7 risks the possibility of “pancaking” extreme weather event surcharges. WoodRiver
8 supports short amortization periods of Cold Weather Event costs for this reason. If such
9 events have the possibility of reoccurring in the future, it only makes sense that the
10 expansion of billing system capabilities now will benefit customers and Black Hills in
11 future extreme weather events.

12 **Q: SHOULD UTILITY CUSTOMERS IN NEBRASKA BE SUBJECT TO A**
13 **CONVERSION FEE WHICH REQUIRES THEM TO OVERPAY COLD**
14 **WEATHER EVENT COSTS UPON CONVERSION WHILE CUSTOMERS IN**
15 **WYOMING AND IOWA ARE NOT?**

16 **A.** No. As explained repeatedly in my testimony WoodRiver supports the collection of Cold
17 Weather Event costs from customers. WoodRiver does not support that Nebraska
18 customers who covert from Commercial sales to Energy Options are required to overpay
19 Cold Weather Event costs, while similarly situated customers in Iowa and Wyoming are
20 not.

21 **VI. RECOMMENDATIONS**

22 **Q: DO YOU HAVE ANY RECOMMENDATIONS AS TO HOW THE COMMISSION**
23 **SHOULD RULE ON THIS APPLICATION?**

1 **A:** Yes. I recommend the Commission reject the implementation of the Conversion Fee as
2 proposed by Black Hills in its application. Instead, the Commission should order that a
3 Conversion Fee be implemented which corresponds to actual customer usage and fair
4 collection of Cold Weather Event costs. Such a usage-based Conversion Fee should be
5 implemented in the most cost-effective and fair means possible, whether that be through
6 manual administration or a billing system update. The Commission may conclude that a
7 particular method of implementation be employed or order that a workshop or technical
8 conference be conducted with the parties to this proceeding to determine the best
9 implementation of a usage-based conversion fee. It is Black Hills' burden to prove that
10 their proposed tariff change implementing the Conversion Fee is just, reasonable, and
11 necessary and Black Hills has not provided the evidence necessary to support this
12 conclusion.

13 **Q:** **DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A.** Yes.

CERTIFICATE OF SERVICE

Pursuant to 291 Neb. Admin Code § 015.0 (b), and the hearing officer's ruling on service, the above **ANSWER TESTIMONY AND ATTACHMENTS OF DON KRATTENMAKER ON BEHALF OF WOODRIVER ENERGY, LLC** was served upon all parties or their respective attorneys of record using the service list provided by the Commission electronically on this 22nd day of October 2021.

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BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Black Hills Nebraska Gas, LLC)
d/b/a Black Hills Energy, Rapid City, South) Application No. NG-111.3
Dakota, Seeking to Modify its Tariff Due to the)
February 2021 Cold Weather Event and Implement)
a Conversion Fee for Commercial Sales Customers)
Who Convert to Transportation Service.)

**STATEMENT OF QUALIFICATIONS
OF
DON KRATTENMAKER**

Don Krattenmaker currently serves as Partner and Vice President of Business Development at WoodRiver Energy, LLC. Don has twenty years of experience in trading and selling natural gas. Prior to working at WoodRiver Don managed a sales office of 25 people marketing gas in the Rocky Mountain and upper Midwest states. Currently, at WoodRiver, Don directs the company's business development efforts and supports the company's on-going sales and marketing and regulatory efforts throughout a seven state region

EDUCATION

Bachelors of Science, Business Administration
University of Colorado - Boulder, 1992

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-1**

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Tyler Frost
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Conversion Charge Calculations

REQUEST: Describe in detail how the conversion charge amount was calculated. Identify all individuals directly involved in the creation of the conversion charge. Identify and produce all work papers in native executable format and other documents involved in the creation of the conversion charge.

RESPONSE:

As explained in its application and in response to discovery requests, BH Nebraska Gas set the Conversion Fee using an annual commercial usage upper limit of 98 percent (98%) to capture the majority of customers who may otherwise convert and attempt to avoid the 2021 February Gas Cost event. Please see Attachment WRE 001-001 Conversion Fee Calculation.

