

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
BLACK HILLS NEBRASKA GAS, LLC d/b/a)	
BLACK HILLS ENERGY FOR APPROVAL TO)	
IMPLEMENT A VOLUNTARY RENEWABLE)	Application No. NG-117
NATURAL GAS AND CARBON OFFSET)	
PROGRAM)	

DIRECT TESTIMONY AND EXHIBITS OF

TYLER E. FROST

ON BEHALF OF

BLACK HILLS NEBRASKA GAS, LLC

D/B/A BLACK HILLS ENERGY

August 12, 2022

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List of Exhibits

Direct Exhibit TEF-1 – Education and Qualifications

Direct Exhibit TEF-2 – Proposed Tariffs

CONFIDENTIAL Direct Exhibit TEF-3 – Program Financials

List of Acronyms

BHC	Black Hills Corporation
Black Hills Energy or Company	Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy
Block	A Block represents 20.5 therms of natural gas or approximately 33% of the average Nebraska residential customer's monthly usage.
CO2	Carbon Dioxide
Commission or NPSC	Nebraska Public Service Commission
Environmental attributes	Environmental attributes are credits issued by established RNG environmental attribute markets for production, capture, and refinement of RNG as a transportation fuel and for reducing GHG
ESG	Environmental, Social, and Governance
GCA	Gas Cost Adjustment
GHG	Greenhouse Gas
Program	Voluntary Renewable Natural Gas and Carbon Offset Program
RNG	Renewable Natural Gas

1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Tyler E. Frost. My business address is Black Hills Energy, 1731
4 Windhoek Drive, P.O. Box 83008, Lincoln, Nebraska 68501-3008.

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

6 A. I am employed by Black Hills Service Company, LLC, a wholly-owned subsidiary
7 of Black Hills Corporation. I am a Manager of Regulatory and Finance for
8 Nebraska and Iowa.

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

10 A. I am testifying on behalf of BH Nebraska Gas, LLC (“BH Nebraska Gas” or
11 “Company”). BH Nebraska Gas is the natural gas utility resulting from the recent
12 consolidation of the Nebraska gas utility assets and operations of Black Hills
13 Corporation’s (“BHC”) two former Nebraska gas utility distribution subsidiaries,
14 Black Hills/Nebraska Gas Utility Company, Inc. (“BH Gas Utility”) and
15 Black Hills Gas Distribution, LLC (“BH Gas Distribution”). BH Nebraska Gas is
16 a wholly owned subsidiary of BHC.

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

19 A. I lead a team responsible for regulatory filings as well as the budgeting, forecasting,
20 strategic planning and overall financial analysis for Nebraska. In this role, I
21 oversee and participate in the development of regulatory strategy, policy, tariffs,
22 and regulatory filings in Nebraska. My team is also responsible for financial

1 planning and analysis, including the annual budgeting process and monthly and
2 quarterly analysis of operating results.

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

5 A. My educational and professional background is included within Direct Exhibit
6 TEF-1.

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

8 A. Yes. I have previously provided written testimony before the Nebraska Public Service
9 Commission. As the Commission's Economist, I testified numerous times in a
10 variety of dockets. Since joining Black Hills Energy, I have provided testimony in
11 support of various dockets.

12 **II. PURPOSE OF TESTIMONY**

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

14 A. The purpose of my testimony is shown below:

- 15 1) Explain Black Hills Energy's requested approval with respect to the
16 application;
- 17 2) Outline Black Hills Energy's proposed Voluntary Renewable Natural Gas
18 and Carbon Offset Program (the "Program") including the value of the
19 Program to Black Hills Energy customers; and
- 20 3) Explain Program economics and discuss the timeline of the Program.

1 **Q. WHAT IS BLACK HILLS ENERGY SEEKING APPROVAL FOR IN THIS**
2 **PROCEEDING?**

3 A. The Company is seeking approval of a Program to commence on January 1, 2023,
4 and continue through 2026, which provides residential and commercial retail
5 customers the option to offset the carbon footprint of their natural gas usage through
6 a combination of RNG attributes and carbon offset credits. As part of the Program,
7 Black Hills Energy is seeking approval of deferred accounting treatment to record
8 and defer the revenues and expenses associated with the Program to ensure that
9 only Program participants pay for the costs of the Program and to ensure Black
10 Hills Energy fully recovers the costs of the Program from only those customers
11 who participate. Black Hills Energy is also seeking Commission approval of tariffs,
12 included as Direct Exhibit TEF-2, to establish rates voluntary participants will be
13 charged for Program participation.

14 **Q. PLEASE IDENTIFY OTHER COMPANY WITNESSES PROVIDING**
15 **TESTIMONY IN SUPPORT OF THIS APPLICATION?**

16 A. Ms. Katie N. Fleming provides testimony supporting the development and
17 marketing of Black Hills Energy's proposed Program.

18 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF BLACK HILLS**
19 **ENERGY.**

20 A. Black Hills Energy is a natural gas distribution company offering natural gas
21 service to customers located in communities throughout the State of Nebraska. The
22 Company is responsible for approximately 12,527 miles of natural gas system
23 infrastructure. Black Hills Energy serves approximately 300,000 total customers in

1 319 Nebraska communities. The customer base is comprised of primarily
2 residential customers but also includes commercial, industrial, and agricultural
3 customers. Black Hills Energy also provides transportation services to customers
4 who elect to purchase their own gas supplies. A full listing of Black Hills Energy's
5 existing operations and service areas is set forth in Black Hills Energy's tariffs on
6 file with the Commission.

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

8 A. Yes. I am sponsoring the following Exhibits:

- 9 • **Direct Exhibit TEF-1** – Education and Qualifications
- 10 • **Direct Exhibit TEF-2** – Proposed Tariffs
- 11 • **CONFIDENTIAL Direct Exhibit TEF-3** – Program Financials

12 **III. REGULATORY APPROVAL OF THE PROGRAM**

13 **Q. EXPLAIN THE “PILOT” APPROACH OF THE PROGRAM.**

14 A. Black Hills Energy's is seeking approval of the Program as a pilot over a four-year
15 term from January 1, 2023, through December 31, 2026. The Company will use
16 this time period to fully evaluate the Program.

