

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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**IN THE MATTER OF THE APPLICATION)
OF BLACK HILLS NEBRASKA GAS, LLC,)
D/B/A BLACK HILLS ENERGY, RAPID)
CITY, SOUTH DAKOTA, SEEKING)
APPROVAL OF A GENERAL RATE)
INCREASE)**

APPLICATION NO. NG-109

DIRECT TESTIMONY OF JASON L. BENNETT

Manager of Regulatory & Finance

ON BEHALF OF

BLACK HILLS NEBRASKA GAS, LLC

Date: June 1, 2020

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EXHIBITS

Exhibit No. JLB-1	Summary of Jason Bennett's Education, Employment History and Professional Experience
Exhibit No. JLB-2	Project Capital Allocation Prioritization Model - Gas
Exhibit No. JLB-3	Project Profile Matrix
Exhibit No. JLB-4	Farm Tap Program Progress Report
Exhibit No. JLB-5	2021 SSIR Application
Confidential Exhibit No. JLB-6	Confidential Five-Year Capital Spend Plan
Exhibit No. JLB-7	Allocation of Line Locates Regulatory Asset

DIRECT TESTIMONY OF JASON L. BENNETT

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason L. Bennett. My business address is 1630 Windhoek Drive, P.O. Box 83008, Lincoln, NE 68501-3008.

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

A. I am employed by Black Hills Service Company, LLC (“BHSC”). I am the Manager of Regulatory and Finance. Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“BH Nebraska Gas or “Company”) is a wholly owned subsidiary of Black Hills Utility Holdings, Inc. (“BHUH”). BHUH is a wholly owned subsidiary of Black Hills Corporation (“BHC”). BHSC is a wholly owned subsidiary of BHC.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of BH Nebraska Gas. BH Nebraska Gas is the natural gas utility resulting from the recent consolidation of the Nebraska gas utility assets and operations of BHC’s two former Nebraska gas utility distribution subsidiaries, Black Hills/Nebraska Gas Utility Company, LLC (“BH Gas Utility”) and Black Hills Gas Distribution, LLC (“BH Gas Distribution”).

II. STATEMENT OF QUALIFICATIONS

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

A. I lead a team that is responsible for all regulatory filings and rate reviews, as well as the budgeting, forecasting, and overall financial analysis for Nebraska.

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

3 A. I manage regulatory and financial matters for BH Nebraska Gas. I directly oversee
4 the preparation and filing of regulatory compliance filings, responses to customer
5 complaints, and other Nebraska Public Service Commission (“Commission”)
6 filings. The different Commission proceedings under my responsibility, include, but
7 are not limited to, the Farm Tap Safety Program, System Safety Integrity Rider
8 (“SSIR”), and this Rate Review Application.¹ I also oversee the preparation of
9 (a) monthly, quarterly and annual financial reviews, (b) the development of annual
10 and 5-year budgets, and (c) forecast financial adjustments for BH Nebraska Gas.

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

13 A. My education, employment history and professional experience are provided in
14 Exhibit No. JLB-1.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

16 A. Yes. I testified in Application No. NG-0090.2 to adjust the surcharge for the Farm
17 Tap Safety Program for the 2019-2020 year.

18 **III. PURPOSE OF TESTIMONY**

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

20 A. The purpose of my direct testimony is to support the Application in the following
21 areas:

¹ See, Application No. NG-0090.2 (Farm Tap Safety Program) and Application No. NG-0078 (SSIR).

- 1 (a) **Filing Requirements:** Address the Commission filing requirements for
2 general rate increases;
- 3 (b) **Accounting Methods:** Address the accounting methods and principles used
4 by BH Nebraska Gas in compliance with Commission rules and regulations;
- 5 (c) **Contributions, Dues and Lobbying:** Discuss and identify contributions,
6 dues and lobbying expenses as they relate to the Revenue Requirement Study;²
- 7 (d) **Capital Infrastructure Projects:** Describe the process used by
8 BH Nebraska Gas for managing Capital infrastructure projects, including planning,
9 execution, accounting, and review of those projects (“Capital Infrastructure
10 Projects”);
- 11 (e) **Capital Additions (2020 CWIP):** Support the Capital Infrastructure
12 Projects and investment of BH Nebraska Gas that are used and useful and will be
13 placed in service in 2020 (i.e., within one year after the Base Year);
- 14 (f) **Farm Tap Replacement Program:** Summarize the status and final cost of
15 the Farm Tap Replacement Program attached as Exhibit No. JLB-4 and present
16 testimony supporting inclusion of the total investment of that customer safety
17 program within the Company’s Revenue Requirement Study;
- 18 (g) **System Safety Infrastructure Mechanism Renewal:** Describe the Pipeline
19 Replacement Charge³ and SSIR mechanism, and discuss the renewal of these safety
20 infrastructure investment recovery mechanisms;
- 21 (h) **SSIR Rate Area Expansion:** Discuss the expansion of the SSIR mechanism
22 throughout all BH Nebraska Gas jurisdictional Rate Areas;

² Application Exhibit No. 1, Section 2.

³ See Application No. NG-0074. See also, infrastructure system replacement cost recovery charge (a/k/a “Pipeline Replacement Charge”) is authorized pursuant to Neb. Rev. Stat. §§ 66-1865 et seq.

- 1 (i) **SSIR Category Expansion:** Support the expansion of the BH Nebraska Gas
2 SSIR tariff to permit “Reliability” projects, and to expand the number of categories
3 of projects;
- 4 (j) **SSIR Mechanics:** Address the SSIR application filing and review process,
5 discuss financial impact of the SSIR mechanism, and propose changing the SSIR
6 Surveillance Report from quarterly to annual reports;
- 7 (k) **2021 SSIR Application:** Present and support the Company’s statewide 2021
8 SSIR Application, provided in Exhibit No. JLB-5;
- 9 (l) **SSIR and Data Infrastructure Integrity Program:** Discuss recovery of
10 annual investment in the Data Infrastructure Improvement Program (“DIIP”) of the
11 BH Nebraska Gas system through the SSIR Charge;
- 12 (m) **Line Locates Surcharge Mechanism:** Sponsor the customer surcharge
13 mechanism proposed by BH Nebraska Gas for recovering the amounts included
14 within the regulatory asset established for extraordinary gas pipeline location costs
15 of BH Nebraska Gas related to the ALLO Project from the City of Lincoln
16 customers,⁴
- 17 (n) **Consolidation Synergies:** Discuss synergies and efficiencies benefiting
18 BH Nebraska Gas customers from the consolidation of BH Gas Utility and BH Gas
19 Distribution,⁵

⁴ *Application No. NG-0093.*

⁵ *Application No. NG-100.*

1 (o) **Rate Review Expenses:** Address the recovery of rate review expenses of
2 this proceeding through a State Regulatory Assessment⁶ and establish separate tariff
3 provisions related to that proposal, and

4 (p) **Gas Storage Inventory:** Discuss the calculation, historical treatment and
5 proposed treatment of Gas Storage Inventory.

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

7 A. Yes. I am sponsoring the following exhibit(s):

8 **Exhibit No. JLB-1** is a summary of my education, employment history and
9 professional experience.

10 **Exhibit No. JLB-2** is the Project Capital Allocation Prioritization Model - Gas.

11 **Exhibit No. JLB-3** is a gas system infrastructure Project Profile Matrix.

12 **Exhibit No. JLB-4** is the Farm Tap Program Progress Report.

13 **Exhibit No. JLB-5** is the 2021 SSIR Application for BH Nebraska Gas.

14 **Confidential Exhibit No. JLB-6** is the Confidential Five-Year Spend Plan for
15 BH Nebraska Gas.

16 **Exhibit No. JLB-7** is the allocation of the ALLO Regulatory Asset.

17 **Q. HAVE THE TESTIMONY AND ATTACHMENTS THAT YOU ARE**
18 **SPONSORING BEEN PREPARED BY YOU OR UNDER YOUR**
19 **SUPERVISION?**

20 A. Yes.

21

⁶ The State Regulatory Assessment is a surcharge authorized by Commission Application Nos. NG -0061 and NG-061 through a surcharge mechanism. This surcharge is similar to the charges for the Public Advocate and the Commission authorized under Neb. Rev. Stat. § 66-1841.

1 **IV. APPLICATION FILING REQUIREMENTS**

2 **Q. PLEASE EXPLAIN THE FILING REQUIREMENTS AND HOW THE**
3 **FINANCIAL EXHIBITS ARE ORGANIZED.**

4 A. The State Natural Gas Regulation Act,⁷ (“Act”) and the Commission’s Rules and
5 Regulations⁸ require that jurisdictional utilities include company financial, property,
6 and other schedules in any general rate filing. In addition, the Commission required
7 additional compliance information be included in the next general rate filing of
8 either BH Gas Utility or BH Gas Distribution in a variety of different prior
9 Commission proceedings.⁹

10 **Q. WHAT INFORMATION IS BH NEBRASKA GAS REQUIRED TO FILE**
11 **UNDER COMMISSION REGULATIONS IN SUPPORT OF ITS REQUEST**
12 **FOR AN INCREASE IN NATURAL GAS RATES?**

13 A. The Commission’s Rules and Regulations require several documents to be filed with
14 any rate review application. For example, Rule 004.01 of the Commission’s Rules
15 and Regulations requires BH Nebraska Gas to include copies of the most recent
16 annual report to stockholders, electronic copies of several different financial reports,
17 and a verified statement under oath by an officer of the Company. Rule 004.02
18 requires the following types of information: (1) A description of the Base Year and
19 Test Year; (2) Financial schedules showing aggregate amounts for rate base,
20 operating revenue, operating expenses, and rate-of-return for the Base Year and Test
21 Year using natural gas rates currently in effect and using proposed natural gas rates;
22 (3) Rate Base schedules showing beginning and ending balances for the Base Year

⁷ *Neb. Rev. Stats. §§ 66-1801 et. seq. (2003).*

⁸ *241 Neb. Admin. Ch. 9, Rule 004.*

⁹ *See* Testimony of Mr. Amdor for a summary of the prior Commission proceeding commitments.

1 and Test Year of utility plant and accumulated depreciation and amortization
2 showing the balance by functional account totals; (4) Working Capital, showing the
3 manner in which it is calculated; (5) Allocated rate base components showing the
4 manner in which the components are calculated; (6) Operating expense schedules
5 for the Base Year and test year, rate-of-return and cost-of-capital schedules; (7)
6 Operating revenue schedules showing number and classification of customers,
7 volume of sales, and operating revenue by customer classes for the Base Year on an
8 unadjusted basis and for the Test Year on a normalized basis, using current and
9 proposed rates, and (8) rate-of-return and cost-of-capital schedules showing, among
10 other things, long-term debt, preferred stock, common equity ratios, and percentage
11 cost rates for the Base Year and Test Year and those amounts at the beginning and
12 end of the Base Year and Test Year.

13 In addition, Commission Rules and Regulations require filing electronic
14 copies of documents detailing calculations in support of the rate filings, and a cost
15 of service study model to be used by the jurisdictional utility in the rate review.

