

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF BLACK HILLS NEBRASKA GAS, LLC,)
D/B/A BLACK HILLS ENERGY, RAPID) APPLICATION NO. NG-109
CITY, SOUTH DAKOTA, SEEKING)
APPROVAL OF A GENERAL RATE)
INCREASE)**

DIRECT TESTIMONY OF ROBERT J. AMDOR

Director of Regulatory & Finance

ON BEHALF OF

BLACK HILLS NEBRASKA GAS, LLC

Date: June 1, 2020

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EXHIBITS

Exhibit No. RJA-1	Education, Employment History and Professional Experience of Robert J. Amdor
Exhibit No. RJA-2	Map of BH Nebraska Communities
Exhibit No. RJA-3	Map of BH Nebraska Rate and Service Areas
Exhibit No. RJA-4	2019 BHC Annual Report Proxy Statement
Exhibit No. RJA-5	BHC Credit Ratings

1 **DIRECT TESTIMONY OF ROBERT J. AMDOR**

2
3 **I. INTRODUCTION**

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

5 A. My name is Robert J. Amdor. My business address is 1630 Windhoek, Lincoln,
6 Nebraska, 68501-3008.

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

8 A. I am employed by Black Hills Services Company, LLC (“BHSC”), a wholly owned
9 subsidiary of Black Hills Corporation (“BHC”). My position is Director of
10 Regulatory and Finance for the states of Nebraska and Iowa.

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

12 A. I am testifying on behalf of BH Nebraska Gas, Inc. (“BH Nebraska Gas” or the
13 “Company”) d/b/a Black Hills Energy. BH Nebraska Gas is the natural gas utility
14 resulting from the recent internal consolidation of the Nebraska gas utility assets
15 and operations of the two former BHC Nebraska gas utility subsidiaries, Black
16 Hills/Nebraska Gas Utility Company, Inc. (“BH Gas Utility”) and Black Hills Gas
17 Distribution, LLC (“BH Gas Distribution”).

18 **II. STATEMENT OF QUALIFICATIONS**

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

21 A. I am responsible for all regulatory and financial planning matters for the
22 Company’s regulated natural gas utilities located in the states of Nebraska and
23 Iowa. In this role, my team handles regulatory compliance, internal support,
24 external relations, Commission application filings, corporate and business

1 operations planning, budgets, strategic planning, and various other matters that
2 arise from time to time.

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

5 A. My education, employment history and professional experience is provided in
6 Exhibit RJA-1.

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

8 A. Yes.

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

10 A. Yes. I am sponsoring the following Exhibit(s):

11 **Exhibit No. RJA-1** provides my education, employment history, and
12 professional experience.

13 **Exhibit No. RJA-2** is a map of communities served by BH Nebraska Gas.

14 **Exhibit No. RJA-3** is a map of BH Nebraska Gas Rate Areas.

15 **Exhibit No. RJA-4** is a copy of the 2019 BHC Annual Report Proxy
16 Statement.

17 **Exhibit No. RJA-5** is a copy of the most recent BHC Credit Rating.

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

21 A. Yes.

1 **III. PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony is to provide an overview of this Rate Review
4 Application. My testimony supports the following topics:

5 (a) **Rate Review Application Keys:** My testimony set forth the six keys
6 (i.e., primary drivers) of the Company requiring it to file this Rate Review
7 Application;

8 (b) **Summary of Witnesses:** My testimony provides a summary of the topics other
9 Company witnesses will address and support through their testimony and exhibits;

10 (c) **Prior Commission Proceeding Commitments:** My testimony outlines
11 commitments made by the Company in prior Commission proceedings leading up
12 to this Rate Review Application;

13 (d) **Company and Regulatory Policies:** My testimony provides a description of
14 and support for various Company and regulatory policies involved in this rate
15 review proceeding;

16 (e) **Employee and Executive Compensation:** My testimony provides support of
17 employee and executive compensation;

18 (f) **Capital Structure and Return on Equity:** My testimony supports the
19 Company's proposed *pro forma* capital structure of fifty (50%) percent debt and
20 fifty (50%) percent equity and proposed Return on Equity ("ROE") of ten (10%)
21 percent;

22 (g) **Interim Rates:** My testimony explains that BH Nebraska Gas will implement
23 interim rates, subject to refund, commencing on September 1, 2020. However, the
24 Company will consider shielding customers from the immediate impacts of the rate

1 increase during the pendency of this case if the Covid-19 Pandemic severely
2 impacts the majority of BH Nebraska Gas customers. To that end, BH Nebraska
3 requests Commission approval for BH Nebraska Gas, in its sole discretion, to elect
4 to defer collection of the incremental revenues it could lawfully collect during the
5 interim rate period until the end of the rate review proceeding.