17 Based on a customer survey discussed by Ms. Fleming, Black Hills Energy
18 believes there is strong customer interest in participating in a voluntary program
19 that provides a customer with a way to mitigate a customer’s carbon footprint. The
20 Company designed the Program for those customers who want to voluntarily
21 participate in a renewable natural gas environmental attribute and carbon offset
22 program. To manage unknown customer demand indicated in the survey with the
23 actual costs and revenues of the Program, Black Hills Energy determined that it is

1 prudent to launch the Program as a pilot. Black Hills Energy will evaluate the
2 success of the Program throughout the pilot period.

3 While the results of the customer survey are encouraging as to the potential
4 appetite for the Program, through the pilot approach, Black Hills Energy will be
5 able to validate the results of the survey through evaluation of actual customer net
6 enrollments each year of the pilot period, measure customer satisfaction, validate
7 Program design elements, and identify future enhancements.

8 **Q. PLEASE EXPLAIN THE DEFERRED ACCOUNTING TREATMENT**
9 **REQUESTED BY THE COMPANY.**

10 A. The Program is predicated upon Commission approval of a deferred accounting
11 order, as well as approval of Black Hills Energy's tariff. To that end, Black Hills
12 Energy seeks approval of deferred accounting treatment to capture the revenues
13 and expenses of the Program for the term of the pilot period of the Program. This
14 Program will be paid for exclusively by customers participating in the Program and
15 Program costs will not be passed on to customers who do not enroll in the Program.

16 By approving a deferred accounting treatment, Program revenues and
17 expenses will be isolated from other utility revenues and expenses. The deferred
18 accounting treatment ensures that the revenues and expenses of the Program are
19 accounted for separately from any other Company revenues and expenses to ensure
20 that non-participants do not bear the cost of the Program.

21 Customers who participate in the Program will see a new line item on their
22 customer bill identifying the charges associated with enrollment. These revenues
23 will be accounted for by being booked to a deferred balance sheet account separate

1 from base rate revenues, GCA revenues, SSIR revenues and all other revenue
2 streams on a customer bill. Similarly, all expenses of the program, whether internal
3 expenses or expenses attributable to third parties, will be accounted for by booking
4 the expenses to the same deferred balance sheet account as the revenues.

5 The deferred accounting treatment allows Black Hills Energy an
6 opportunity to defer expenses in the year incurred, with the opportunity to recover
7 those deferred expenses in the future as the Program matures and participation
8 increases. In the early years of the Program, the anticipated expenses associated
9 with the upfront marketing costs in acquiring new participants are greater than the
10 anticipated revenues due to low initial participant numbers and initial
11 implementation costs. This results in Program expenses exceeding Program
12 revenues, creating a regulatory asset, otherwise known as being under-collected.

13 As the Program matures in subsequent years, forecasted increased enrollees
14 generate Program revenues in excess of Program expenses, creating a regulatory
15 liability, otherwise known as being over-collected. When the deferred account
16 balance for the Program becomes over-collected, Black Hills Energy will use the
17 excess revenues to benefit Program participants. For example, Black Hills Energy
18 may evaluate additional offerings to customers, as described in more detail below,
19 by acquiring higher percentages of RNG environmental attributes and/or higher
20 premium carbon offset credits, subject to Commission approval.

1 **Q. WHAT APPROVAL IS BLACK HILLS ENERGY SEEKING WITH**
2 **RESPECT TO THE TARIFFS?**

3 A. Black Hills Energy is seeking approval of the new tariff sheets included as Direct
4 Exhibit TEF-2. The tariffs provide information including effective period of the
5 Program, eligibility standards, rates per Block for customers who choose to enroll
6 and minimum terms and conditions of the Program.

7 **IV. OVERVIEW OF PROGRAM**

8 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED PROGRAM.**

9 A. Black Hills Energy is proposing to implement a new tariff that will provide natural
10 gas customers an opportunity to voluntarily offset their carbon footprint of natural
11 gas usage. The Program is designed to allow the Company to administer the
12 collection and gathering of customer contributions under the Program tariff. Black
13 Hills Energy will provide its third-party vendor 3Degrees with funds collected
14 under the Program. 3Degrees will purchase environmental attributes from
15 established and accredited environmental attribute markets at then-prevailing
16 market rates as described more fully in the Testimony of Ms. Katie Fleming. The
17 Program will be offered to residential and commercial retail customers of Black
18 Hills Energy.

19 A customer enrolled in the Program will continue paying the Gas Cost
20 Adjustment (“GCA”) rates as specified in tariff Sheet Nos. 95 and 96 for natural
21 gas consumed as the customer currently does today. Only the customers who enroll
22 in the Program will be billed for their voluntary participation in the Program. The

1 Program tariff charges will be identified on a customer’s bill separately from other
2 customer charges.

3 **Q. IS BLACK HILLS ENERGY PRODUCING RNG OR CARBON OFFSETS**
4 **IN THE PROGRAM?**

5 A. No. Black Hills Energy is not producing RNG, not purchasing RNG, or generating
6 other environmental attributes directly through the Program. Instead, as stated
7 above, the Company will partner with 3Degrees to purchase environmental
8 attributes through accredited environmental attribute markets.

9 **Q. WHY IS BLACK HILLS ENERGY OFFERING THE PROGRAM?**

10 A. Black Hills Energy is offering the Program for the following reasons:

- 11 1. The Program allows Black Hills Energy's customers to voluntarily
12 contribute towards greenhouse gas (“GHG”) emissions reduction;
- 13 2. The Program supports the Company’s corporate-wide
14 Environmental, Social, and Governance (“ESG”) goals, which
15 indirectly benefit all Black Hills Energy customers;
- 16 3. The Program demand may indirectly spur development of RNG and
17 other renewable energy projects in Nebraska and elsewhere; and
- 18 4. The Program will provide Black Hills Energy with valuable insights
19 into customer interest for reducing their carbon emissions which
20 will help inform the Company in future planning.