Individuals directly involved in the creation of the conversion charge include:

- Margaret McGill – BHE Manager of Regulatory & Finance
- Tyler Frost – BHE Manager of Regulatory & Finance

ATTACHMENT:

Attachment WRE 001-001 Conversion Fee Calculation

Exhibit DK-2

BHNE SALES:EO/TRANSPORT CONVERSION FEE

<u>Ln</u>	<u>Description</u>	<u>Source</u>	
1	Annual Commercial Usage; 98% Upper Limit	CONFIDENTIAL; Internal BHE Customer Usage	24,999
2	Total Commodity Plus Carrying Costs	NG-111.1; BHNE Proposal; Exh 2	\$ 86,502,129
3	Annual Firm Sales Vols	NG-111.1; BHNE Proposal; Exh 2	166,363,917
4	Recovery Period	NG-111.1; BHNE Proposal; Exh 2	3
5	Annual Recovery	Ln 2 / Ln4	\$ 28,834,043
6	Recovery Rate \$/Therm	Ln 5 / Ln3	\$ 0.17332
7	Comm PV Annual Recovery; 98% level of risk avoidance	Ln 1 * Ln6	\$ 4,333
<u>Tariff Sales/EO Conversion Fees</u>			
8	Conversion Fee; Conv Dates July 2021 - June 2022	ROUND (Ln7 * 3, -3)	\$ 13,000
9	Conversion Fee; Conv Dates July 2022 - June 2023	ROUND (Ln7 * 2, -3)	\$ 9,000
10	Conversion Fee; Conv Dates July 2023 - June 2024	ROUND (Ln7 * 1, -2)	\$ 4,300

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-8**

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Tyler Frost
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Operations

REQUEST: Identify the annual natural gas usage as percentile of Black Hills Commercial sales for the following percentiles:

- a. 98th Percentile
- b. 75th Percentile
- c. Median
- d. 25th Percentile

RESPONSE:

In this response, the Company interprets the term “percentile” in a manner similar to the method it used to set the Conversion Fee. Thus, the Company’s response to the request to “Identify the annual natural gas usage as percentile of Black Hills Commercial sales....” for X “Percentile” will be representative of the annual commercial usage that makes up approximately X% of total usage, based on 2019 available data.

	Usage
98%	46,844,766
75%	35,997,838
50%	23,999,119
25%	12,010,799

ATTACHMENTS:

None

BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-9

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Tyler Frost
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Operations

REQUEST: Identify the number of Black Hills Commercial sales customers which fall into the following categories according to their annual natural gas usage as a percentile:

- a. 98th Percentile
- b. 75th Percentile
- c. Median
- d. 25th Percentile

RESPONSE:

In this response, the Company interprets the term “percentile” in a manner similar to the method it used to set the Conversion Fee. Thus, the Company’s response to the request to “Identify the number of Black Hills Commercial sales customers which fall into the following categories according to their annual natural gas usage as a percentile...” for X “Percentile” will be representative of the number of commercial sales customers that consume approximately X% of total usage, based on 2019 available data. The amounts below identify the number of commercial sales bills rendered as a reasonable proxy for the requested number of customers.

	Count
98%	199,502
75%	197,697
50%	189,933
25%	169,763

ATTACHMENTS:

None

BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-12

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Tyler Frost
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Customer Impact

REQUEST: Admit that a Commercial or Small Volume Firm customer which has an annual natural gas usage of less than that of a 98th percentile customer will pay more of the costs incurred from the February 2021 cold weather event via the conversion charge than they otherwise would if they stayed on a Commercial or Small Volume Firm rate. If your response is anything other than an unqualified admission describe in detail the basis for that denial.

RESPONSE:

Deny. BH Nebraska Gas does not know how much gas supply an individual customer may or may not consume over the next three years and therefore can't state whether a conversion fee payment would exceed the amount collected from that customer under the Cold Weather Event surcharge approved by the Commission.