6 BH Nebraska Gas would only defer collection of those revenues if the
7 Commission issues an interlocutory order in this rate proceeding prior to
8 September 1, 2020, a significant number of BH Nebraska Gas customers are unable
9 to pay the increase, and the Nebraska economy is in a condition that would warrant
10 deferral of collection of the interim rates commencing on September 1, 2020.

11 BH Nebraska Gas proposes that the Commission's interlocutory order
12 approve the following authorizations: (1) the Company is permitted to recover the
13 full lawful amount of revenue (i.e., with carrying costs) that BH Nebraska Gas
14 would have collected and retained during the interim rate period, (2) the Company
15 is allowed to recover the uncollected interim rates through a customer surcharge
16 mechanism to be collected over a twelve-month period commencing with the
17 effective date of final rates determined by the Commission in this rate review
18 proceeding, (3) Parties to the proceeding agree to the collection, and (4) all Parties
19 to the proceeding waive all rights of rehearing or appeal of the deferred collection
20 of the lawful revenues recovered through the surcharge mechanism approved by
21 the Commission's interlocutory order in this proceeding;

22 (h) **Other Rate Review Application Issues:** My testimony provides support for a
23 number of different items included within this Rate Review Application; and

1 (i) **Covid-19 Pandemic Response:** My testimony provides a discussion of the
2 impacts of the Covid-19 Pandemic on this Rate Review Application.

3 **IV. PRIMARY ISSUES OF RATE REVIEW APPLICATION**

4 **Q. WHAT PRIMARY ISSUES DRIVE BH NEBRASKA GAS TO FILE THIS**
5 **RATE REVIEW APPLICATION?**

6 A. The BH Nebraska Gas general rate application focuses on six (6) key areas:

- 7 1. Capital Infrastructure Projects Investment Recovery;
- 8 2. Pipeline Replacement Charge Renewal, System Safety Integrity Rider
9 (“SSIR”) Renewal, Extension, and other SSIR Modifications;
- 10 3. Public Power Competition and High Efficiency Appliance Tool (“HEAT”)
11 Tariff;
- 12 4. Revenue Deficiency;
- 13 5. Statewide Consolidated Rates; and
- 14 6. Covid-19 Pandemic Impact and Company Response.

15 **Q. PLEASE SUMMARIZE THE PRIMARY ISSUES IN THIS RATE**
16 **APPLICATION.**

17 A. BH Gas Utility and BH Gas Distribution made significant investment in their gas
18 distribution system infrastructure since the last rate reviews for either BH Gas
19 Utility or BH Gas Distribution. That capital investment was made in growth,
20 resiliency, reliability, and safety projects. Some of the gas system investment in
21 safety infrastructure made by BH Gas Utility and BH Gas Distribution in the past
22 has been recovered through either Pipeline Replacement Charges, or SSIR charges.
23 Other gas distribution system investment by BH Gas Utility or BH Gas Distribution

1 in growth, resiliency, and reliability will be incorporated into tariff rates through
2 this Rate Review Application.

3 Each primary driver for this Rate Review Application is summarized below:

4 **1. Capital Infrastructure Project Investment Recovery**

5 The Company has increased its rate base by approximately \$322 million since the
6 last rate review proceedings for BH Gas Utility and BH Gas Distribution. That
7 investment was made to improve the respective gas distribution systems of BH Gas
8 Utility or BH Gas Distribution. The total rate base at the end of the Base Year
9 (12/31/2019) is approximately \$526 million, which will increase to \$586 million
10 by the end of this proceeding.¹

11 The Company plans to invest approximately \$455 million
12 (i.e. approximately \$91 million average per/year) on Capital Infrastructure
13 Investment over the next five years in BH Nebraska Gas.²

14 The most important key to this Rate Review Application for BH Nebraska
15 Gas is (a) Commission approval of the recovery of previously unrecovered gas
16 system investment and (b) Commission approval of the Company's proposed rate
17 mechanisms to improve the safety and reliability of its gas distribution system.