21 First, offering this Program allows Black Hills Energy customers an
22 opportunity to voluntarily participate in GHG emissions reduction strategies.
23 Customers who desire to do so should have the opportunity to reduce their carbon

1 footprint through this Program. For example, a survey of Black Hills Energy's
2 customers indicated that approximately 56% of respondents are “somewhat” or
3 “very” likely to participate in the Program. Thus, offering this Program permits
4 customers who are “somewhat” or “very” in favor of renewable energy sources,
5 including RNG, to voluntarily offset GHG emissions associated with natural gas
6 consumption as they choose. Similarly, because the Program will be established as
7 a voluntary Program, those customers who do not wish to participate are not
8 obligated to participate or to pay for others who do participate in the Program.

9 The Company understands that there may be a difference between a
10 customer wanting more renewable energy, a customer wanting to lower carbon
11 emissions, and a customer actually paying for such action. Accordingly, although
12 56% of customer respondents indicated that they are “somewhat” or “very” likely
13 to participate in an RNG program, this newly created Program will demonstrate the
14 financial willingness of customers to offset carbon emissions in Nebraska through
15 the purchase of environmental attributes through the Program. To that end, the
16 Program tariff rates were designed to balance Customer affordability with the
17 opportunity of a customer to indirectly engage in environmental attributes markets.
18 A voluntary Program caters to the wants and needs of those interested in
19 participating while not imposing costs on those who are not currently interested in
20 the Program.

21 Second, offering the Program contributes to, and is complementary to,
22 Black Hills Energy's approach to providing customers and communities with
23 energy solutions and choices that help attain their sustainability goals. Ms. Fleming

1 discusses the Company’s sustainability strategy in more detail in her direct
2 testimony.

3 In addition to the customer benefits discussed above, offering the Program
4 will send a signal to all stakeholders, including investors and renewable energy
5 developers, that Black Hills Energy is advancing the development of renewable
6 energy projects in Nebraska. The Program may indirectly advance the production
7 of renewable energy sources, including renewable natural gas. Investment in
8 environmental attributes may encourage more investment in renewable energy
9 projects in Nebraska and elsewhere in the future.

10 Lastly, the Program will provide valuable information on customer behavior
11 and interest in reduction of their emissions which will help inform Black Hills
12 Energy for future planning.

13 **V. PROGRAM DESIGN**

14 **Q. DESCRIBE THE VOLUNTARY NATURE OF THE PROGRAM.**

15 A. The Program is a voluntary program offered to residential and commercial
16 customers who choose to enroll in the Program to offset their carbon footprint
17 partially or fully. Customers who enroll are free to unenroll from the Program on a
18 monthly basis for any reason. Similarly, on a monthly basis, customers can adjust
19 the level of participation in the Program.

20 **Q. HOW ARE CUSTOMERS OFFSETTING THEIR CARBON FOOTPRINT
21 THROUGH THIS PROGRAM?**

22 A. Customers can purchase fixed price Blocks that represent a portion of their natural
23 gas usage. One Block represents 20.5 therms of natural gas, which is approximately

1 33% of the average Nebraska residential customer’s monthly usage. One Block, or
2 20.5 therms of natural gas combustion, releases approximately 0.11152 metric tons
3 of CO₂, or carbon dioxide.

4 **Q. ARE CUSTOMERS LIMITED ON THE NUMBER OF BLOCKS THEY**
5 **MAY PURCHASE?**

6 A. No. Customers may purchase as many Blocks as they choose. Any Blocks
7 purchased beyond those needed to mitigate their carbon footprint become a social
8 benefit for all.

9 **Q. IS THIS PROGRAM OFFERED EXCLUSIVELY TO BLACK HILLS**
10 **ENERGY CUSTOMERS IN NEBRASKA?**

11 A. No. The Program is a multi-state initiative that will be proposed to be offered to all
12 residential and commercial retail natural gas customers in six different Black Hills
13 Corporation state service territories.¹ Nebraska is the third state in which this
14 program has been proposed. The application in this proceeding is for approval of
15 the Program as it relates to Black Hills Energy customers located within the State
16 of Nebraska.

17 **VI. PROGRAM ENROLLMENT**

18 **Q. WHO IS ELIGIBLE TO PARTICIPATE IN THE PROGRAM?**

19 A. All Black Hills Energy residential and commercial, Energy Options, and Choice
20 Gas Program (residential and commercial) rate schedule customers are eligible to
21 participate in the program, provided the customer’s account is in good standing. If

¹ BHC has natural gas utility subsidiaries located within the following states: Arkansas, Colorado, Iowa, Kansas, Nebraska, and Wyoming.

1 an enrolled customer goes into arrears greater than 60 days, the customer will be
2 removed from the Program.

3 **Q. ARE THERE MINIMUM TERMS A CUSTOMER MUST AGREE TO IN**
4 **ORDER TO PARTICIPATE IN THE PROGRAM?**

5 A. The only term a customer agrees to by enrolling is to participate in the Program for
6 the current full monthly billing cycle. Customers will remain enrolled in the
7 Program until they choose to unenroll or are removed from the program as
8 previously discussed. A customer can request removal from the Program at any
9 time and they will not be billed for the Program in the subsequent full monthly
10 billing cycle.

11 **VII. PROGRAM PRODUCT CONTENT**

12 **Q. WHAT IS A PRODUCT CONTENT LABEL AND HOW IS IT USED IN**
13 **THE PROGRAM?**

14 A. A product content label is best described as the resource mix used to compile a
15 product purchased by customers as it relates to an energy resource mix. In the case
16 of the Program, the product content label is a mix of RNG environmental attributes
17 and carbon offset credits.

18 Due to RNG attributes supply limitations, high production costs, and
19 valuable incentives for RNG in transportation, RNG prices are relatively high in
20 the current market conditions. Because of these higher costs, the product content
21 label was designed to be more cost-effective for customers, with the product label
22 containing carbon offset credits, which carry a lower cost, alongside RNG as part
23 of the Program. Given customers' price sensitivity to renewable energy products

1 and programs, Black Hills Energy designed the Program and product content label
 2 in a way that balanced affordability with CO2 emission reductions achieved to
 3 maximize Program enrollment. To further facilitate Program adoption, the Program
 4 was designed from a Block sense that provides flexibility for customers to offset
 5 their CO2 emissions in increments, as opposed to a program offering in which
 6 customers had to offset all CO2 emissions by enrolling. The product content label
 7 offsets 99% of CO2 emissions through carbon offset credits, and the remaining 1%
 8 of CO2 emission offsets are accomplished through RNG environmental attributes.
 9 Other utilities offering similar renewable energy programs tend to offer RNG as
 10 part of their product content label at levels of 5% or less, similar to Black Hills
 11 Energy's proposal. For one Block representing 20.5 therms of natural gas usage,
 12 one percent of the GHG emissions associated with the combustion of that natural
 13 gas, or 0.205 therms, will be offset through RNG environmental attributes. The
 14 remaining 99% of GHG emissions associated with the combustion of that natural
 15 gas, or 20.295 therms, will be offset through carbon offset credits. The conversion
 16 of MT CO2 emission reductions by product content label are displayed in Table 1
 17 below.

Table 1 – Emission Reduction Conversion by Block

One Block		
Offset By Content Label	Gas Based	MT CO2
	20.5 therms	0.11152
1% RNG	.205 therms	0.00112
99% Carbon Offset Credits	20.295 therms	0.11040

1 **Q. WHAT IS THE PRODUCT CONTENT PORTFOLIO PLAN?**

2 A. Black Hills Energy's third-party vendor, 3Degrees, will provide RNG
3 environmental attributes and carbon offsets on a per therm enrolled basis for the
4 term of the proposed Program for a pilot period from 2023 through 2026. The RNG
5 environmental attributes as part of the product content label will constitute no less
6 than 1% of the total Program supply, ensuring the product content label will always
7 include a portion of RNG environmental attributes.

8 **Q. WHY DID BLACK HILLS ENERGY UTILIZE A THIRD-PARTY**
9 **VENDOR?**

10 A. Black Hills Energy sought to take advantage of a third-party's expertise in this field.
11 3Degrees is an experienced industry expert with over 15 years of experience
12 implementing the most successful utility renewable energy programs across all
13 customer segments and product types. 3Degrees has worked with other large
14 utilities including Pacific Power, Puget Sound Energy, Georgia Power, and DTE
15 Energy in successfully implementing renewable energy programs.

16 **Q. HAS BLACK HILLS ENERGY COMMITTED TO THE TERMS OF THE**
17 **PRODUCT CONTENT LABEL?**

18 A. No, the terms of the contract with 3Degrees are valid through November 30, 2022.
19 Due to changing market dynamics and increased demand across the country,
20 regulatory certainty is needed by that date. It is possible that volatility within the
21 markets for RNG attributes and carbon offsets beyond November 30, 2022, could
22 significantly modify supply cost terms from the offered price today. In the event
23 regulatory approvals are not in place by November 30, 2022, Black Hills Energy

1 will reassess the Program financial viability based on product content label terms
2 effective December 1, 2022.

3 **VIII. PROGRAM ECONOMICS**

4 **Q. HOW WILL BLACK HILLS ENERGY ACCOUNT FOR PROGRAM**
5 **EXPENSES?**

6 A. All expenses associated with the Program will be accounted for separately from
7 conventional gas supply costs, including commodity and upstream costs accounted
8 for in Black Hills Energy's GCA. Since Black Hills Energy is not offering RNG as
9 part of its supply mix profile and GCA, Program expenses will be accounted for
10 separate and apart from gas costs in the GCA. Program expenses will be booked in
11 an account, separate from gas commodity costs, for which Black Hills Energy is
12 seeking approval of a deferred accounting treatment, resulting in no impact to
13 Black Hills Energy customers who do not elect to enroll in the Program.

14 **Q. WHAT IS BLACK HILLS ENERGY'S GOAL OR FINANCIAL TARGET**
15 **WITH THE PILOT PROGRAM?**

16 A. Black Hills Energy seeks to offer a Program in which Program revenues are equal
17 to or greater than Program expenses as soon as reasonably practicable. In early
18 years, the Program will be under-recovered due to high costs as Black Hills Energy
19 informs and educates customers about the availability and benefits of Program
20 enrollment. Based on the Company's financial evaluation of the Program, we
21 anticipate the Program to break even in 2026.

22 Breaking even by 2027, or sooner, is attainable using Program management
23 and adaptation strategies over the course of the 2023 through 2026 pilot period.

1 This timeline allows adequate time to market the Program to customers to enroll
2 all voluntary participants into the Program or achieve “full saturation.” A shorter
3 timeline may potentially limit late adopters to the Program, never allowing the
4 Program to achieve its full potential. Black Hills Energy expects the four-year pilot
5 of 2023 through 2026 will be critical in cost-effectively acquiring customers who
6 are most likely to enroll in the Program. If the participation forecasts are on target,
7 Black Hills Energy will seek Commission approval for a permanent Program in the
8 latter half of the Program’s pilot period.

9 **Q. HAS BLACK HILLS ENERGY MODELED THE FINANCIAL IMPACTS**
10 **OF THE PROGRAM?**

11 A. Yes, the financial impacts are modeled in Confidential Direct Exhibit TEF-3. I will
12 summarize the Program at an elevated level before going into more detail on
13 specific components of the modeling. Financial impacts are modeled using the
14 following:

- 15 • customer adoption estimates;
- 16 • terms of the negotiated supply costs and product content label
17 offered by 3Degrees;
- 18 • anticipated marketing costs of the Program; and
- 19 • Program management costs.

20 Modeling based on current assumptions indicates under-recoveries on an
21 annual basis between 2023 through 2026, while the Program is forecasted to break
22 even in 2026. Due to consecutive under-recoveries during the 2023-2026 period,
23 the cumulative Program costs become fully recovered by 2029. In addition to

1 assisting in developing the Program, 3Degrees also assisted in developing the
 2 financial projections utilized in the modeling.

3 **Q. HOW ARE PROGRAM REVENUES MODELED?**

4 A. Program revenues are modeled based on projections of annual customer
 5 enrollments, willingness to pay, and other customer participation habits. Revenues
 6 are derived as the product of price per Block multiplied by the estimated number
 7 of participants multiplied by average number of Blocks per participant.

8 Enrollments are composed using a factor of estimated enrollments from
 9 email marketing, direct mail marketing, move-ins, and call center marketing.
 10 Attrition is then considered to determine the net annual enrollments. There will be
 11 numerous customers enrolled in the Program whose circumstances or appetite for
 12 the Program change after enrollment, resulting in potential unenrollment. The
 13 Company has modeled attrition at 8% of annual enrollees in year one and 14%
 14 attrition of annual enrollees every year thereafter. Net enrollments by year are
 15 displayed in Table 2 below. Anticipated enrollment by 2026, the end of the pilot, is
 16 approximately 3,780.

Table 2 – Estimated Program Enrollees

Year	Annual Enrollees	Cumulative Enrollees
2023	435	402
2024	787	1,076
2025	1,527	2,383
2026	1,631	3,780

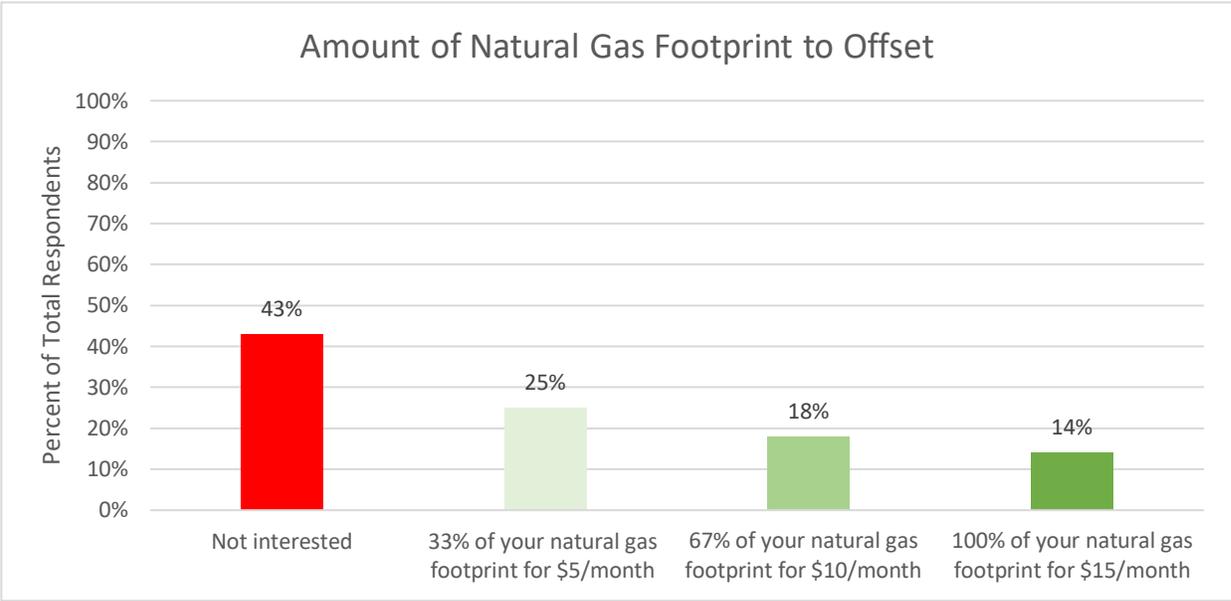
2027	1,870	5,380
2028	1,968	7,065
2029	2,243	8,985
2030	2,361	11,006
2031	2,490	13,137
2032	2,632	15,390

1 Black Hills Energy surveyed customers to gauge customer interest for an
2 RNG program as a voluntary offering. The Company sought to understand interest
3 and potential for customer adoption of a RNG program at the price point of \$5 per
4 Block. The July 2022 survey was sent to approximately 154,000 Nebraska
5 customers' email addresses that were opted in to receive email communications and
6 marketing from Black Hills Energy. Of those customers, approximately 4,600
7 customers responded in the month the survey was open. Of the total survey
8 respondents, over 2,600, or approximately 57% of the respondents indicated they
9 would consider participating in a program offered by Black Hills Energy.

10 Black Hills Energy believes the 2,600 customers in the July 2022 survey
11 who indicated they would consider participating in a program are a positive
12 indication that the Company can attain the enrollment figures estimated by
13 3Degrees. The Company intends to utilize various cost-effective education and
14 marketing techniques to engage Nebraska customers to achieve forecasted net
15 enrollments specific to year-end 2026 and ensure that the anticipated enrollments
16 in Table 2 above are attainable.

1 The price per Block is established as \$5 per Block per month. Blocks were
 2 set at a price point considered attractive for the average target participant to enroll
 3 in the Program while balancing the revenues necessary to make the Program
 4 financially feasible. The pricing structure of \$5 per Block per month has support,
 5 given it is similar to pricing structures in other states in which renewable energy
 6 programs have been implemented. As discussed below regarding Program Supply
 7 Expenses, one Block represents approximately 33% of CO2 emissions associated
 8 with the average residential customer’s gas usage. Based on the outcome of the
 9 survey responses, Black Hills Energy determined that customers found equitable
 10 value in \$5 to offset one-third of their carbon footprint. Table 3 displays customers’
 11 willingness to pay data from Black Hills Energy's 2022 customer survey.

Table 3 – Black Hills Energy 2022 Survey Customer Willingness to Pay



12 The last factor in the revenue calculation is the quantity of Blocks enrolled
 13 per customer per month. As modeled in Confidential Direct Exhibit TEF-3 and
 14 supported by direct customer survey results and 3Degrees implementation history,

1 the average participant will enroll in 1.82 Blocks per month at the \$5 per Block
2 price point, which equates to the average participant willing to pay \$9.10 to
3 participate in the Program. Willingness to pay is supported by 57% of Nebraska
4 customers willing to pay \$5 or more per month to offset their carbon footprint as
5 shown in Table 3, above, and in Ms. Fleming's Direct Exhibit KNF-1 – Customer
6 Surveys and Segmentation Analysis.

7 **Q. DISCUSS PROGRAM SUPPLY EXPENSES.**

8 A. Program supply expenses, also referred to as Product Content Label expenses, are
9 a variable component of the modeling that changes with the Blocks (or therms)
10 enrolled in the Program. Confidential Direct Exhibit TEF-3 illustrates the price
11 offered by 3Degrees on a per therm basis. The procured cost per enrolled therm is
12 charged to the Program as defined by the terms of the agreement with 3Degrees.

13 The per therm enrolled price in the Program is a fixed amount for the term
14 of the pilot period. While supply costs and product content label beyond the pilot
15 period are uncertain, technological advancements, RNG and carbon offset market
16 developments, and other factors may bring expenses down from the cost modeled
17 for years 2027 and beyond.

18 **Q. DISCUSS PROGRAM MARKETING EXPENSES.**

19 A. Customer education is a critical component for customer awareness of the Program
20 and adoption. Due to the infancy of RNG, carbon offset credits, and the limited gas
21 utility offerings of each, customer awareness is low, making customer education
22 critical to supporting both early demand and longer-term Program adoption.
23 Through its marketing campaign, Black Hills Energy plans to educate customers

1 on the concept of RNG, including the environmental benefits of RNG and
2 transparently describing the procurement process of RNG environmental attributes
3 and carbon offset credits and how customers are offsetting their carbon footprint
4 through Program enrollment. Customer education is important for Program
5 success, as this is a new offering and awareness is low.

6 Program marketing includes direct expenses internal to Black Hills Energy
7 as well as expenses associated with vendor supported marketing efforts. The
8 Company has primarily based its marketing budgets on email outreach and
9 selective direct mailing campaigns based on market research as described in the
10 direct testimony of Ms. Fleming.

11 Black Hills Energy plans to heavily utilize digital marketing of the Program
12 to acquire and retain customers who wish to enroll in the Program. This includes
13 digital awareness on social media, web, and all other channels, as well as four
14 emails annually to customers who have provided an email address to Black Hills
15 Energy. Email continues to be an effective and low-cost channel when it comes to
16 enrolling customers in a voluntary renewable program. The Company plans to
17 market through email to approximately 154,000 residential and commercial
18 customers who have opted in to receive marketing emails. Due to the low-cost
19 nature of email marketing campaigns, the Company plans to continue the email
20 campaign for the duration of the Program.

21 Black Hills Energy also plans to engage and acquire customers through
22 direct mail campaigns by sending high likelihood customers direct mailings
23 promoting the Program. The Company plans to strategically pursue customers

1 through direct mailing based on the results of customer segmentation analysis
2 developed through market research as discussed in the direct testimony of Ms.
3 Fleming. Market research established three key customer segments in which direct
4 mail campaigns may be most effective. Based on 3Degrees previous experience
5 with similar programs, these customer segments participate in renewable energy
6 program offerings at some of the highest rates and also account for a large share of
7 Black Hills Energy's customers with 38% of customers having the same attributes
8 of at least one of these high adoption potential segments. Black Hills Energy will
9 direct mail these high adoption potential segments annually, explaining the
10 availability and benefits of the Program to increase participation.

11 The vendor-supported and internal marketing budget as presented in
12 Confidential Direct Exhibit TEF-3 will be used to develop the Program image,
13 messaging and branding, develop acquisition email and direct mail content, launch
14 a Program landing page within Black Hills Energy's website and bill payment
15 portal, develop annual performance reports for the Program, and implement other
16 marketing and customer acquisition strategies.

17 At this time, Black Hills Energy also anticipates that there will be costs
18 associated with manual enrollment of customers through the call center and the
19 web. The Company has budgeted \$4,500 annually for maintenance and updates to
20 customer information systems, the Company's website, and the online customer
21 portal.

1 **Q. DISCUSS PROGRAM ADMINISTRATION EXPENSES.**

2 A. Modeling for administrative expenses of the Program pertains to compliance
3 expenses and the expenses associated with internal staffing to manage the Program.

4 As discussed further in the direct testimony of Ms. Fleming, Black Hills
5 Energy intends to operate the Program as a certified program through a carbon
6 registry oversight body. This means that all RNG environmental attributes and
7 carbon offset credits will be certified, validated, and appropriately retired using
8 standards developed by the American Carbon Registry, Climate Action Reserve,
9 Gold Standard, or another similar oversight body. Certification of these RNG
10 environmental attributes and carbon offset credits ensures the monies spent by
11 customers to procure the RNG environmental attributes and carbon offset credits
12 are funding a unique, traceable, and verifiable RNG environmental attribute or
13 carbon offset credit. Through this certification and validation process, Black Hills
14 Energy and customers are assured dollars invested in the Program are verifiably
15 offsetting the CO₂ emissions as intended, significantly reducing the risk of
16 Program misappropriation. The Company has budgeted for the labor associated
17 with 3Degrees verification and certification of RNG environmental attributes and
18 carbon offset credits. Black Hills Energy has also budgeted for an annual audit of
19 the Program by a third-party organization that ensures ongoing compliance with
20 voluntary market standards to attain certified program designation. The Company
21 has budgeted \$15,000 annually during the first two years of the Program for
22 compliance, RNG environmental attribute and carbon offset credit verification and
23 certification, and annual program audits. Once the Program is fully implemented

1 in all states, these costs will be allocated across all appropriate jurisdictions of
2 participants, as demonstrated in Confidential Direct Exhibit TEF-3.

3 Black Hills Energy has budgeted for an internal full-time employee who
4 will manage the Program, once implemented, across Nebraska and all other states.
5 The Program manager will be the primary point of contact with 3Degrees and other
6 external stakeholders, continuously monitoring the progress of the Program, acting
7 as a liaison between the customer call center, marketing and communications, and
8 strategically guiding the Program through the launch and implementation in
9 Nebraska. A portion of the expense associated with the Program manager will be
10 allocated to the Nebraska Program. The Program manager will be responsible for
11 monitoring and approving the financial transactions associated with the revenue
12 and expenses using unique GL accounts and work orders. A unique accounting code
13 block will be established to ensure that revenues and expenses associated with the
14 Program are separate from utility customer revenues and expenses not participating
15 in the Program.