16 **Q. DOES THE RATE APPLICATION COMPLY WITH THE ACT AND THE**
17 **COMMISSION'S RULES AND REGULATIONS?**

18 A. Yes. BH Nebraska Gas complies with the Act, the Commission's Rules and
19 Regulations, and prior Commission orders within the Rate Review Application,
20 Testimony, and Exhibits provided in this proceeding. Specifically, the information
21 required by Rule 004 of the Commission's Rules and Regulations is provided within
22 Exhibit No. 1 of the Application. The Rate Review Application was verified by
23 Mr. Jarosz, Vice President of BH Nebraska Gas, who is an officer of the Company.

1 **Q. WHERE CAN THE REQUIRED APPLICATION FILING**
2 **REQUIREMENTS BE FOUND IN THE RATE REVIEW APPLICATION?**

3 A. The “General Information” required under Rule 004.02 is found in Application
4 Exhibit No. 1, Section 1.

5 The Revenue Requirement Study and Rate Base Schedules required by
6 Rule 004.03 are found in Application Exhibit No. 1, Section 2, Exhibits A - C.¹⁰

7 The Revenue Requirement Study and “Operating Expense Schedules”
8 required by Rule 004.04 are found in Application Exhibit No. 1, Section 2, Exhibits
9 A-D (Operating Expense Schedules & Legislative)¹¹, Exhibit E (Memberships),
10 Exhibit F (Affiliate Transactions), and Exhibit G (CAM)¹².

11 The “Rate of Return and Cost of Capital Schedules” required by Rule 004.05
12 are also found in Application Exhibit No. 1, Section 2, Exhibits 5A and 5B.¹³

13 The Rate Design and associated “Revenue Schedules” required by
14 Rule 004.06 are found in Application Exhibit No. 1, Section 3.

15 The Cost of Service Study and associated schedules required by Rule 004.07
16 are found in Application Exhibit No. 1, Section 4.

17 The Direct Testimony required by Rule 004.08 are found in Application
18 Exhibit No. 1, Section 5.¹⁴

19 The tariffs required by Commission Rule 004.008 are provided in
20 Application Exhibit No. 1, Section 6.

¹⁰ See the Revenue Requirement Study, Statements D, E, F, and Schedule M1.

¹¹ See the Revenue Requirement Study, Statements H,

¹² The prior-year CAMS for BHUH and BHSC are provided as exhibits to the testimony of Mr. Clevinger.

¹³ See Revenue Requirement Study, Statement G and Schedule G1.

¹⁴ The list of the Rate Review Application witnesses along with the subjects on which they provide testimony is provided in Application Exhibit No. 1, Section 1, Exhibit G.

1 The Workpapers required by Commission Rule 004.01C are provided in
2 Application Exhibit No. 1, Section 7. BH Nebraska Gas provides an index cross-
3 referencing the Application Exhibits to the Commission Rules and to Testimony
4 Exhibits along with the Company witness discussing and supporting that exhibit.

5 **Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE BASE YEAR AND**
6 **THE TEST YEAR?**

7 A. The Base Year is the twelve months ending December 31, 2019, reflecting actual
8 financial performance as recorded in the Company's financial books and records.
9 The Test Year for this rate review is derived by taking the Base Year and adjusting
10 it for known and measurable changes, as well as applying normalization
11 adjustments, as required by the Act, and an annualized adjustment to correct for out-
12 of-period billing entries. The Company is proposing to include in rate base capital
13 projects that went into service after the end of the Base Year and through the end of
14 2020.

15 **Q. DOES THE RATE REVIEW APPLICATION COMPLY WITH**
16 **COMMITMENTS OR REPORTING REQUIREMENTS FROM PRIOR**
17 **COMMISSION ORDERS?**

18 A. Yes. The testimony of Mr. Amdor presents a summary of commitments and
19 compliance requirements within prior Commission proceedings that were deferred
20 to this Rate Review Application. For example, in Application No. NG-100, one of
21 the Settlement Agreement provisions approved in that proceeding recommends that
22 BH Nebraska Gas maintain accounting records sufficient to enable a detailed class
23 cost of service study. Specifically, the recommendation in Application No. NG-100
24 states as follows:

1 BH Nebraska Gas should maintain individual company (BH Gas
2 Distribution and BH Gas Utility) accounting records sufficient to
3 perform a detailed class cost of service study to allow all parties to
4 determine whether the rates for the individual rate areas can be
5 consolidated over one or more rate cases. This condition related to
6 the approval of the consolidated tariff should be required to stay in
7 place until the rate case after the first consolidation of rate areas so
8 that the effects under full consolidation of rates can be examined.¹⁵
9

10 **Q. HOW DOES BH NEBRASKA GAS COMPLY WITH THAT SPECIFIC**
11 **COMMITMENT IN THIS RATE REVIEW APPLICATION?**

12 A. As presented in the testimony of Mr. Clevinger, BH Nebraska Gas is recommending
13 that customer rates be consolidated in this application. However, in compliance with
14 Application No. NG-100, BH Nebraska Gas has continued to maintain its revenue
15 and operating expenses at accounting levels to allow for analysis of the costs of
16 BH Gas Distribution and BH Gas Utility.

17 **V. ACCOUNTING METHODS AND PRINCIPLES**

18 **Q. HOW DOES BH NEBRASKA GAS MAINTAIN ITS BOOKS AND**
19 **RECORDS?**

20 A. BH Nebraska Gas maintains its books and records in accordance with the Federal
21 Energy Regulatory Commission (“FERC”) Uniform System of Accounts, as
22 adopted by the Commission. As a publicly traded company, BH Nebraska Gas also
23 maintains its books and records in accordance with the Generally Accepted
24 Accounting Principles (“GAAP”) and complies with all required quarterly and
25 annual requirements of the Securities and Exchange Commission (“SEC”).

¹⁵ Public Advocate Recommendation #2, Application No. NG-100 (tariff consolidation).

1 **Q. ARE THERE ANY SPECIFIC ACCOUNTING PRINCIPLES THAT**
2 **BH NEBRASKA GAS FOLLOWS RELATED TO HOW IT MAINTAINS ITS**
3 **BOOKS AND RECORDS?**

4 A. Yes. BH Nebraska Gas follows the Accrual Basis Accounting Method and the
5 Matching Principle.

6 **Q. PLEASE EXPLAIN THOSE ACCOUNTING PRINCIPLES.**

7 A. The only accounting method accepted by GAAP is the Accrual Basis Accounting
8 Method. Under this method, revenues and expenses are recognized when earned or
9 incurred, regardless of when cash is exchanged.

10 The Matching Principle is associated with the Accrual Basis Accounting
11 Method and directs a company to report expenses on its income statement in the
12 period in which the related revenues are earned.

13 **Q. HOW DO THESE ACCOUNTING PRINCIPLES RELATE TO THIS RATE**
14 **REVIEW APPLICATION?**

15 A. All the revenues and expenses included in the Base Year ending December 31, 2019
16 were earned and incurred in the Base Year, even if the cash was not exchanged
17 during that period. This accounting methodology demonstrates the Accrual Basis
18 Accounting Method. As supported by Mr. Clevinger, the annual Revenue
19 Requirement, as filed, is to recover the annual costs included therein. Thus, the
20 matching of revenues and expenses within the same reporting period demonstrates
21 the Matching Principle.¹⁶

22

¹⁶ The 2021 SSIR Application contained in Exhibit No. JLB-5 also provides for the matching of revenues and expenses to be incurred in 2021.

1 **VI. CONTRIBUTIONS, DUES, AND LOBBYING**

2 **Q. ARE THERE ANY REGULATORY REQUIREMENTS REGARDING THE**
3 **RECOVERY OF EXPENSES SUCH AS CONTRIBUTIONS, DUES, AND**
4 **LOBBYING?**

5 A. Yes. Commission Rule 004.04 sets forth the requirements related to these recurring
6 expenses. Specifically, Commission Rule 004.04 requires that a general rate filing
7 shall include, “Funds expended in support of or memberships in social, recreational,
8 fraternal, or religious clubs or organizations.”¹⁷

9 **Q. IS BH NEBRASKA GAS SEEKING RECOVERY OF CONTRIBUTIONS,**
10 **DONATIONS AND SPONSORSHIPS IN THIS APPLICATION?**

11 A. No.

12 **Q. HOW WERE MEMBERSHIP FEES AND DUES ADDRESSED IN**
13 **PREVIOUS COMMISSION APPLICATIONS?**

14 A. In Application NG-0061, the Commission stated as follows:

15 In the future, all utilities seeking dues and contributions must provide
16 a list of the organizations and the corresponding amounts paid and
17 any amounts excluded as lobbying expense with their direct
18 testimony. *BH Gas Utility Rate Order at p. 25.*

19
20 **Q. IS BH NEBRASKA GAS ONLY SEEKING RECOVERY OF MEMBERSHIP**
21 **AND DUES THAT DIRECTLY CONTRIBUTE TO GROWTH AND**
22 **RETENTION OF CUSTOMER BASE IN THIS APPLICATION?**

23 A. Yes. BH Nebraska Gas is seeking recovery of 100% of industry Associations
24 (e.g., Economic Development), 100% of Business organization (e.g., Chamber of
25 Commerce) and 50% of Fraternal organizations (e.g., Rotary Club) contributions.

¹⁷ 241 Neb. Admin. Code Ch. 9, § 004.04E.

1 A list of these organizations is provided with the testimony of Mr. Clevinger
2 and included in the Revenue Requirement Study contained within the Company's
3 Operating Expense Schedules under Application Exhibit No. 1, Section 2, Exhibit
4 E.

5 **Q. IS BH NEBRASKA GAS SEEKING RECOVERY OF LOBBYING AND**
6 **LEGISLATIVE ADVOCACY ACTIVITY IN THIS APPLICATION?**

7 A. No. BH Nebraska Gas complies with Commission Rules 004.04B, 004.04C, and
8 004.04D by omitting funds expended for legislative advocacy, political and religious
9 contributions.¹⁸

10 **VII. CAPITAL INFRASTRUCTURE PROJECTS**

11 **Q. PLEASE DESCRIBE THE BH NEBRASKA GAS PROCESS FOR**
12 **PLANNING, EXECUTION, AND REVIEW OF CAPITAL**
13 **INFRASTRUCTURE PROJECTS.**

14 A. The level of investment for BH Nebraska Gas infrastructure (a/k/a "Capital
15 Infrastructure Projects") is contained within a Capital Spend Plan.¹⁹

16 Within the Capital Spend Plan, all BH Nebraska Gas infrastructure projects
17 are classified as either "Growth" projects, "Integrity" projects, "Reliability"
18 projects, or "General Plant" projects. Capital Infrastructure Projects are budgeted
19 by BH Nebraska Gas at a level that provides for prudent investment, project
20 management efficiency, and time for project analysis at a corporate, state and local
21 level.

¹⁸ See Application Exhibit No. 1, Section 2, Exhibit Nos. B, C, and D.

¹⁹ The 5-Year Capital Spend plan is provided as Confidential Exhibit No. JLB-6.

1 As discussed in the testimony of Mr. Jarosz and Mr. Lewis, the Company
2 uses risk-based analyses as the primary driver of short, medium and long-term
3 capital planning. To ensure that the projects are completed prudently, numerous
4 BH Nebraska Gas employees and processes are in place to ensure that Capital
5 Infrastructure Projects are executed by internal and external crews and variances in
6 the scope of work and project costs are managed effectively.

7 **Q. PLEASE EXPAND ON THE CURRENT CAPITAL PLANNING PROCESS.**

8 A. As noted above, Capital Infrastructure Project planning for BH Nebraska Gas is
9 based primarily on operational risk. In preparing its Capital Infrastructure Project
10 plan, BH Nebraska Gas relies upon the risk ranking analysis of projects identified
11 after applying a variety of different “Factors” as described in the testimony of
12 Mr. Lewis, and the Company’s “Gas Operating Standard No. G-PN1002,” which is
13 provided in Exhibit No. JLB-2.

14 Specific data is gathered and input into a risk model, and the outputs are
15 applied to pipeline segments. The BH Nebraska Gas “Project Capital Allocation
16 Prioritization Model – Gas” is also used which incorporates Gas Operating Standard
17 “Factors”. These factors include, but are not limited to, industry guidance and
18 standards, atmospheric corrosion, leak history and fitting failures, pipe size, and
19 several other factors.

20 **Q. WHAT IS THE PURPOSE OF THE DIFFERENT TYPES OF PROJECTS?**

21 A. All Capital Infrastructure Projects are placed in one of four categories: Growth,
22 Integrity, Reliability, and General Plant. The purpose of a Growth project is to
23 connect new customers. The purpose of Integrity projects is to maintain the safety
24 of the gas system. The purpose of Reliability projects is to reduce constraints and

1 minimize the risk of loss of gas due to insufficient capacity or other operational
2 issues. The purpose of General Plant projects is to fulfill the essentials to run the
3 business.

4 **Q. HOW ARE THE COSTS OF THE CAPITAL INFRASTRUCTURE**
5 **PROJECTS MANAGED?**

6 A. Funding Projects (“FPs”) are created by BH Nebraska Gas to capture the budgeted
7 cost by department and operating region. BH Nebraska Gas also creates Work
8 Orders (“WOs”) and links those WO’s to the FPs to capture the actual project costs.
9 FPs are one of three types: (a) Known Specifics, (b) Unknown Specifics, and
10 (c) Blankets.

11 **Q. PLEASE EXPLAIN THE DIFFERENT TYPES OF FUNDING PROJECTS.**

12 A. The **Known Specifics** FP group of Capital Infrastructure Projects includes projects
13 that have been identified by BH Nebraska Gas, and whose project-completion
14 estimate exceeds \$5,000 using either (i) an Asset Suite™ planning module, (ii) a
15 Severn Trent Operational Resource Management System (“STORMS”), or (iii)
16 some other project estimation tool. Although future costs of materials and
17 construction for the Known Specifics group of Capital Infrastructure Projects will
18 vary, a Known Specifics FP is selected using the best-known estimate of the project
19 at the time of identification and selection. Capital Infrastructure Projects included
20 in a Known Specifics FP can be in any of the four (4) categories (i.e., Growth,
21 Integrity, Reliability, or General Plant) defined above. Known Specific projects
22 usually span multiple months and are placed into service upon completion by the

1 direction of a planner or project manager. The Lincoln Resiliency Project (“LRP”)
2 in 2019 is an example of a Known Specific project.²⁰

3 **The Unknown Specifics** group of Capital Infrastructure Projects are
4 identified and selected by BH Nebraska Gas based on historical trends experienced
5 by BH Nebraska Gas. As budgets for BH Nebraska Gas are prepared up to
6 twelve (12) months before construction commences, BH Nebraska Gas fully
7 understands that some prudent and necessary Capital Infrastructure Projects
8 (i.e., projects exceeding \$5,000) will need to be completed, but were not identified
9 at the time of the preparation of the budget. Like “Known Specifics” projects, the
10 “Unknown Specifics” projects can be in any of the four (4) Capital Infrastructure
11 Project categories described above. Examples of Capital Infrastructure Projects
12 falling under the Unknown Specific group of Capital Infrastructure Projects include
13 short-notice growth projects and short-notice government mandated projects.

14 The Blankets group of Capital Infrastructure Projects includes projects that
15 are normally less complex and estimated to cost less than \$5,000. The funding level
16 for Capital Infrastructure Projects falling into this group of projects is based on
17 historical trends experienced by BH Nebraska Gas. Individual Capital Infrastructure
18 Projects under a Blanket are usually completed in less than a month and are placed
19 in service automatically each month. Capital Infrastructure Projects included under
20 Blankets are typically Growth, Integrity or Reliability. Examples of Blanket Capital
21 Infrastructure Projects include (i) installing new service lines (Growth), (ii)

²⁰ See the Direct Testimony of Mr. Jarosz for a description of the Lincoln Resiliency Project.

1 replacing a damaged service line (Integrity) and (iii) installing a bypass meter bar
2 assembly and regulator (meter loop) on an existing service line (Reliability).

3 **Q. PLEASE DISCUSS THE BUDGETING PROCESS FOR CAPITAL**
4 **INFRASTRUCTURE PROJECTS.**

5 A. Managers of BHSC and BH Nebraska Gas coordinate with (a) BH Nebraska Gas
6 Operation Department representatives to identify any local gas system issues,
7 (b) BH Nebraska Gas Business Development representative to identify Capital
8 Infrastructure Projects related to growth opportunities, (c) Regulatory & Finance
9 representatives to provide input on budgeting and regulatory process, and (d)
10 BH Nebraska Gas Engineering Department representatives who apply Capital
11 Infrastructure Projects prioritization analysis. The projects that are identified
12 through this collaborative planning process are then used by BH Nebraska Gas to
13 develop the FPs and budgets for the different corporate departments and
14 BH Nebraska Gas operating regions.

15 **Q PLEASE DISCUSS THE MANAGEMENT PROCESS FOR CAPITAL**
16 **INFRASTRUCTURE PROJECTS.**

17 A. Small, low complexity projects do not need the same level of project management
18 as large and more complex projects. To ensure an appropriate level of project
19 management, BH Nebraska Gas defines three standard project management tiers.
20 The tiers are defined by cost and complexity attributes as shown in Exhibit No. JLB-
21 3.

22 **Tier I Projects:** Tier I projects require high gas system investment and/or
23 are highly complex. Projects in this category are relatively few in number but
24 involve high enterprise benefits and risks. Tier I projects face significant or unique

1 challenges. Tier I projects are typically led by the BH Nebraska Natural Gas Utilities
2 Project Delivery Office (“NGU PDO”). An example of a Tier I project is the LRP
3 as described in Mr. Jarosz’ testimony.

4 **Tier II Projects:** Tier II projects are of moderate cost and medium
5 complexity. Depending on project specifics and resource availability, the Tier II
6 projects may be led by the NGU PDO or by BH Nebraska Gas local operations
7 managers. An example of a Tier II project is the replacement of AMI meters in and
8 around Lincoln.

9 **Tier III Projects:** Tier III projects are the most common type of project
10 with relatively low total project cost and complexity. Tier III projects are typically
11 led by BH Nebraska Gas local operations managers.

12 The BH Nebraska Gas Capital Infrastructure Projects budget is reviewed by
13 BH Nebraska Gas leadership and the regional managers. Those reviewing managers
14 may adjust the budget as needed through a calibration process. Once the budget has
15 been approved by BH Nebraska Gas, it must then undergo review and approval by
16 BHC Senior Management. Once BHC Senior Management approves a budget, there
17 can be no changes to the budget without seeking further approvals. Any subsequent
18 changes are considered part of a Capital Infrastructure Projects “forecast.”

19 **Q. ARE THERE ANY ANTICIPATED CHANGES TO THE PLANNING**
20 **PROCESS?**

21 A. Yes. BH Nebraska Gas is developing an improved process for Tier I and Tier II
22 Integrity and Reliability projects, such as identifying those projects to be included
23 in future Capital Spend Plans. The improved planning process is expected to be
24 implemented in 2020.

1 **Q. PLEASE DESCRIBE THE EXECUTION PROCESS CAPITAL**
2 **INFRASTRUCTURE PROJECTS.**

3 A. If internal construction crews are unable to manage a project because of the
4 (a) project location, (b) complexity of the project, (c) available resources, or (d) any
5 other reason, then the Capital Infrastructure Project work is outsourced to external
6 construction crews. For example, BH Nebraska Gas maintains contracts with
7 construction companies, such as InfraSource™, for BH Nebraska Blanket projects
8 and smaller Known Specific projects or Unknown Specific projects.

9 Construction contracts for Capital Infrastructure Projects are renewed every
10 three (3) years. BH Nebraska Gas awards those contracts based on a number of
11 factors including, but not limited to, market price, contractor experience, contractor
12 safety record, availability of other resources, and prior contract performance
13 experiences. Larger Capital Infrastructure Projects undertaken by BH Nebraska Gas
14 are bid out individually based on similar factors. These larger projects are led by an
15 NGU-PDO with the support of BH Nebraska Gas Regional Managers. Negotiated
16 contractor prices, materials, internal labor costs, and other data points are entered in
17 Asset Suite™ to determine the project cost estimate. The project estimate emerging
18 after the negotiation and facts discovered through Asset Suite™ may be different
19 from the previously calculated budget for a particular project. Variances between
20 the budget and the Asset Suite™ project estimated costs are then communicated to
21 the BH Nebraska Gas Regulatory & Financial Manager to update the budget
22 forecast.

23 **Q. WHAT OTHER CIRCUMSTANCES MAY CAUSE A VARIANCE**
24 **BETWEEN PROJECT COSTS AND BUDGET ESTIMATES?**

1 A. Despite the best planning, there are often unforeseen circumstances that external and
2 internal crews encounter, typically because of unknown terrain, swamp or standing
3 water, rock, construction techniques (e.g., trenching vs boring), pipe depth, etc. On
4 Blanket projects, BH Nebraska Gas is contacted by external crews if the changes are
5 substantial (i.e., based on historical knowledge and experience). If major changes
6 are required, a “Change Order” will be submitted prior to the work being done.

7 On large projects that are bid out individually, Change Orders are required
8 for all changes from the original scope of work, and cost of the project plan. BH Gas
9 Utility Planners approve the Change Orders, but BH Nebraska Gas Project Managers
10 and BH Nebraska Gas Regional Managers are notified of all Change Orders.
11 BH Nebraska Gas crews do not submit Change Orders, but instead discuss changes
12 to the infrastructure project with BH Nebraska Gas supervisors and managers
13 required for approval of the change. The project change discussion and approval
14 must occur prior to the change in work being performed.

15 Internal BH Nebraska Gas construction crews self-inspect infrastructure
16 projects; however, external crews require qualified project inspectors and more
17 administrative work. BH Nebraska Gas Supervisors, Planners and Project Managers
18 (i.e., on large infrastructure projects only) ensure that all internal and external crews
19 maintain qualifications and are compliant with Operations and Safety standards.

20 **Q. PLEASE DESCRIBE THE REVIEW PROCESS FOR CAPITAL**
21 **INFRASTRUCTURE PROJECT CHANGE ORDERS.**

22 A. Changes to the scope of work, project cost, timing, or other items are coordinated
23 with a BH Nebraska Gas Manager of Construction Planning, who periodically
24 compares the project budget, project estimate, and latest project cost forecast.

1 Updates to the cost of the infrastructure projects are made in the Company's
2 financial planning program on a monthly basis or as needed by the Regulatory &
3 Financial Manager, who also reviews project variances at a higher level. BH
4 Nebraska Planners and Project Managers are ultimately responsible for explaining
5 variances between the project scope of work, timing and the budget, project estimate
6 and final cost of projects. BH Nebraska Gas managers are also responsible for
7 ensuring that Capital Infrastructure Projects are placed into service on a timely basis.
8 The project is placed into service by either contacting the BH Nebraska Property
9 Department or by entering the project's completion date in Asset Suite™ and
10 PowerPlan™, which are project planning and management software programs.

11 **Q. PLEASE PROVIDE MORE DETAIL ABOUT THE SOFTWARE**
12 **BH NEBRASKA GAS USES IN THE PLANNING, EXECUTION AND**
13 **REVIEW OF CAPITAL INFRASTRUCTURE PROJECTS?**

14 A. For many years, BH Nebraska Gas used the PowerPlan™ software to manage gas
15 system costs and financial fixed assets, ensure compliance and make better strategic
16 decisions. Among other functions, PowerPlan™ calculates depreciation and
17 property tax, generates Work Orders and is crucial to tracking assets and costs.

18 However, detailed Capital Infrastructure Project planning is not conducted
19 within the PowerPlan™ software. Instead, BH Gas Utility used STORMS™, a
20 multistage planning tool that provides inputs for material and labor pricing, and
21 design specifications that are regularly updated across the enterprise. Prior to the
22 implementation of the Asset Suite™ program, if a project was estimated to cost less
23 than \$10,000, it was considered a Blanket project and was grouped with similar
24 Blanket projects. If the cost was estimated to be more than \$10,000, STORMS™

1 created a Specific WO.²¹ There was a process for approving the creation of WOs,
2 but the creator could also approve them based on discussions and emails with other
3 subject matter experts and managers. Numerous BH Nebraska Gas infrastructure
4 projects had cost estimates that were initially less than \$10,000 (a Blanket), but a
5 final cost over \$10,000. In those cases, a Specific WO may not have been created
6 as the original estimate did not require creation of a work order.

7 From the date of the SourceGas Acquisition until 2018, BH Gas Distribution
8 did not use STORMS™, but used an Excel-based cost estimator with inputs that
9 were often not updated regularly. The decision to use a Blanket WO or create a
10 Specific WO was more subjective for BH Gas Distribution managers.

11 **Q. PLEASE CONTINUE.**

12 A. From late 2017 through 2018, Asset Suite™ was implemented across all BHC gas
13 and electric utilities. Where STORMS™ was a work planner or estimator, Asset
14 Suite™ is a much more robust software program application as it is a full Enterprise
15 Asset Management System capable of managing the planning and execution of
16 projects. Asset Suite™ accommodates multiple design estimates, scheduling or
17 phases, and integrates well with PowerPlan™, ClickSoftware™ (scheduling) and
18 Peoplesoft™ (financial system of record). The threshold for Specific WOs was
19 lowered to \$5,000 for all BHC regulated utility subsidiaries but increased internal
20 controls in the project approval process were significantly improved.

21 BH Nebraska Gas plans to implement more features and modules of Asset
22 Suite™, including completely integrating the FP creation, budgeting and variance

²¹ Asset Suite program lowers the threshold of projects to \$5,000.

1 analysis process. Further module implementation and technology investment will
2 further allow the ability to integrate mapping (i.e., Geographic Information System
3 (“GIS”)), designs, leak history, environmental factors, and more. There are also
4 plans to incorporate predictive and preventative maintenance plans as required under
5 49 CFR Part 192 Subpart O – Inspecting, testing, and maintaining utility equipment.
6 The ultimate goal is for Asset Suite™, Powerplan™, Supply Chain™, Data
7 Infrastructure Improvement Plan (“DIIP”), and (“ClickSoftware™) to be part of a
8 holistic Work Asset Management (“WAM”) system, seamlessly incorporating
9 Supervisory Control And Data Acquisition (“SCADA”), mapping, design,
10 daily/monthly/annual scheduling and planning, purchasing, budgeting, variance
11 analysis and more.

12 **VIII. CAPITAL ADDITIONS (2020 AND CWIP PROJECTS)**

13 **Q. HOW ARE CAPITAL ADDITIONS ADDRESSED IN NEBRASKA**
14 **STATUTES AND COMMISSION REGULATIONS?**

15 A. Section 66-1817 of the Act provides as follows:

16 (1) Any jurisdictional utility property may be deemed to be
17 completed and dedicated to commercial service if construction of
18 the property will be commenced and completed in one year or less.

19
20 (2) The commission may determine that property of a jurisdictional
21 utility which has not been completed and dedicated to commercial
22 service may be deemed to be used and useful in the utility’s service
23 to the public.²²

24
25 Commission Rule 005.06D provides as follows:

26
27 Rate base “may include items completed and dedicated to
28 commercial service for which construction will be commenced and
29 completed within one year or less from the end of the test year.
30 *241 Neb. Admin. Code, Ch. 9, § 005.06D.*

²² *Neb. Rev. Stat. § 66-1817.*

1 **Q. IS BH NEBRASKA GAS REQUESTING A CAPITAL ADDITIONS**
2 **ADJUSTMENT IN THIS RATE APPLICATION?**

3 A. Yes. The Company is seeking a Capital Additions adjustment of approximately
4 \$102 million²³ for Capital Infrastructure Projects completed and placed into service
5 by December 31, 2020. The adjustment also includes Construction-Work-In-
6 Progress (“CWIP”) for projects not completed and placed in service by December
7 31, 2019. This adjustment impacts plant in service, depreciation expense, and
8 accumulated reserves for depreciation.

9 **Q. CAN YOU PROVIDE ADDITIONAL INFORMATION ABOUT THOSE**
10 **CAPITAL ADDITIONS?**

11 A. Yes. In Application NG-0041, the Commission provided guidelines for support for
12 Capital Additions in future Commission rate review filings.²⁴ In compliance with
13 the Commission’s requirement, Exhibit No. KMJ-4 of the testimony of Mr. Jarosz
14 identifies each \$98 million of Capital Additions projects to be placed in service
15 during 2020 driven by BH Nebraska Gas. In compliance with Commission
16 precedent regarding Capital Additions, the list of projects shown in Exhibit No.
17 KMJ-4 provides the following information for each project:

- 18 1) Description of each project;
- 19 2) Why the project is necessary to provide safe and reliable gas service;
- 20 3) Why it should be included in rates before it is complete and in service;
- 21 4) Location of the project;

²³ Approximately \$98 million is for projects driven by BH Nebraska Gas, with approximately \$4 million being driven by BH Service Company. See Exhibit No. MCC-2, Schedule D-2.

²⁴ *In re Aquila, Inc. d/b/a Aquila Networks (Aquila), Omaha seeking individual rate increases for Aquila’s Rate Area One, Rate Area Two, and Rate Area Three, Application No. NG-0041 (Order Granting Application In Part) (July 24, 2007).*

- 1 5) Purpose of the project;
- 2 6) Date construction began;
- 3 7) Expected completion date;
- 4 8) Actual costs incurred as of the last day of the Test Year;
- 5 9) Total expected costs for the project at completion; and
- 6 10) How the costs are being financed, whether through debt or internally
- 7 generated cash.

8 **Q. WHAT TYPES OF PROJECTS ARE INCLUDED IN THE CAPITAL**
9 **ADDITIONS ADJUSTMENTS?**

10 A. BH Nebraska Gas included Growth projects, government mandated line relocations,
11 system Integrity replacement projects, and system Reliability replacement projects.
12 Each of these Capital Additions projects are necessary to provide safe and reliable
13 gas service.

14 Also included are approximately \$4 million in projects driven by BH Service
15 Company that indirectly support BH Nebraska Gas. In compliance with the
16 Commission's requirement, Exhibit No. MCC-2, Statement D, Schedule D-2 of the
17 testimony of Mr. Clevinger identifies each \$4 million of BHSC Capital Additions
18 projects to be placed in service during 2020.

19 The Capital Additions adjustment also includes the cost of replacing tools,
20 equipment, vehicles, and non-revenue producing capital additions that are necessary
21 to support BH Nebraska Gas operations employees in their efforts to provide safe
22 and reliable gas service.

23

1 **Q. WHY DOES THE CAPITAL ADDITIONS ADJUSTMENT INCLUDE**
2 **GROWTH PROJECTS?**

3 A. Consistent with the Matching Principle, BH Nebraska Gas is including a customer
4 growth assumption in the calculation of the billing determinants that matches the
5 Growth project capital investment. As such, Capital Additions projects to serve new
6 natural gas customers are included in this application.

7 **Q. WHY SHOULD PROJECTS THAT ARE NOT YET COMPLETE AND IN**
8 **SERVICE BE INCLUDED IN THE CALCULATION OF RATES?**

9 A. As noted above, Rate Base “may include items completed and dedicated to
10 commercial service for which construction will be commenced and completed
11 within one year or less from the end of the Test year.”²⁵ All the projects, included
12 within the Capital Additions adjustments support the ability to provide safe and
13 reliable gas service and will be placed in service within one year or less from the
14 end of the Base Year ending December 31, 2019.

15 **IX. FARM TAP REPLACEMENT PROJECT**

16 **Q. DESCRIBE THE FARM TAP REPLACEMENT PROJECT.**

17 A. To provide for greater customer and public safety, the Commission granted approval
18 of Application No. NG-0090 for BH Gas Utility to replace or purchase hundreds of
19 rural customer-owned natural gas fuel line facilities (i.e., Farm Tap Customers) over
20 a multi-year period. BH Gas Utility sought approval of its program to improve the
21 safety of customer-owned fuel lines located between the interstate pipeline tap and
22 the customer premises. The original cost estimate submitted by BH Gas Utility and

²⁵ 241 Neb. Admin. Code, Ch. 9, § 005.06D.

1 approved by the Commission in 2016 was approximately \$4 million to be collected
2 through a Farm Tap Surcharge.

3 The application was approved, and order issued on August 22, 2017, with
4 the understanding that all 671 farm taps would be purchased, replaced or abandoned
5 by December 31, 2019.²⁶ The total cost was recoverable via a monthly surcharge
6 which was capped at \$4 million.

7 **Q. ARE THERE ANY REPORTING REQUIREMENTS FOR THE FARM TAP**
8 **REPLACEMENT PROJECT?**

9 A. Yes. The order in Application NG-0090.2 entered on October 29, 2019 required a
10 Final Report to be filed within sixty (60) days of completion of the project. The
11 report included the following:

- 12 1) Final expenditures;
- 13 2) Surcharge revenue collected;
- 14 3) Number of service lines purchased, replaced or abandoned;
- 15 4) A progress report based upon the implementation plan including any
16 customer requests for line upgrades or extensions; and
- 17 5) Any other information necessary for adequate review of the complete
18 project.

19 **Q. WHAT IS THE STATUS OF THE FARM TAP REPLACEMENT PROJECT?**

20 A. As of April 30, 2020, all but a dozen of the 679 Farm Tap Replacement Program
21 projects have been completed. Four of the remaining projects are in process, and
22 another eight uncompleted Farm Tap Replacement Program projects are delayed due

²⁶ BH Nebraska Gas subsequently identified additional Farm Taps to be replaced or purchased for a total of 679 projects.

1 to legal disputes and easement issues between landowners. A Farm Tap
2 Replacement Program Progress Report dated June 1 is included as Exhibit No. JLB-
3 4.

4 As of April 30, 2020, BH Nebraska Gas reported a cumulative investment of
5 \$7,945,044 for the Farm Tap Replacement Program. The Company continues to
6 attempt to contact customers who are refusing to obtain or to grant easements to
7 complete their Farm Tap Replacement Program projects.

8 **Q. WHAT AMOUNT OF INVESTMENT IN THE FARM TAP REPLACEMENT**
9 **PROGRAM IS BH NEBRASKA SEEKING TO RECOVER IN THIS RATE**
10 **PROCEEDING?**

11 A. BH Nebraska Gas is seeking to recover all the actual costs of its prudently incurred
12 investment in the Farm Tap Replacement project within rate base.

13 **Q WHAT FARM TAP REPLACEMENT PROGRAM COSTS WERE**
14 **AUTHORIZED THROUGH A SURCHARGE IN COMMISSION**
15 **APPLICATION NO. NG-0090?**

16 A. The original Farm Tap Replacement Project surcharge was limited to recovery of \$4
17 million, and the amounts above \$4 million were deferred to this rate review
18 proceeding.

19 **Q. WHAT FARM TAP REPLACEMENT PROGRAM COSTS ARE INCLUDED**
20 **IN THE REVENUE REQUIREMENT STUDY?**

21 A. The Company's Revenue Requirement Study includes \$6,800,474²⁷ in rate base,
22 which is the amount of rate base investment recorded at the time the Revenue

²⁷ Includes \$6,117,295 of costs through 2019 and \$683,179 of costs in 2020 Capital Additions

1 Requirement Study was prepared. The \$6,800,474 of Farm Tap Replacement
2 Program rate base in the Revenue Requirement Study includes the original \$4
3 million investment first authorized by the Commission in Application NG-0090. The
4 difference between the Progress Report and the amount included in rate base is
5 addressed later in this testimony.

6 **Q. HAS THE COMPANY INCURRED ADDITIONAL FARM TAP**
7 **REPLACEMENT COSTS IN ADDITION TO THE COSTS INCLUDED IN**
8 **THE REVENUE REQUIREMENT STUDY?**

9 A. Yes. The Company continues to complete the remaining Farm Tap Replacement
10 Programs projects. For example, as noted above, as of April 30, 2020, the prudently
11 incurred costs for the Farm Tap Replacement Program is \$7,945,044. Thus, the
12 Company has incurred substantial costs above the \$6,800,474 included in the
13 Revenue Requirement Study²⁸. The Company continues to incur costs to complete
14 the Farm Tap Replacement Program.

15 **Q. HOW WILL BH NEBRASKA GAS RECOVER THE ADDITIONAL FARM**
16 **TAP REPLACEMENT PROGRAM COSTS?**

17 A. The Company will include the additional cost (i.e., those costs above the \$6,800,474
18 included in the Revenue Requirement Study) for the Farm Tap Replacement
19 Program within the Capital Additions adjustment included in the Rate Review
20 Application.

²⁸ The difference between the \$7,945,044 as of April 30 and the \$6,800,474 included in the Revenue Requirement Study is prudent investments to replace or purchase farm taps. The costs included in the Revenue Requirement Study were calculated prior to April 30.

1 **Q. WHAT ARE THE AMOUNTS TO BE RECOVERED THROUGH THE**
2 **CAPITAL ADDITIONS ADJUSTMENT?**

3 A. The Company will include and revise its Capital Additions adjustment at the time
4 of its Rebuttal Testimony to include the amount of rate base above the \$6,800,474.
5 As noted above, the level of Farm Tap Replacement Program investment was at
6 \$7,945,044 as of April 30, 2020. As noted above, the May 2020 investment level is
7 not known at the time of this filing. As part of the rebuttal process, BH Nebraska
8 Gas will true up the cost and status of all projects included Capital Additions to be
9 placed in service by December 31, 2020. The Farm Tap Replacement Project will
10 be trued up to the final costs at that time.

11 **Q. IF THE FARM TAP REPLACEMENT PROGRAM PROJECTS ARE NOT**
12 **COMPLETED AT THE TIME OF REBUTTAL, HOW WILL ANY**
13 **REMAINING COSTS BE RECOVERED?**

14 A. In the unlikely event that the project is not be completed at the time of rebuttal, any
15 remaining prudently incurred costs incurred for remaining Farm Tap customers will
16 be included in a future Commission application.

17 **Q. WHY SHOULD THE COMMISSION APPROVE THE ADDITIONAL FARM**
18 **TAP REPLACEMENT PROGRAM COSTS?**

19 A. The costs are related to public safety, the costs were prudently incurred, and the
20 investment in the Farm Tap Replacement Program are appropriate and necessary.
21 Additionally, the Commission reviewed and approved the scope and character of the
22 work prior to the Company beginning work. The Public Advocate indicated that the

1 amounts above \$4 million are subject to further investigation and consideration
2 regarding prudence.²⁹

3 BH Nebraska Gas restates that the original purpose of the program was to
4 fulfill its statutory duty of providing safe and reliable service. As explained in the
5 Farm Tap Safety Program proceeding, the increased costs are due to factor
6 allocations from corporate support that were not included in the original estimate.
7 In addition, costs were increased due to acquisition of easements, and other items
8 discussed in Application No. NG-0090.2. The cost of the Farm Tap program,
9 including the actual cost of the replacement or purchases, is a necessary and prudent
10 cost to provide for customer safety. All costs of this program were monitored and
11 minimized to the extent possible. The cost overruns are prudent and are
12 appropriately included within rate base in this proceeding.

13 **X. SYSTEM SAFETY INTEGRITY MECHANISMS**

14 **Q. WHAT CAPITAL RECOVERY MECHANISMS WERE AVAILABLE TO**
15 **THE TWO FORMER NEBRASKA GAS UTILITY DISTRIBUTION**
16 **SUBSIDIARIES, BH GAS UTILITY AND BH GAS DISTRIBUTION?**

17 A. BH Gas Utility used the Infrastructure System Replacement mechanism (“Pipeline
18 Replacement Charge”). BH Gas Distribution initially used the Pipeline Replacement
19 Charge, but then proposed the SSIR mechanism. BH Gas Utility sought and
20 received approval for a Farm Tap Pipeline Replacement Charge that was similar in
21 nature to the SSIR.

²⁹ *Examination of Black Hills /Nebraska Gas Utility Company LLC, d/b/a Black Hills Energy Annual Report and Request for Approval of Upcoming Year’s Expenditures and True-up of Both Spending and Revenues Collected on behalf of the Nebraska Public Advocate in Application No. NG-0090.2 at p. 15.*

1 **Q. UNDER WHAT AUTHORITY ARE THE MECHANISMS AUTHORIZED?**

2 A. The Pipeline Replacement Charge is authorized pursuant to Section 66-1865(1)³⁰
3 of the Act. The Commission first approved a Pipeline Replacement Charge in
4 Application NG-0074 in 2013. The BH Gas Distribution SSIR Charge was
5 approved in Application NG-0078 in 2014.

6 **Q. DESCRIBE THE CRITERIA FOR ELIGIBLE PROJECTS FOR EACH**
7 **MECHANISM.**

8 A. **Pipeline Replacement Charge**

9 Eligibility under the Pipeline Replacement Charge is based on four (4) criteria set
10 forth in Neb. Rev. Stat. § 66-1802(6). The statutory requirement for recovery of
11 costs under a Pipeline Replacement Charge are that the projects:

- 12 1) Do not increase revenue by directly connecting the infrastructure system
13 replacement to new customers;
- 14 2) Are in service and used and required to be used;
- 15 3) Were not included in the jurisdictional utility's rate base in its most recent
16 general rate proceeding; and
- 17 4) May enhance the capacity but are only eligible for infrastructure system
18 replacement cost recovery to the extent the jurisdictional utility plant project
19 constitutes a replacement of existing infrastructure.

20 **SSIR**

21 Eligibility for system safety infrastructure under the SSIR mechanism is based on
22 projects meeting the following four (4) criteria:

³⁰ *Neb. Rev. Stat. § 66-1865 et. seq.*

1 1) Projects to comply with Code of Federal Regulations (“CFR”) Title
2 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline:
3 Minimum Federal Safety Standards), Subpart O (Gas Transmission Pipeline
4 Integrity Management), including projects constructed in accordance with the
5 Company’s transmission integrity management program (“TIMP”) and projects
6 necessary to comply with State enforcement of Subpart O and the Company’s TIMP.

7 2) Projects to comply with CFR Title 49 (Transportation), Part 192
8 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety
9 Standards), Subpart P (Gas Distribution Pipeline Integrity Management), including
10 Projects constructed in accordance with the Company’s distribution integrity
11 management program (“DIMP”) and projects necessary to comply with State
12 enforcement of Subpart P and the Company’s DIMP.

13 3) Projects to comply with final rules and regulations of the U.S.
14 Department of Transportation’s Pipeline and Hazardous Materials Safety
15 Administration (“PHMSA”) that become effective on or after the filing date of the
16 application requesting approval of the SSIR.

17 4) Facility relocation projects with a per-project total cost of \$20,000 or
18 more, exclusive of all costs that have been, are being, or will be, reimbursed
19 otherwise, that are required due to construction or improvement of a highway, road,
20 street, public way or other public work by or on behalf of the United States, the State
21 of Nebraska, a political subdivision of the State of Nebraska, or another entity having
22 the power of eminent domain.

1 **Q. WHAT ARE THE MAJOR CATEGORIES OF PROJECTS THAT CAN BE**
2 **INCLUDED IN THE SSIR MECHANISM?**

3 A. There are nine (9) major categories of Integrity projects that are included in the SSIR
4 mechanism:

- 5 1) Replacement of Bare Steel Distribution Main;
- 6 2) Replacement of Transmission Pipeline;
- 7 3) Barricades;
- 8 4) Cathodic Protection and Corrosion Prevention;
- 9 5) Town Border Stations;
- 10 6) Top of Ground (TOG) Replacement;
- 11 7) Meter Relocations;
- 12 8) PVC Pipe Replacement; and
- 13 9) Facility Relocation.

14 **Q. DESCRIBE THE TIMING OF SYSTEM SAFETY INVESTMENT SPEND,**
15 **COMMISSION APPROVAL, AND RECOVERY FOR EACH SYSTEM**
16 **SAFETY MECHANISM.**

17 A. **Pipeline Replacement Charge**

18 The Pipeline Replacement Charge is used to recover the investment of
19 system safety infrastructure made during prior periods. Pipeline Replacement
20 Charge filings with the Commission are typically made in the month of April, in the
21 year following the investment. Under the Act, the Commission has approximately
22 four months to complete its investigation and approve a Pipeline Replacement
23 Charge application. Recovery of the system safety infrastructure through a Pipeline
24 Replacement Charge typically began in August, the year following the investments.

1 **SSIR**

2 The SSIR is used to recover the investment of system safety infrastructure made in
3 future periods. SSIR filings with the Commission are typically made in September,
4 the year preceding the investments. Under the tariff, the Commission has
5 approximately four months to complete its investigation and approve an SSIR
6 Charge. Recovery of the system safety infrastructure through an SSIR Charge
7 typically begins in February, the year the investments were made.

8 **Q. DESCRIBE THE CALCULATION OF RECOVERY FOR EACH**
9 **MECHANISM.**

10 A. Both system safety infrastructure mechanisms identified above calculate recovery
11 of the investment based on the Revenue Requirement generated by the projects.

12 Revenue Requirement is a function of:

- 13 1) Net original cost (original cost of replacement less associated retirements);
- 14 2) Accumulated Deferred Income Taxes (ADIT);
- 15 3) Accumulated Depreciation;
- 16 4) State, federal, and local income tax or excise tax rates;
- 17 5) Regulatory structure as determined in the most recent rate review;
- 18 6) Cost of debt as determined in the most recent rate review;
- 19 7) Cost of Common Equity as determined in the most recent rate review; and
- 20 8) Depreciation rates as determined in the most recent rate review.

21 **Q. DESCRIBE THE METHOD OF RECOVERY FOR EACH MECHANISM.**

22 A. The Pipeline Replacement Charge and the SSIR each recover the Revenue
23 Requirement through a monthly flat fee calculated for each class of customers.

1 **Q. DESCRIBE THE REPORTING REQUIREMENTS FOR EACH**
2 **MECHANISM.**

3 A. The Pipeline Replacement Charge requires the annual reconciliation of authorized
4 revenues to be collected compared to the actual collected revenue.

5 The SSIR has two (2) reporting requirements:

6 1) The annual reconciliation of authorized versus collected revenue, including
7 interest on over-collection (no interest on under-collection); and

8 2) Quarterly surveillance filings are due within sixty (60) days of the end of each
9 quarter and should include calculations of the rate base separated into regular
10 and SSIR components, the realized rates of return on the rate base components,
11 along with supporting calculations. These filings also include an update
12 regarding the status of the SSIR project costs, in-service dates, and the expected
13 schedule over the ensuing duration of the SSIR.

14 **Q. DESCRIBE THE LENGTH OF THE PROGRAM FOR EACH**
15 **MECHANISM.**

16 A. Both mechanisms limit the filing of applications to no more than sixty (60) months
17 after the most recent rate review. The Pipeline Replacement Charge permits
18 investment recovery to be collected for sixty (60) months. The SSIR permits
19 recovery of SSIR projects beyond sixty (60) months upon approval of the
20 Commission. However, the Commission has not allowed new projects to be added
21 after the sixty-month limit.

1 **Q. DESCRIBE THE RECOVERY LIMITS FOR EACH MECHANISM.**

2 A. For the Pipeline Replacement Charge, the annualized revenue must exceed one
3 million dollars or one-half percent (½%) of base Revenue. Annualized revenue
4 cannot exceed ten percent (10%) of base revenue. The monthly charge cannot
5 exceed fifty cents per residential customer over the base rates. Each subsequent
6 filing cannot exceed fifty cents (\$0.50) per residential customer over the charge in
7 existence.

8 The SSIR mechanism has no tariff-mandated limit; however, the
9 Commission may impose a limit to the level of the SSIR Charge. BH Nebraska Gas
10 understands that the Commission will limit an SSIR Charge magnitude that balances
11 the need to comply with mandated Integrity investment with the impact of the SSIR
12 Charge on customers.

13 **Q. PLEASE DESCRIBE THE MAJOR BENEFITS OF THE SSIR**
14 **MECHANISM.**

15 A. There are three major benefits of the SSIR mechanism:

16 1) The SSIR mechanism encourages investment that improves system safety.
17 The significant replacement of TOG, PVC, Bare Steel and other projects will
18 improve the overall safety of the system for customers and employees;

19 2) The SSIR mechanism reduces and ameliorates the effects of regulatory lag
20 which reduces the frequency and timing of general rate proceedings. As is evident
21 in the quarterly surveillance reports, the SSIR mechanism increased revenue that
22 was a key factor in allowing BH Nebraska Gas to stay out of general rate
23 proceedings. The high cost of frequent general rate proceedings was also avoided;
24 and

1 3) The SSIR mechanism gradually increases the customer rates over time as
2 investments occur. This gradualism avoids “rate shock” by allowing recovery of
3 major programmatic spend over time instead of all at once.

4 **Q. ARE THESE BENEFITS AVAILABLE WITH THE PIPELINE**
5 **REPLACEMENT CHARGE?**

6 A. Yes. However, the Pipeline Replacement Charge mechanism does not provide
7 customers and the Company with the same degree of benefits provided under the
8 SSIR mechanism. For example, the Pipeline Replacement Charge is significantly
9 more restrictive than the SSIR mechanism because of its criteria for eligible projects
10 and the customer impact limit. The Pipeline Replacement Charge mechanism is not
11 as effective at reducing regulatory lag as recovery is based on historical spend and
12 begins the year following the investment. Therefore, the Pipeline Replacement
13 Charge mechanism is not as effective at encouraging programmatic spend, avoiding
14 “rate shock,” and delaying general rate proceedings.

15 **Q. WHICH RECOVERY MECHANISM IS BH NEBRASKA GAS**
16 **REQUESTING IN THIS APPLICATION?**

17 A. The Pipeline Replacement Charge is a statutory mechanism, so no changes to that
18 system safety infrastructure is requested or permitted through this rate application.
19 However, the SSIR mechanism is a tariff charge approved by the Commission
20 pursuant to its authority under the Act. BH Nebraska Gas proposes to use the SSIR
21 mechanism, as proposed for modification, for its system safety infrastructure
22 investment in the future. If a particular investment more appropriately fits within a
23 Pipeline Replacement Charge filing, then that process is still available to
24 BH Nebraska Gas.

1 **Q. DOES BH NEBRASKA GAS PROPOSE TO MODIFY THE SSIR**
2 **MECHANISM?**

3 A. Yes. The Company proposes four changes to the SSIR Mechanism. First,
4 BH Nebraska Gas proposes to extend the application of the SSIR Charge throughout
5 all Rate Areas in Nebraska. Second, BH Nebraska Gas proposes to modify the
6 criteria of eligible projects included under the SSIR tariff. Third, BH Nebraska Gas
7 proposes modifications to the existing categories of projects. Finally, BH Nebraska
8 Gas proposes to change the SSIR Quarterly Surveillance Report to an annual
9 requirement. My earlier testimony supports the expansion of the applicability of the
10 SSIR Charge. The other proposals are supported in the testimony below.

11 **Q. HOW DOES THE COMPANY PROPOSE TO MODIFY THE CRITERIA OF**
12 **ELIGIBLE PROJECTS?**

13 A. BH Nebraska Gas proposes a fifth criteria to the definition of eligible projects to
14 also include “Reliability” projects. Mr. Jarosz provides a brief description of
15 Reliability projects in his Direct Testimony.

16 **Q. WHY IS RELIABILITY NEEDED AS PART OF THE SSIR MECHANISM?**

17 A. Allowing recovery of the investment in BH Nebraska Gas Reliability projects
18 through the SSIR mechanism is needed to timely recover the cost of improving the
19 safety and reliability of the system. Although there may not be a government or
20 compliance mandate to replace the asset, these types of projects are necessary to
21 provide for safety and reliability of the gas distribution system.

22 In addition, expanding the SSIR mechanism to include “Reliability” Capital
23 Infrastructure Projects will permit the Public Advocate of Nebraska and the
24 Commission to review those projects annually, rather than in the Company’s next

1 rate review application. This timely review should prove to be more efficient and
2 less costly for customers over the long term.

3 **Q. HOW DOES THE COMPANY PROPOSE TO MODIFY THE CATEGORIES**
4 **OF PROJECTS?**

5 A. As explained in the testimony of Mr. Jarosz, BH Nebraska Gas proposes these
6 modifications to the name and description of three (3) categories of projects:

- 7 1) TOG Replacement;
- 8 2) Meter Relocations; and
- 9 3) PVC Pipe Replacement.

10 Mr. Jarosz provides a brief description of the modifications to these three categories
11 in his Direct Testimony.

12 In addition, BH Nebraska Gas is proposing to add a tenth and eleventh
13 category to the SSIR Application for DIIP projects and Reliability projects as
14 explained further by Mr. Jarosz and Mr. Lewis.

15 **Q. WHY ARE MODIFICATIONS AND ADDITIONAL CATEGORIES OF**
16 **PROJECTS APPROPRIATE FOR INCLUSION UNDER THE SSIR**
17 **MECHANISM?**

18 A. Modifications to existing categories and adding the additional categories of projects
19 to the SSIR mechanism permits BH Nebraska Gas to timely recover the investment
20 in these categories of projects. Without significant programmatic investment in each
21 of these categories to replace assets, projects present a higher level of risk to
22 customer and public safety. For example, moving meters from inside of a home or
23 business will lead to long term efficiencies in operation and maintenance of that

1 asset. Similarly, replacing TOG pipe will lead to higher degree of customer safety
2 and fewer line hits.

3 The timely recovery of the investment in these additional categories will
4 reduce the impact of future rate review applications and should lengthen the time
5 period between those applications.

6 **Q. DOES THE COMPANY REQUEST TO MODIFY THE REPORTING**
7 **REQUIREMENTS?**

8 A. Yes. BH Nebraska Gas is requesting to modify the second reporting requirement
9 that currently states:

10 2) Quarterly surveillance filings are due within sixty (60) days of the
11 end of each quarter that should include calculations of the rate base
12 separated into regular and SSIR components, the realized rates of
13 return on the rate base components, along with supporting
14 calculations. These filings should also include an update regarding
15 the status of the SSIR project costs, in-service dates, and the
16 expected schedule over the ensuing duration of the SSIR.³¹

17
18 **Q. WHAT ARE THE REQUESTED MODIFICATIONS TO THE**
19 **SURVEILLANCE FILINGS?**

20 A. As the scope and complexity of the programmatic spend increases in the upcoming
21 years, quarterly and annual filings will undoubtedly become more complex and
22 burdensome for BH Nebraska Gas, the Public Advocate and the Commission.
23 Accordingly, BH Nebraska Gas proposes to modify the Quarterly Surveillance
24 Report as discussed below.

25 BH Nebraska Gas is requesting that the Commission eliminate the quarterly
26 surveillance filing requirement and replace that requirement with an annual filing.

³¹ See Application No. NG-0078 (citation omitted).

1 BH Nebraska Gas understands that the original purpose of the SSIR Quarterly
2 Surveillance Report was to frequently monitor the actual returns of the Company
3 with and without the SSIR recovery mechanism. However, after years of experience
4 with the SSIR charge and the effort to compile the Quarterly Surveillance Reports,
5 limiting the Surveillance Report to annually will accomplish its original purpose.
6 Accordingly, BH Nebraska Gas proposes to review the company earnings at the time
7 it is considering a new SSIR application.

8 Like the existing SSIR mechanism, recovery of new SSIR investment is
9 proposed to continue until SSIR costs are included in the SSIR Charge and
10 associated investments rolled into base rates in subsequent rate reviews.

11 In addition, BH Nebraska Gas proposes that a separate annual report provide
12 an update regarding the status of the SSIR project costs, in-service dates, and the
13 expected schedule over the ensuing duration of the SSIR. Calculations of the rate
14 base separated into regular and SSIR components, the realized rates of return on the
15 rate base components, along with supporting calculations would be included along
16 with the annual reconciliation of authorized versus collected revenue, including
17 interest on over-collection (no interest on under-collection).

18 **Q. WHY IS IT APPROPRIATE TO CHANGE THE REPORTING PERIOD TO**
19 **AN ANNUAL PERIOD?**

20 A. By moving to an annual Surveillance Report, the Commission will have the
21 necessary information at the time it may also be considering approval of a new SSIR
22 Application filed by BH Nebraska Gas. Quarterly Surveillance Reports were
23 originally required as the SSIR was a new mechanism. Now that the SSIR
24 mechanism has proven to be a valuable mechanism to provide for an appropriate

1 balance between customer safety and shareholder investment recovery,
2 BH Nebraska Gas contends that an Annual Surveillance Report will accomplish the
3 information requirements of the Commission. In addition, removing the burden on
4 BH Nebraska Gas to prepare an updated revenue requirement study each quarter will
5 lead to greater efficiencies and lower costs allocated by BHSC regarding the SSIR
6 Surveillance Report.

7 **XI. APPLICATION FOR 2021 SSIR PROJECTS**

8 **Q. IS BH NEBRASKA GAS FILING AN APPLICATION FOR 2021 SSIR**
9 **PROJECTS?**

10 A. Yes. As shown in Exhibit No. JLB-5, BH Nebraska Gas has identified 93
11 individually numbered Capital SSIR Projects for the instant filing. In total, projected
12 capital expenditures for 2021 projects total \$49,360,263.

13 **Q. WHY IS BH NEBRASKA GAS FILING ITS SSIR APPLICATION NOW**
14 **INSTEAD OF THE USUAL FILING DATE OF OCTOBER?**

15 A. Normally, BH Nebraska Gas would file its SSIR application in September, before
16 the October 1 deadline. However, BH Nebraska Gas is seeking an expansion of the
17 SSIR geographical area, eligible projects definition, categories of projects and
18 inclusion of DIIP costs in the SSIR Charge. Accordingly, BH Nebraska Gas
19 believes including the SSIR Application for 2021 projects as part of this Rate
20 Review Application presents the Public Advocate and the Commission an
21 opportunity to review those projects in context with the other proposed changes to
22 the SSIR mechanism.

23 In addition, if the Company waited until this October to file its 2021 SSIR
24 Application, then BH Nebraska Gas would not have certainty as to whether the SSIR

1 mechanism and SSIR Charge will be approved within this rate proceeding and would
2 lack legal certainty whether projects (i.e., in other rate areas and different categories)
3 are properly included in the SSIR Application.

4 Finally, BH Nebraska Gas determined that inclusion of the 2021 SSIR
5 Application in this Rate Review Application is administratively more efficient than
6 waiting until the Rate Review Application is completed and then filing the 2021
7 SSIR Application.

8 **Q. ARE ANY OF THESE 2021 SSIR PROJECTS INCLUDED IN THIS**
9 **GENERAL RATE FILING?**

10 A. No. These projects are not included in the rate base calculation in this general rate
11 proceeding because they will be constructed after the conclusion of this rate review.

12 **Q. HOW WERE THE 2021 SSIR PROJECTS IDENTIFIED?**

13 A. The 2021 SSIR projects were identified using the Capital Infrastructure Project
14 process described above. The 2021 SSIR projects are the result of the collaboration
15 between BH Nebraska Gas Operations and Engineering Departments using the risk
16 ranking model discussed in the testimony of Mr. Lewis. The 2021 Projects were
17 refined and finalized by the BH Nebraska Gas Operations Managers and approved
18 by the Vice President of Operations and the BHC Senior Management Team.

19 **Q. WHEN WILL THESE 2021 SSIR PROJECTS BE PLACED IN SERVICE?**

20 A. All projects will be placed in service in 2021.

1 **Q. ARE ANY OF THE 2021 SSIR PROJECTS FOR HIGH-RISK GAS**
2 **INFRASTRUCTURE?**

3 A. No. There are no projects within this filing that fall into this category because none
4 of the 2021 SSIR Projects is being done within a high consequence area (“HCA”).³²

5 **Q. PLEASE PROVIDE A DESCRIPTION OF THE 2021 PROJECTS.**

6 A. A list of the projects is provided as Exhibit 2, Table K page 11 of 13 of the SSIR
7 Application attached as Exhibit No. JLB-5 of this Rate Review Application.

8 **Q. WHAT IS THE PROPOSED MONTHLY SSIR CHARGE BY CUSTOMER**
9 **CLASS PROPOSED FOR THE 2021 SSIR APPLICATION?**

10 A. The SSIR Charge proposed in the 2021 SSIR Application is shown in Exhibit 2,
11 Table A page 1 of 13 of the SSIR Application. Those charges are as follows:

12

Residential 2021 SSIR Charge	\$0.6505 per month
Commercial 2021 SSIR Charge	\$1.2995 per month

13 **Q. WHEN WOULD THE 2021 SSIR CHARGE BECOME EFFECTIVE?**

14 A. BH Nebraska Gas proposes that the 2021 SSIR Charge become effective upon the
15 Commission’s approval of just and reasonable rates in this proceeding.

16 **Q. IS BH NEBRASKA GAS PROPOSING TO ROLL THE 2021 SSIR CHARGE**
17 **INTO ITS BASE RATES?**

18 A. No. The 2021 SSIR Projects and the approval of the investment in those projects
19 will be recovered through the newly approved 2021 SSIR Charge. That charge

³² An HCA, in general, is a populated building or outdoor area located within the Potential Impact Radius of a transmission pipeline. See the occupancy requirements as defined in Section 192.903. Pipeline nominal diameter and maximum allowable operating pressure (MAOP) are the two key attributes that define the Potential Impact Radius of each transmission pipeline segment.

1 would be a separate charge rather than an increase in the other rates proposed by
2 BH Nebraska Gas as part of this Rate Review Application.

3 **Q. WHEN WILL BH NEBRASKA GAS FILE FUTURE SSIR APPLICATIONS?**

4 A. BH Nebraska Gas proposes to file future SSIR Applications by September 1 of each
5 year with the effective date for the new SSIR Charges on January 1st of the new year.

6 **XII. DIIP COST RECOVERY IN SSIR CHARGE**

7 **Q. HOW DOES BH NEBRASKA GAS PROPOSE TO RECOVER THE COSTS**
8 **OF THE DIIP?**

9 A. BH Nebraska Gas proposes to recover the cost of the DIIP related to the Integrity
10 and Reliability projects through the SSIR Charge. As the development and
11 implementation of DIIP will be used to identify these Integrity and Reliability
12 projects, BH Nebraska Gas believes that recovery of these costs through the SSIR
13 Charge are appropriate. In addition, BH Nebraska Gas does not fully know the
14 actual costs of development. Thus, including the expected costs as part of the SSIR
15 permits the Public Advocate and the Commission to review those safety-related
16 costs prior to BH Nebraska Gas recovering the costs. The investments in safety
17 through the SSIR mechanism will rely upon improved system data. The improved
18 system data will help BH Nebraska Gas identify and accelerate the replacement of
19 higher risk pipe on a programmatic basis. Mr. Lewis discusses the need for
20 improving the data related to the BH Nebraska Gas system.

21 **Q. IS BH NEBRASKA GAS OPEN TO ALTERNATIVE METHODS OF**
22 **RECOVERY OF THE COSTS OF THE DIIP?**

23 A. Yes.

1 **Q. WHAT IS THE DIIP AMOUNT INCLUDED IN THE 2021 SSIR**
2 **APPLICATION?**

3 A. The amount included in the 2021 SSIR Application is \$ 0.9 million.

4 **XIII. LINE LOCATES SURCHARGE RECOVERY**

5 **Q. DID THE COMMISSION PERMIT BH GAS UTILITY TO CREATE A**
6 **REGULATORY ASSET FOR THE RECOVERY OF THE**
7 **EXTRAORDINARY LINE LOCATING COSTS ASSOCIATED WITH THE**
8 **ALLO PROJECT WITHIN THE CITY OF LINCOLN, NEBRASKA?**

9 A. Yes. In Application No. NG-0093, the Commission authorized the creation of a
10 regulatory asset to account for the 2011-2018 gas line location costs that Applicant
11 has incurred and will incur in order to accommodate the installation of fiber optic
12 cable by ALLO Communications within the City of Lincoln, NE (“ALLO Project”),
13 up to a total of \$1.526 million. Page 4 of the Commission’s Order in Application
14 No. NG-0093 provides as follows:

15 Based upon the PA's review and report, and upon the parties'
16 stipulated agreement, the Commission finds that it is appropriate for
17 Black Hills to create a regulatory asset on its books and records,
18 comprised of the 2011-2018 gas line location costs that Applicant
19 has incurred and will incur in order to accommodate the ALLO
20 Project, up to a total of \$1.526 million.

21
22 The Commission emphasizes that the creation of a regulatory asset
23 is not a guarantee that the Commission will allow Applicant to
24 recover costs associated with the ALLO Project in a future rate
25 proceeding. The Commission reserves the ability to reverse its
26 approval of regulatory asset treatment of these expenses in the
27 future. In the event the Commission reverses its approval of
28 regulatory asset treatment, the costs associated with the ALLO
29 Project will then be recorded as an expense on Applicant's books
30 and records, and the Applicant would be in much the same position
31 as prior to any decision by the Commission.
32

1 The Commission further finds that in conjunction with the creation
2 of the regulatory asset, Applicant must continue to maintain prudent
3 cost controls related to the ALLO project and must continue to
4 evaluate all reasonable alternatives for reimbursement of the costs
5 related to the ALLO project. Applicant must continue to
6 communicate and cooperate with the Public Advocate and the
7 Commission to minimize costs associated with the ALLO Project
8 and to explore alternatives to recovery of ALLO Project costs.
9 *ALLO Project Order at p. 4 (Mar. 20, 2018).*

10
11 **Q. HAS BH NEBRASKA GAS INCLUDED THE COST OF THE**
12 **REGULATORY ASSET RELATED TO EXTRAORDINARY LINE**
13 **LOCATION COSTS STEMMING FROM THE ALLO PROJECT IN THE**
14 **REVENUE REQUIREMENT STUDY?**

15 A. No. Mr. Clevinger excluded this regulatory asset in the Revenue Requirement Study.
16 The \$1.526 million will be amortized and recovered through a surcharge applied to
17 customers located in the City of Lincoln over thirty-six months. Mr. Jarosz presents
18 testimony regarding the actions taken by BH Nebraska Gas to reduce the cost
19 incurred during the ALLO project.