18 In support of its gas system investments, a dedicated team of employees
19 (i.e., Engineering, Operations, Regulatory and Finance departments) assess all
20 BH Nebraska Gas system assets. Based on the collaborative analysis of that team,
21 BH Nebraska Gas then adopts a capital spending plan to (i) replace higher risk gas

¹ The jurisdictional rate base adjusted amounts are \$451 million and \$504 million respectively. Statement N of Exhibit No. MCC-2)

² Capital Infrastructure Investment, (also sometimes referred to as Capital Spend Plan) includes investment in all types of gas distribution system infrastructure projects: Growth, Integrity, Reliability, and General Plant.

1 distribution infrastructure on an accelerated timeline, (ii) increase reliability of the
2 gas system, (iii) enhance the resiliency of the gas system, or (iv) provide
3 infrastructure for customer growth and customer demand for additional system
4 capacity. The Company's prudent investment in system infrastructure requires
5 significant capital investment. The Capital Infrastructure Investment in this Rate
6 Review Application is critical to system safety, reliability, resiliency, and growth.

7 **2. Pipeline Replacement Charge Renewal, SSIR Renewal, SSIR**
8 **Extension and Other SSIR Mechanism Modifications**

9 The Pipeline Replacement Charge and SSIR mechanisms are designed to
10 (a) improve customer safety, (b) drive collaboration between the Commission, the
11 Public Advocate and the Company, and (c) reduce regulatory lag. Recovery of
12 required capital investment through a Pipeline Replacement Charge or SSIR
13 Charge extends the time between Rate Review Applications.

14 Accordingly, another key to this rate review proceeding is (a) the renewal
15 of the system safety mechanisms (i.e., Pipeline Replacement Charge and SSIR
16 Charge), (b) extension of the SSIR mechanism to all Rate Areas, (c) modification
17 of the SSIR's definition of eligible projects (including the SSIR criteria and
18 categories), (d) a change in the SSIR Surveillance Reports, and (e) modification of
19 the SSIR mechanism to include recovery of Data Integrity Improvement Program
20 ("DIIP") costs through the SSIR Charge.

21 The success of the existing Pipeline Replacement Charge and SSIR
22 mechanism supports the Company's request to expand the SSIR mechanisms as
23 proposed in the Company's rate application. Evidence of the SSIR mechanism's
24 success is contained within the Class Cost of Service Study ("CCOSS") and the

1 testimony of Mr. Sullivan. Those documents confirm that the SSIR used by BH
2 Gas Distribution reduced the customer impact of this rate proceeding on Rate Area
3 Five customers.

4 BH Nebraska Gas must continue making significant investment in the safety
5 and reliability of its gas distribution system in Nebraska. Commission approval of
6 the Company's proposed safety infrastructure mechanism, as modified, provides
7 BH Nebraska Gas timely recovery of that significant investment.

8 a. **SSIR ROE**. BH Nebraska Gas must also file this rate application to
9 establish the return on equity applied to future Pipeline Replacement Charge filings,
10 if any, and to future SSIR filings.

11 b. **SSIR Renewal**. In addition, this rate application will restart the sixty-month
12 period established for recovery of prudent investment in qualified safety projects
13 through the Pipeline Replacement Charge or SSIR Charge.³ BH Nebraska Gas
14 anticipates that the investment in safety projects occurring in the future will flow
15 through the SSIR mechanism.⁴

16 c. **SSIR Extension and Modification**. BH Nebraska Gas also seeks to modify
17 its SSIR mechanism. BH Nebraska Gas proposes to extend the SSIR for safety
18 investment to all its Rate Areas in Nebraska. In addition, as explained in the
19 testimony of Mr. Bennett, Mr. Lewis, and Mr. Jarosz, BH Nebraska Gas proposes
20 to modify the criteria and categories of eligible SSIR projects.

³ Current Pipeline Replacement Charge investment will terminate in July 2020 pursuant to *Neb. Rev. