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October 22, 2021

Ms. Shanicee Knutson  
Deputy Director  
Nebraska Public Service Commission  
1200 N Street, Suite 300  
Lincoln, NE 68508

RE: Commission Docket No. NG-111.3  
February 2021 Cold Weather Event; Conversion Fee

Dear Ms. Knutson:

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Black Hills Energy”) hereby submits the attached Prefile Testimony in support of a Conversion Fee as set for in the Black Hills Energy Tariff.

Please contact me at (402) 221-2635 or [douglas.law@blackhillscorp.com](mailto:douglas.law@blackhillscorp.com) if you have any questions, concerns or need additional information.

Respectfully submitted

**BLACK HILLS NEBRASKA GAS, LLC  
D/B/A BLACK HILLS ENERGY**

/s/ Douglas J. Law

Douglas J. Law, NE Bar #19436  
Associate General Counsel  
(402) 221-2635

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10/22/21  
NAT GAS DEPT

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

**In the Matter of Black Hills )  
Nebraska Gas, LLC d/b/a Black )  
Hills Energy, Rapid City, South )  
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. )**

**Application No. NG-111.3**

**BLACK HILLS NEBRASKA GAS, LLC D/B/A BLACK HILLS ENERGY'S  
PREFILED TESTIMONY OF TYLER E. FROST**

**I. INTRODUCTION**

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

A. My name is Tyler E. Frost. My business address is 1731 Windhoek Drive, Lincoln, NE 68512.

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

A. I am employed by Black Hills Service Company, LLC ("BHSC"), a wholly owned subsidiary of Black Hills Corporation ("BHC"). I am a Manager of Regulatory and Finance.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

A. I am testifying on behalf of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy ("BH Nebraska Gas" or the "Company"). BH Nebraska Gas is BHC's natural gas jurisdictional utility in Nebraska.

## **II. STATEMENT OF QUALIFICATIONS**

**Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?**

A. I am responsible for regulatory compliance, internal support, application filings and maintenance of the tariffs for BH Nebraska Gas, BHC's wholly-owned natural gas utility subsidiary in Nebraska.

**Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BH NEBRASKA GAS OPERATIONS.**

A. I directly oversee the preparation and filing of regulatory compliance filings, responses to customer complaints, and other Nebraska Public Service Commission ("Commission") filings.

**Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

A. I graduated from the University of Nebraska – Lincoln (UNL) with a bachelor's degree in Mathematics and, later, earned a master's degree in Economics from UNL. I have nearly 25 years of experience in roles within various utility industries. Prior to joining Black Hills, beginning in 1999, I served with the Nebraska Public Service Commission. In 2004, I became the Commission's Economist with responsibilities for various econometric modeling and economic analysis for various areas regulated by the Commission. I joined Black Hills in 2015 as Financial Analyst within the Financial Management group and, in 2019, was promoted to my current position of Regulatory & Finance Manager.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

A. Yes. As the economist on Staff for the Commission, I testified numerous times in a variety of dockets. As a Manager for BHSC, I have also provided testimony in support of the BH Nebraska Gas SSIR in Nebraska Commission Application No. NG-0078.7 and filed testimony and exhibits in Nebraska Commission Application No. NG-109 (BH Nebraska Gas 2020 Rate proceeding).

**III. PURPOSE OF TESTIMONY**

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

A. The purpose of my testimony is to provide support for the Company's June 29, 2021, tariff filing of a Conversion Fee applicable to any Commercial or Small Firm gas sales customer who elects to convert its natural gas service from Commercial or Small Firm rate schedules to the Energy Options Program or High Volume customer transportation programs.

**IV. CONVERSION FEE**

**Q. PLEASE PROVIDE A DESCRIPTION OF THE CONVERSION FEE?**

A. 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.

As approved by the Commission in its June 25, 2021, Order in Application No. NG-111.1, BH Nebraska Gas' Cold Weather Gas Cost Recovery Mechanism is expected to be in place for approximately three years. The three-year period is needed to collect the approximately \$86.5 million incremental and extraordinary February 2021 Cold Weather Event Costs. BH Nebraska Gas recognizes that as

customers pay the Cold Weather Gas Cost Recovery Mechanism the outstanding balance will decline. Therefore, BH Nebraska Gas tariff reflects a Conversion Fee that declines each year.