16 **IX. PROGRAM SUCCESS FACTORS**

17 **Q. HOW WILL BLACK HILLS ENERGY EVALUATE THE PROGRAM'S**
18 **SUCCESS?**

19 **A.** The Program success is dependent on customer participation in the Program. Black
20 Hills Energy is committed to running a successful Program and views participation
21 as the guiding principle in defining the success of the Program. Existing renewable
22 energy offerings nationwide have attained approximately one to two percent
23 customer base enrollment once a Program fully matures. Accordingly, Black Hills

1 Energy is expecting one to two percent of customers to enroll in the Program at full
2 maturity by 2026, four years after implementation. Black Hills Energy has over
3 292,000 retail customers eligible for the Program in Nebraska. As modeled in
4 Confidential Direct Exhibit TEF-3, the Company anticipates approximately 3,780
5 customers enrolled by the end of 2026, or approximately 1.3% net participation.

6 **X. CONCLUSION**

7 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

8 A. I recommend the Commission approve the Program, the proposed tariff
9 modifications, and the deferred accounting treatment as discussed in detail
10 throughout my testimony.

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

12 A. Yes.

DIRECT EXHIBIT TEF-1

Statement of Qualifications

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 over 25 years of experience in roles within various utility industries.

Prior to joining Black Hills, beginning in 1999, I held several roles, of increasing responsibility, with the Nebraska Public Service Commission (“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, including the Telecommunications Infrastructure and Public Safety, Communications, and Natural Gas Departments. 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.

DIRECT EXHIBIT TEF-2
Proposed Tariff - CLEAN

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RATE SCHEDULES AND OTHER CHARGES
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RATE SCHEDULES AND OTHER CHARGES
VOLUNTARY RNG AND CARBON OFFSET PROGRAM

DESCRIPTION	This voluntary program ("Program") is available to all Residential and Commercial customers in good standing with the Company who actively opt-in to the Program. The Program offers customers the option to offset their emissions associated with natural gas usage. This Program is effective until terminated by the Company or at the end of the pilot period, December 31, 2026, unless an extension of the Program is approved by the Commission.
-------------	--

RATE	Upon enrollment, customer selects a set number of blocks to offset natural gas usage emissions. Each block represents 20.5 therms of offset to natural gas usage emissions. There is no limit to the amount of blocks a customer may select.
------	--

Per 20.5 Therm Block: \$5.00 per month

CONDITIONS OF SERVICE	The Company may limit customer participation in the Program to balance demand with available environmental attributes created or obtained by the Company. Company shall forecast and plan to create or obtain environmental attributes to meet projected quantities purchased under this Program
-----------------------	--

MINIMUM TERMS AND CONDITIONS	The minimum term available to customers is one complete billing month, extending month-to-month thereafter until terminated by the customer or termination of the Program, whichever occurs first. Customers are able to terminate their participation at any time effective with their next billing cycle
------------------------------	--

COST RECOVERY	Revenues received from voluntary participant fees will be used to fund the cost of the Program including, but not limited to, the purchase of environmental attributes, ongoing administration, marketing and overhead costs.
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DATE OF ISSUE: August 12, 2022
ISSUED BY: Robert J. Amdor

EFFECTIVE DATE: January 1, 2023

Black Hills Nebraska Gas, LLC
d/b/a Black Hills Energy
Nebraska Natural Gas Tariff
Filed with the Nebraska Public Service Commission

PUBLIC VERSION

Second Revised Sheet Nos. 138-151
Cancels First Sheet Nos. 138-151

RATE SCHEDULES AND OTHER CHARGES
CHARGES FOR MISCELLANEOUS SERVICES

RESERVED FOR FUTURE USE

DATE OF ISSUE: August 12, 2022
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EFFECTIVE DATE: January 1, 2023

NPSC Received 08/12/2022

DIRECT EXHIBIT TEF-2
Proposed Tariff - REDLINED

Black Hills Nebraska Gas, LLC
d/b/a Black Hills Energy
Nebraska Natural Gas Tariff
Filed with the Nebraska Public Service Commission

~~Second First~~ Revised Sheet No. 1
Cancels ~~First Original~~ Sheet No. 1

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DATE OF ISSUE: ~~August 12~~ ~~June 4,~~ 20220
ISSUED BY: Robert J. Amdor

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Black Hills Nebraska Gas, LLC
d/b/a Black Hills Energy
Nebraska Natural Gas Tariff
Filed with the Nebraska Public Service Commission

Second ~~First~~ Revised Sheet No. 77
Cancels ~~First Original~~ Sheet No. 77

RATE SCHEDULES AND OTHER CHARGES
RATE AREAS ONE, TWO, THREE, & FIVE

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DATE OF ISSUE: ~~August 12~~ ~~June 4~~, 2022~~0~~
ISSUED BY: Robert J. Amdor

EFFECTIVE DATE: ~~January~~ ~~September~~ 1, 2023~~0~~

RATE SCHEDULES AND OTHER CHARGES
VOLUNTARY RNG AND CARBON OFFSET PROGRAM
~~CHARGES FOR MISCELLANEOUS SERVICES~~

DESCRIPTION This voluntary program ("Program") is available to all Residential and Commercial customers in good standing with the Company who actively opt-in to the Program. The Program offers customers the option to offset their emissions associated with natural gas usage. This Program is effective until terminated by the Company or at the end of the pilot period, December 31, 2026, unless an extension of the Program is approved by the Commission.

RATE Upon enrollment, customer selects a set number of blocks to offset natural gas usage emissions. Each block represents 20.5 therms of offset to natural gas usage emissions. There is no limit to the amount of blocks a customer may select.

Per 20.5 Therm Block: \$5.00 per month

CONDITIONS OF SERVICE The Company may limit customer participation in the Program to balance demand with available environmental attributes created or obtained by the Company. Company shall forecast and plan to create or obtain environmental attributes to meet projected quantities purchased under this Program

MINIMUM TERMS AND CONDITIONS The minimum term available to customers is one complete billing month, extending month-to-month thereafter until terminated by the customer or termination of the Program, whichever occurs first. Customers are able to terminate their participation at any time effective with their next billing cycle

COST RECOVERY Revenues received from voluntary participant fees will be used to fund the cost of the Program including, but not limited to, the purchase of environmental attributes, ongoing administration, marketing and overhead costs.