BH Nebraska Gas does acknowledge that if a customer freely elects to pay the conversion fee instead of remaining on commercial sales tariff that customer may voluntarily pay more than it would otherwise pay if the customer remained on BH Nebraska Gas sales service. The decision to convert or not is left with the customer.

ATTACHMENTS:

None

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-13**

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Tyler Frost
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Customer Impact

REQUEST: Admit that if Commercial or Small Volume Firm customers which have an annual natural gas usage of less than that of a 98th percentile customer convert to the Energy Options Program, that the Company will over collect the costs incurred from the February 2021 cold weather event. If your response is anything other than an unqualified admission describe in detail the basis for that denial.

RESPONSE:

Deny.

BH Nebraska Gas does not know how many customers will convert from commercial sales to transportation but assumes that most commercial sales customers less than the annual commercial usage upper limit of 98 percent (98%) used to set the Conversion Fee will not elect to pay the conversion fee. Instead, those customers will pay the tariff surcharge approved by the Commission.

As to cost recovery, the Commission's order in Commission Application No. NG-111 approved BH Nebraska Gas to recover actual gas supply costs incurred and carrying costs of the February 2021 cold weather event. Any revenues collected as a result of the Conversion fee will contribute towards the recovery of those costs. By Commission Order, the Company will file semi-annual compliance reporting of February 2021 cold weather event recoveries. Any revenues in excess of the actual costs, including permitted carrying costs will be contributed to gas supply costs under the Gas Cost Adjustment. The total amounts collected will be reconciled so there will be no over-collection.

ATTACHMENTS:

None

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO PUBLIC ADVOCATE
DATA REQUEST NO. PA-01**

DATE OF REQUEST: 09/08/2021
DATE RESPONSE DUE: 09/21/2021
REQUESTOR: Public Advocate
ANSWERED BY: Meg McGill
WITNESS: Tyler Frost
DATE RESPONDED: 09/21/2021
SUBJECT: Customer Impact

REQUEST: Please provide a narrative discussing the various alternative methods considered by the Company to ensure that departing customers (Commercial or Small Volume firm sales) paid their share of the excess costs as a result of the February 2021 cold weather event. For each alternative considered, please indicate why it was not selected.

RESPONSE:

In addition to the proposed conversion fee, the Company considered alternatives for handling the polar vortex charge for firm sales customers converting to transportation service. The alternatives required system enhancements, additional manual work to administer, implementation effectively and efficiently in a short period of time, or simply were not available in Nebraska. In the end, because both the polar vortex charge and conversion fee are temporary cost recovery mechanisms (i.e., only three years in duration), the Company elected to proceed with the option that resulted in minimal work upfront as well as minimal ongoing administration.

- One option the Company considered was to add RateIDs. Customers are billed through BHE systems by creating service agreements which are associated with a RateID to calculate a bill. A RateID has all of the specific billing components (customer charge, distribution charge, GCA, etc.). Under this method, transportation RateIDs would need to be manually recreated for the existing impacted transportation RateIDs, except that the recreated RateIDs would also be assigned the polar vortex billing component. That results in identical RateIDs for a commercial customer, except for the polar vortex billing component (one RateID has the component, while the other does not). This would have to be manually administered to ensure a customer was moved to the correct RateID. The creation of new/duplicate RateIDs is a manual process and requires testing and approval by several groups within the Company to ensure billing will be processed appropriately, as well as ongoing

manual administration to ensure customers are moved to the correct transportation RateID.