BH Nebraska Gas structured the Conversion Fee as a flat fee because the Company will need to manually apply the Conversion Fee. BH Nebraska Gas determined that it could not adequately track the assessment of February 2021 Cold Weather Event Costs for converting customers by assessing and tracking recovery of those costs through commodity surcharge basis. Simply put the easiest way to ensure sales customers pay their share of the February 2021 Cold Weather Event Costs is for them to remain on sales service. If they elect to switch to transportation, then the easiest way to ensure collection of the February 2021 Cold Weather Event Costs from the converting customers is to apply the Conversion Fee. Other possible recovery methods were contemplated and discussed. However, all others are more complicated and, in most cases, incompatible with BH Nebraska Gas' billing system.

In addition to the implemented Conversion Fee, the Company considered alternatives for handling the polar vortex charge for firm sales customers converting to transportation service. The alternatives not proposed 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 the 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, minimal ongoing administration, at the least cost.

The Conversion Fee will only be charged to a Commercial or Small Volume Firm Sales customer at the time the customer voluntarily elects to convert from sales to transportation service. Thus, if a customer remains on sales service, then no Conversion Fee is assessed to the customer.

In addition, the Conversion Fee will not be assessed to Energy Option, nor High Volume transportation, customers who elect to convert from transportation service to sales service as those customers did not cause the February 2021 cold weather event gas costs. However, once converted, any new or returning Commercial sales customers will be assessed the ongoing Cold Weather Gas Cost Recovery Mechanism surcharge pursuant to BH Nebraska Gas' Proposal as approved by the Commission.

**Q. WHY IS THE CONVERSION FEE NECESSARY?**

A. BH Nebraska Gas became aware of efforts by one or more gas supply Marketers who were soliciting Commercial and Small Volume firm sales customers to convert from sales to transportation service. The primary driver for the conversion from commercial sales to transportation is that the customer may avoid paying the commodity surcharge applied under BH Nebraska Gas' approved Cold Weather Gas Cost Recovery Mechanism.

At the time BH Nebraska Gas developed the surcharge for collection of the \$86.5 million February 2021 Cold Weather Event costs, it reasonably assumed that the same level of customers on Commercial sales service in February 2021 would continue at that level into the future. However, if significant numbers of customers are permitted to leave Commercial sales and thereby avoid costs incurred on their

behalf during the February 2021 cold weather event, then the remaining sales customers would in effect subsidize those converting customers.

The purpose of the Conversion Fee is to ensure that customers who contributed to the \$86.5 million in incremental February 2021 cold weather event gas costs pay their share of those costs. The Conversion Fee is necessary to avoid unlawful cross subsidization by GCA customers to the benefit of those customers who convert from Commercial or Small Volume sales to transportation.

**Q. WHEN WILL THE CONVERSION FEE BECOME EFFECTIVE?**

A. The Conversion Fee became effective July 1, 2021, pursuant to the Commission's order in Application No. NG-111.3, entered June 30, 2021, granting temporary modification of the Company's tariff.

**Q. WHEN WILL THE CONVERSION FEE END?**

A. BH Nebraska Gas will review and modify the Conversion Fee after the full recovery of the February 2021 cold weather event gas costs through the Cold Weather Gas Cost Recovery Mechanism. In other words, BH Nebraska Gas believes that the Conversion Fee should be eliminated after approximately three years.

**Q. HOW WILL ASSESSED CONVERSION FEE COLLECTIONS BE TREATED?**

A. BH Nebraska Gas will contribute any amounts collected from converting sales customers under the Conversion Fee to the reduction of the \$86.5 million balance in incremental February 2021 cold weather event gas costs

**Q. HAS THE COMPANY ASSESSED THE CONVERSION FEE?**

A. As of October 22, 2021, one (1) customer has elected to move from Commercial sales to transportation service, voluntarily electing to pay the Conversion Fee in the amount of \$13,000.

**V. RECOMMENDATIONS**

**Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

A. The Company recommends the Commission approve the Company's Conversion Fee tariff as proposed and currently in effect.

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

A. Yes.



**AFFIDAVIT OF TYLER E. FROST**

State of Nebraska            )  
  ) ss  
County of Lancaster        )

I, TYLER E. FROST, being first duly sworn on oath, depose and state that I am the same Tyler E. Frost identified in the foregoing Testimony; that I have caused the foregoing Testimony to be prepared and am familiar with the contents thereof; and that the foregoing Testimony is true and correct to the best of my knowledge, information, and belief as of the date of this Affidavit.

/s/ Tyler E. Frost  
Tyler E. Frost

Subscribed and sworn to before me,  
A Notary Public, in and for said County  
and State. This 22<sup>nd</sup> day of October, 2021.



\_\_\_\_\_  
Notary Public

My Commission expires: 07/04/2022