DATE OF ISSUE: ~~February 15, 2022~~ August 12, 2022
ISSUED BY: Robert J. Amdor

EFFECTIVE DATE: ~~September 1, 2023~~ January 1, 2023

Black Hills Nebraska Gas, LLC
d/b/a Black Hills Energy
Nebraska Natural Gas Tariff
Filed with the Nebraska Public Service Commission

~~Second First~~ Revised Sheet Nos. 138-151
Cancels ~~First Original~~ Sheet Nos. 138-151

RATE SCHEDULES AND OTHER CHARGES
CHARGES FOR MISCELLANEOUS SERVICES

RESERVED FOR FUTURE USE

DATE OF ISSUE: **August 12, 2022**
ISSUED BY: Robert J. Amdor

EFFECTIVE DATE: **January 1, 2023**

Inputs	Notes	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Company Enrollments		890	2,801	5,434	5,806	6,653	7,004	7,983	8,401	8,860	9,366
NE Allocated Enrollments		48.8%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%
NE Annual Enrollments		435	787	1,527	1,631	1,870	1,968	2,243	2,361	2,490	2,632
Annual Attrition	Based on 3Degrees recommendation	8%	14%	14%	14%	14%	14%	14%	14%	14%	14%
NE Annual Attrition		(33)	(113)	(220)	(235)	(269)	(283)	(323)	(340)	(359)	(379)
YE NE Cumulative Net Enrollments		402	1,076	2,383	3,780	5,380	7,065	8,985	11,006	13,137	15,390
Therms Per Block		20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Monthly Blocks Per NE Customer	Based on NE survey	1.82	1.82	1.82	1.82	1.82	1.82	1.82	1.82	1.82	1.82
Annual Blocks Per Customer		21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Annual Therms Enrolled/ NE Customer		447.3	447.3	447.3	447.3	447.3	447.3	447.3	447.3	447.3	447.3
Total NE Program Annual Therms Enrolled		179,887	481,326	1,066,028	1,690,732	2,406,600	3,160,276	4,019,215	4,923,123	5,876,498	6,884,287
Total Annual NE Blocks		8,775	23,479	52,001	82,475	117,395	154,160	196,059	240,152	286,658	335,819
Average Annual NE Blocks	Based on avg (net enrollments Yr 1 + Yr 2)	4,387	16,127	37,740	67,238	99,935	135,777	175,110	218,106	263,405	311,239
Price per Block		\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
Cost Per Enrolled Therm											
Program Revenues											
TOTAL NE ANNUAL PROGRAM REVENUES		\$ 21,937	\$ 80,636	\$ 188,702	\$ 336,190	\$ 499,675	\$ 678,887	\$ 875,548	\$ 1,090,529	\$ 1,317,027	\$ 1,566,193
Product Content Expense											
RNG Attributes and Carbon Offset Expense											
TOTAL NE PRODUCT CONTENT EXPENSE											
Marketing Expense											
Total Company Vendor Marketing Expense	Based on 3Degrees Yr 1 proposal	\$ 161,900									
Total Company Internal Marketing Expense	Based on 3Degrees Yr 1 proposal	\$ 13,100									
Total Company Vendor & Internal Marketing Expense	Model estimates Yr 2 and beyond		\$ 291,326	\$ 314,263	\$ 252,902	\$ 314,767	\$ 208,677	\$ 212,790	\$ 217,025	\$ 221,388	\$ 225,882
Total Company Marketing Expense		\$ 175,000	\$ 291,326	\$ 314,263	\$ 252,902	\$ 314,767	\$ 208,677	\$ 212,790	\$ 217,025	\$ 221,388	\$ 225,882
TOTAL NE MARKETING EXPENSE		\$ 85,478	\$ 81,867	\$ 88,312	\$ 71,069	\$ 88,454	\$ 58,641	\$ 59,797	\$ 60,987	\$ 62,213	\$ 63,476
Administration Expense											
Compliance and Audit Expenses	Fixed per state Yr 1 & 2, Allocated Yr 3+	\$ 15,000	\$ 15,000	\$ 4,215	\$ 4,215	\$ 4,215	\$ 4,215	\$ 4,215	\$ 4,215	\$ 4,215	\$ 4,215
Total Company Program Manager Expense		\$ 140,000	\$ 144,200	\$ 148,526	\$ 152,982	\$ 157,571	\$ 162,298	\$ 167,167	\$ 172,182	\$ 177,348	\$ 182,668
Total NE Program Manager Expense		\$ 68,383	\$ 40,522	\$ 41,738	\$ 42,990	\$ 44,280	\$ 45,608	\$ 46,976	\$ 48,386	\$ 49,837	\$ 51,332
TOTAL NE ADMINISTRATION EXPENSE		\$ 83,383	\$ 55,522	\$ 45,953	\$ 47,205	\$ 48,495	\$ 49,823	\$ 51,192	\$ 52,601	\$ 54,053	\$ 55,548
Enrollment Expense											
Manual Enrollment Expense		\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500
TOTAL NE ENROLLMENT EXPENSE		\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500
TOTAL NE PROGRAM EXPENSE											
NE PROGRAM ANNUAL OVER (UNDER) RECOVERY											
NE PROGRAM CUMULATIVE OVER (UNDER) RECOVERY											

Blocks per month weighted average calculation

\$5 per month	43%	0.43
\$10 per month	31%	0.63
\$15 per month	25%	0.76
		1.82

State allocation calculation

State	Number of Customers	Yr 1 Allocations	Number of Customers	Yr 2 + Allocations
AR			163,000	15.4%
CO	197,817	32.6%	197,817	18.7%
IA			158,500	15.0%
KS	113,000	18.6%	113,000	10.7%
NE	296,778	48.8%	296,778	28.1%
WY			127,000	12.0%
Total/Average	607,595	100.0%	1,056,095	100.0%