- Another option the Company considered was using an existing field in the billing system to bypass the traditional RateID process and bill one component at the premise/service agreement level. The Company considered two functionalities under this option.
 - Special Geo Code. This field is primarily used in conjunction with special taxation situations that relate to individual or groups of premises rather than the larger taxing authority territory. Currently, the billing system is configured to only apply one Special Geo Code when it runs the billing processes to create bills. Therefore, if there are other Special Geo Codes in use in the territory, it will not work. As a result, this approach is only available in Wyoming Choice Gas territory, because there are no Special Geo codes being used. In Wyoming, the Company investigated and has implemented the use of Special Geo Codes to create a charge that stays with the premise once it has been “stamped” to be charged to the corresponding price of the Special Geo Billing Factor. This approach is not available in other states, including Nebraska, due to the existence of Special Geo Codes on premises already. System modifications to allow for more than one Special Geo Codes is estimated at approximately 220 hours for the programming and testing. Additionally, there is manual administration required to ensure the code is removed from the premise if the customer moves (unless the new customer at the premise is also a transportation customer subject to the billing component).
 - Contract Rider. BH Nebraska Gas looked at utilizing the contract rider functionality to facilitate billing the polar vortex component at the service agreement level. This option would require IT work, internal rate manipulation and testing, and manual administration for each applicable customer. Estimated resource hours vary depending on how many jurisdictions would utilize this functionality. For example, if just one state utilized this functionality to bill transportation customers the polar vortex component, estimated hours are approximately 100 hours for programming, testing, and administration. That number increases significantly if multiple states were to pursue utilizing this functionality.

ATTACHMENTS:

None

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-5**

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Jan Meis
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Energy Options Program

REQUEST: Identify the number of Black Hills Commercial or Small Volume Firm customers that converted from commercial sales to an Energy Options Program in 2018, 2019, and 2020.

RESPONSE:

The number of Commercial or Small Volume Firm customers that converted from sales service to Energy Options between 2018 and 2020 is shown below.

2018: 251
2019: 168
2020: 231

ATTACHMENTS:

None

**BLACK HILLS NEBRASKA GAS, LLC
APPLICATION NO. NG-111.3
POLAR VORTEX CONVERSION FEE
RESPONSE TO WOODRIVER ENERGY, LLC
DATA REQUEST NO. WRE-6**

DATE OF REQUEST: 09/09/2021
DATE RESPONSE DUE: 09/22/2021
REQUESTOR: WoodRiver Energy, LLC
ANSWERED BY: Meg McGill
WITNESS: Tyler Frost
DATE RESPONDED: 09/22/2021
SUBJECT: Billing

REQUEST: Describe whether Black Hills has the capability to manually create Energy Options Program customer bills. For example, can Black Hills add a line-item charge on an Energy Options Program customer bill? If not, describe in detail why.

RESPONSE:

Black Hills can manually add adjustment codes to customer bills, generally used for miscellaneous fees including connection, and reconnection fees, and other one-time flat fees, not including recurring and/or volumetric fees. This is the functionality that will be used for the one-time conversion fee.

ATTACHMENTS:

None

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: BLACK HILLS/IOWA GAS UTILITY COMPANY, LLP d/b/a BLACK HILLS ENERGY	DOCKET NOS. PGA-2020-0225 & TF-2021-0092
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OBJECTION TO APPLICATION FOR CONVERSION FEE

COMES NOW, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, and provides the following objection to the Application for a Conversion Fee (“Application”) and associated tariff filed with the Iowa Utilities Board (Board) by Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (Black Hills) in Docket Nos. PGA-2020-0225 and TF-2021-0092 on September 1, 2021.

1. On April 15, 2021, Black Hills filed its “Recovery Plan” with the Board describing how the company proposes to recover the excessive costs related to the February 2021 polar vortex extreme weather event. The Board issued an order approving portions of Black Hills’ recovery plan on March 24, 2021, which included approval of a regulatory asset account beginning with the filing of Black Hills’ April 2021 purchased gas adjustment (PGA) factor. Currently, Black Hills is recovering costs related to the February 2021 polar vortex through a Board-approved recovery rate applied to Residential and Non-Residential Firm Sales customers¹ throughout Black Hills’ Iowa service territory.

¹ Non-Residential Firm Sales customers include Non-Residential General Service, Small Volume Joint, and Large Volume Joint customers.

2. In its Application for Conversion Fee filed on September 1, 2021, Black Hills states that it has become aware of efforts made by one or more gas supply marketers to solicit Non-Residential Firm Sales customers to convert from Sales to Transportation Services because costs associated with the polar vortex event are not applicable to Transportation Service customers. Black Hills claims that its cost recovery plan assumed the same customers subscribing to Non-Residential Firm Sales service in February 2021, would continue at that level into the future and if a significant number of those customers are allowed to convert to Transportation Service to avoid paying costs incurred on their behalf during the polar vortex, the remaining Residential and Non-Residential Firm Sales customers would be forced to subsidize those customers. Black Hills asks that the Board approve a proposed tariff change, identified as TF-2021-0092, that assesses a Conversion Fee to those Non-Residential Firm Sales customers who convert to Transportation Service in order to ensure that those customers who contributed to the polar vortex costs pay their appropriate share of those costs and avoid cross-subsidization by Black Hills' other customers.

3. OCA believes the rationale for Black Hills' proposed conversion fee is reasonable. In comments filed by OCA on July 1, 2021, related to the recovery of polar vortex costs by Black Hills and other Iowa natural gas service providers, OCA expressed concern over the potential for large natural gas customers to switch from Sales to Transportation services to avoid paying any costs associated with the polar vortex. However, OCA objects to the methodology used by Black Hills to calculate the proposed conversion fee.

4. Black Hills states that it structured the proposed conversion fee as a "flat fee" because the company will need to manually apply the conversion fee and a "flat fee" is the easiest way to ensure collection of polar vortex related costs from converting customers. Black

Hills asserts that it considered alternative recovery methods, but that those methods were incompatible with the Company's billing systems. Since Black Hills uses AMI meters to track customer usage, it seems reasonable that Black Hills would be able to ascertain accurate interval usage data for each of its customers, which can then be used to calculate each customer's associated polar vortex related costs. Black Hills indicated in an updated information filing made on September 16, 2021, that the Company is open to a different recovery period (2 years instead of the proposed 3 years). Therefore, calculating each individual customer's associated polar vortex related costs when a customer switches to transportation service would eliminate any need to adjust annual flat fee conversion fees based on the final Board-approved length of recovery while also providing Black Hills with the flexibility that may be needed at the end of the recovery period should more or less time be needed. OCA asks that the Board require Black Hills to provide additional explanation regarding why it is not possible to calculate each customer's usage and corresponding polar vortex related costs since this calculation would be a more appropriate method for determining and assessing a conversion fee to those customers switching to transportation services.

5. According to the Application, the fee was calculated based on the largest general service customers, which are large usage industrial customers, and was illustrated in a simple table included in the Application. However, the information presented was not explained and the accompanying values included no supporting data, calculations, or formulas necessary to investigate the accuracy of the proposed values. For example, Table 1 in the Application indicates "annual therms used in the calculation" as being 182,000, and a "potential shortfall" as being \$358,000. However, Black Hills failed to provide any supporting information that would allow the Board or OCA to determine the accuracy of the annual therms number, how the

company calculated the “potential shortfall,” or how those figures are used to calculate the flat fee Black Hills is proposing. Moreover, Black Hills claims that the calculations were based on 2020 Non-Residential Firm Sales usage data, but that information also cannot be verified based on the information contained in the Application. OCA asks that the Board require Black Hills to amend its Application to provide supporting information and data, including all of the calculations and formulas it used to arrive at the proposed conversion fee.

6. Black Hills indicates that as customers pay the polar vortex related costs, the outstanding balance of those costs will decrease. Therefore, Black Hills proposes a conversion fee that will decline each year for three years, which is the length of time Black Hills has requested to recover those costs. Table 2 in the Application proposes a conversion fee of \$107,000 from October 2021 to March 2022, a fee of \$71,500 from April 2022 to March 2023, and a fee of \$35,500 from April 2023 to March 2024. However, these numbers appear to be randomly selected. Black Hills did not provide any supporting information regarding the calculation of these fees and there is no apparent way to calculate these figures based on the information provided in Table 1 of the Application. OCA asks that the Board require Black Hills to amend its Application to provide supporting information and data, including all of the calculations and formulas it used to arrive at the proposed conversion fee. OCA recommends that the time period used to calculate the conversion fee match the length of recovery. Therefore, Black Hills’ Table 2 and the corresponding conversion fees should also reflect the potential two-year recovery period.