20 **Q. HOW WILL THE AMORTIZED AMOUNT FROM THE ALLO**
21 **REGULATORY ASSET BE COLLECTED?**

22 A. BH Nebraska Gas will recover the ALLO Regulatory Asset amount through a Line
23 Locates Surcharge over 36 months, but it will only be applied to Lincoln customers.
24 Based on the 98,971 Lincoln customers, the monthly charge for 36 months will be
25 \$0.43. The customer count is consistent with the Lincoln Franchise Fees customer
26 count and is included as Exhibit No JLB-7.

27

1 **XIV. NG-100 CONSOLIDATION SYNERGIES**

2 **Q. WHAT SYNERGIES OR OTHER BENEFITS FOR CUSTOMERS WERE**
3 **ACHIEVED BY BH NEBRASKA GAS FROM THE CONSOLIDATION OF**
4 **BH GAS UTILITY AND BH GAS DISTRIBUTION?**

5 A. Synergies generally refer to cost savings or costs avoided as a result of the legal
6 combination of two businesses. From a regulatory cost of service perspective, the
7 cash cost savings or avoidances may be reductions to capital and/or operating and
8 maintenance expenses in the hands of the combined organization as compared to the
9 cost structure of the two stand-alone businesses before the transaction.

10 **Q. ARE THERE ANY REPORTING REQUIREMENTS RELATED TO THIS**
11 **SYNERGY SAVINGS IN THE CONTEXT OF LEGAL CONSOLIDATION?**

12 A. There are no reporting requirements, but there is a recommendation from the Public
13 Advocate relating to reporting requirements.

14 **Q. WHAT WAS THAT RECOMMENDATION?**

15 A. In response to the Direct Testimony of Robert Amdor in Application NG-100
16 seeking approval to consolidate the Nebraska tariffs, assets, liabilities, and
17 operations of the two companies, the Public Advocate made a number of
18 recommendations. Recommendation #4 was as follows:

19 *BH Nebraska Gas should develop and provide in its next rate case*
20 *a detailed study to determine the positive effects and opportunities*
21 *for increases in performance and decreases in costs that will flow*
22 *through to customers. The study should consider short-term,*
23 *medium-term, and long-term opportunities and have a detailed*
24 *timeline for the implementation of these changes along with cost*
25 *estimates for implementation.*
26

1 **Q. HOW DOES BH NEBRASKA GAS ADDRESS THIS APPLICATION**
2 **NO. NG-100 RECOMMENDATION IN THIS RATE REVIEW**
3 **APPLICATION?**

4 A. Shortly after the acquisition of SourceGas in 2016, BH Nebraska Gas began
5 operating as one entity, and the majority of the acquisition integration was
6 accomplished by the end of 2017. Therefore, the majority of synergies identified
7 under the Transition Report provided by Mr. Klapperich have already been
8 implemented and are reflected in the revenue requirement analysis performed by
9 Mr. Clevinger.

10 The testimony of Mr. Jarosz provides several other benefits that flow to the
11 customers as a result of the consolidation of BH Gas Utility and BH Gas
12 Distribution. For example, customers will now deal with a single company;
13 operations, accounting, compensation, benefits, and other items are being simplified
14 to treat BH Nebraska Gas as a single entity. Another example of customer benefit
15 is having one tariff, standardized tariff charges, and lower allocated costs.

16 **XV. COMMISSION ASSESSMENTS AND RATE REVIEW EXPENSES**

17 **Q. WHAT ARE COMMISSION ASSESSMENTS?**

18 A. The Commission is required by statute to issue assessments against jurisdictional
19 utilities for the expenses of Commission operations and Commission investigations
20 (including rate cases). For the fiscal year July 1 through June 30, the Commission
21 calculates its operational expenditures within thirty days after each fiscal quarter and
22 issues assessments for the expenditures against the jurisdictional utilities based upon
23 the number of meters served by each utility. For Commission investigations, the
24 Commission issues assessments against the relevant jurisdictional utility

1 periodically during the fiscal year, up to a threshold based upon the utility's
2 operating revenue and may issue assessments for costs incurred within a previous
3 fiscal year. The jurisdictional utilities are required to pay Commission assessments
4 within 15 days after the notice of an assessment has been mailed to the utility.

5 **Q. WHAT ARE RATE REVIEW EXPENSES?**

6 A. Rate Review expenses include costs incurred on behalf of the Commission as well
7 as BH Nebraska Gas associated with its third-party witnesses, consultants and
8 outside counsel for the entire rate review process including appeals and other
9 expenses such as printing, mailing, publishing, transcripts and travel.

10 **Q. DOES BH NEBRASKA GAS RECOVER COMMISSION ASSESSMENT
11 COSTS AND RATE REVIEW EXPENSES FROM ITS CUSTOMERS?**

12 A. Yes. Section 66-1841(6)(b) of the Act states that a jurisdictional utility is to recover
13 the costs of Commission assessments "in a general rate filing or through a special
14 surcharge which may be billed on the monthly statements for up to a twelve-month
15 period immediately following their payment by the jurisdictional utility."

16 **Q. WHAT AMOUNT OF RATE REVIEW EXPENSE IS BH NEBRASKA GAS
17 REQUESTING IN THIS RATE REVIEW APPLICATION?**

18 A. The total Rate Review expenses to be incurred on behalf of BH Nebraska Gas and
19 the Commission is unknown at this time, but a prudent and reasonable estimate of
20 the total is \$750,000.

1 **Q. HOW IS BH NEBRASKA GAS PROPOSING TO RECOVER THE RATE**
2 **REVIEW EXPENSES?**

3 A. BH Nebraska Gas is proposing to recover the Rate Review expenses in the State
4 Regulatory Assessment charge. This surcharge is similar to the charges for the
5 Public Advocate and the Commission authorized under Neb. Rev. Stat. § 66-1841.

6 **Q. WHAT IS THE CUSTOMER IMPACT TO COLLECT THE RATE REVIEW**
7 **EXPENSE?**

8 A. BH Nebraska gas is proposing to recover the rate review expenses through the State
9 Regulatory Assessment over thirty-six (36) months. Based on the number of
10 customers and \$750,000 in Rate Review expenses, this would be \$0.07 per customer
11 per month for thirty-six (36) months. At the end of thirty-six (36) months, the
12 surcharge would be discontinued by the Company.

13 **XVI. GAS STORAGE INVENTORY**

14 **Q. WHAT IS THE PURPOSE OF GAS STORAGE INVENTORY?**

15 A. There are two primary benefits of Gas Storage Inventory. First, it is a source of price
16 mitigation by being a physical price hedge. Gas is injected during the summer
17 months, when gas prices are generally lower, as is gas consumption by utility
18 customers; conversely this lower priced gas is withdrawn during higher winter
19 consumption periods, reducing the exposure to purchasing larger quantities of
20 potentially higher priced spot gas. It is one tool to assure customer demands are met
21 and to lessen the customer price volatility.

22 Second, storage provides supply reliability and delivery flexibility to address
23 variability in customer usage and to support balancing needs.

1 **Q. DOES BH NEBRASKA GAS OWN ANY GAS STORAGE FACILITIES?**

2 A. No. BHE Gas Supply Services contracts with Tallgrass Interstate Gas Transmission,
3 Northern Natural Gas Company and Natural Gas Pipeline Company of America to
4 provide gas storage services.

5 **Q. HOW IS GAS STORAGE INVENTORY RECORDED ON A COMPANY'S**
6 **FINANCIAL BOOKS AND RECORDS?**

7 A. Gas stored is booked in FERC Account 164.1 and recorded on the Balance Sheet as
8 a Current Asset. It is not part of Utility Plant.

9 **Q. HOW HAS GAS STORAGE INVENTORY BEEN TREATED FOR RATE**
10 **MAKING PURPOSES?**

11 A. As approved in Application NG-0061, BH Gas Utility was allowed to include Gas
12 Storage Inventory as a component of rate base and thus allowed the opportunity to
13 earn a return equal to the authorized return on rate base. The component of rate base
14 was based on a 12-month average.

15 BH Gas Distribution did not record Gas Storage Inventory and did not seek
16 recovery of associated costs.

17 **Q. HOW DID BH GAS DISTRIBUTION RECOVER GAS STORAGE**
18 **INVENTORY COSTS?**

19 A. BH Gas Distribution does not participate as a gas supplier in the Choice Gas
20 Program but does contract Tallgrass Interstate Gas Transmission for firm
21 transportation and storage capacity services to ensure primary firm deliverability for
22 Choice Gas customers. The capacity associated with these services is released to
23 the participating Choice Gas suppliers via a limited term capacity release, and
24 allowed capacity is based on each supplier's customer enrollment profile. As a result

1 of the capacity release, the cost of the capacity is paid by the suppliers directly to
2 Tallgrass Interstate Gas Transmission.

3 **Q. WHAT PROPOSED TREATMENT IS INCLUDED IN THIS**
4 **APPLICATION?**

5 A. BH Nebraska Gas is proposing to recover gas storage inventory carrying costs
6 through a Gas Storage Inventory Cost (“GSIC”) component through the Gas Cost
7 Adjustment mechanism applied to Rate Areas One, Two and Three. The Company
8 has not included gas storage inventory balances in rate base in the Revenue
9 Requirement Study. Rate Area Five GSIC would continue as it has in the past.

10 **Q. HOW IS THE COMPANY PROPOSING TO CALCULATE THE**
11 **CARRYING COST ASSOCIATED WITH THE GSIC?**

12 A. The Company is proposing to calculate the carrying cost associate with the GSIC on
13 its annual average storage inventory balances by applying the Company’s approved
14 Weighted Average Cost of Capital (“WACC”) as approved in this rate review
15 proceeding.

16 **Q. WHY IS THE WACC THE APPROPRIATE FOR CALCULATING THE**
17 **GSIC?**

18 A. Gas Storage Inventory is an asset under FERC accounting (FERC Account 164.1,
19 Gas Stored – Current) and should have a return component to it. It would therefore
20 not be appropriate to hold one particular asset aside and to allow it to receive a
21 specific return that is different (whether greater or lesser) than the authorized cost of
22 capital. Rate base components run the gamut from short-term assets that may be on
23 books for a month or two to longer-term assets that are in rate base over a number

1 of years. As a result, to single out Gas Storage Inventory for special treatment would
2 not be appropriate.³³

3 **XVII. CONCLUSION**

4 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

5 **A. Yes.**

³³ Including the GSIC along with associated GSIC carrying costs is consistent with the approvals by the Colorado Public Utilities Commission in various utility rate proceedings.

STATE OF NEBRASKA)
) SS
COUNTY OF LANCASTER)

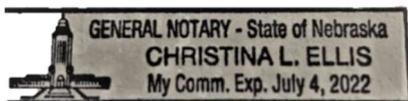
I, Jason L. Bennett, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.



Jason L. Bennett

Subscribed and sworn to before me this 27th day of May, 2020.

(SEAL)



Notary Public

My Commission Expires:
July 4, 2022