7. Black Hills has calculated the proposed conversion fee levels based on the anticipated recovery of the total \$95.45 million February 2021 polar vortex costs over a proposed recovery period of the next three years. The anticipated recovery is based off of the Company’s

projected sales to all customers and weather over that same three-year period. Since both sales and weather are variable and completely out of Black Hills' control, assigning flat fees going forward will not accurately reflect the actual cost recovery that will occur until all costs have been collected. Weather could be warmer or colder than anticipated and customer usage could fluctuate; both will greatly impact the level of costs remaining each year. This uncertainty emphasizes OCA's position that the most accurate, reasonable, and prudent way to assess and collect a transportation conversion fee is on an individual customer basis that is calculated at the time a sales customer switches to transportation service. If the Board determines that the use of a proposed flat fee conversion fee is somehow appropriate, Black Hills should be required to conduct an annual reconciliation of the polar vortex costs relative to the amounts associated with sales service and true-up the conversion fee values relative to the costs that remain uncollected. As currently proposed, the only review Black Hills is offering to conduct over the time that the conversion fee will be utilized is associated with the elimination of the fee, not ensuring that whatever fee may be assigned to a sales customer that switches to transportation service is prudent and reasonable. The Company's proposal to review and modify the conversion fee after the full recovery of the February 2021 polar vortex costs is not sufficient.

8. OCA notes that Black Hills based its Application for a proposed conversion fee for Iowa customers on a similar Application filed on June 29, 2021, in Nebraska.² A comparison between the proposed conversion fees in Nebraska and Iowa is reflected in the following table:

² *In the Matter of the Nebraska PSC, et al.*, Docket No. NG-111.1, Application No. NG-111/PI-237, "Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy's Application for a Conversion Fee" filed June 29, 2021.

	<u>Nebraska Conversion Fee</u>	<u>Iowa Conversion Fee</u>
First Year	\$13,000	\$107,000
Second Year	\$9,000	\$71,500
Third Year	\$4,300	\$35,500

The Applications filed by Black Hills in each state are substantially similar and neither application includes any supporting information or data for the conversion fee values. Yet, the fees proposed in each state are significantly different. It would be useful if Black Hills could provide more detailed supporting information and data for the comparable Nebraska conversion fee values for purposes of comparison, along with an explanation as to why the proposed values are so much higher in Iowa.

9. In the Application filed by Black Hills with the Board, Black Hills states that it will alert all marketers on its system of the conversion fee and instruct them to inform sales customers of the potential charge. This proposed notification process is not consistent with Iowa Code § 476.6(2), which requires public utilities to provide written notice of a proposed charge to all affected customers. OCA asks that the Board require Black Hills to provide appropriate written notice of any conversion fee, if allowed, to all potential affected customers.

10. OCA notes that Black Hills' proposed new tariff sheet that contains the text and associated proposed conversion fees is labeled as Original Sheet No. 167.1. However, all of the other proposed tariff changes that refer to this new tariff sheet cite to Sheet No. 165.1. Any approval of a proposed transportation conversion fee will require Black Hills to file updates to the following tariff sheets and correctly cite to Sheet No. 167.1:

- Third Revised Sheet No. 98
- Third Revised Sheet No. 100
- Third Revised Sheet No. 102
- Second Revised Sheet No. 106
- Second Revised Sheet No. 107
- Second Revised Sheet No. 111
- First Revised Sheet No. 115
- Second Revised Sheet No. 161

WHEREFORE, OCA respectfully objects to the Application for a Conversion Fee filed by Black Hills on September 1, 2021, and requests that the Board require Black Hills to submit additional information as described above.

Respectfully submitted,

Jennifer C. Easler
Consumer Advocate

/s/ Jennifer L. Johnson

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Attorney

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OFFICE OF CONSUMER ADVOCATE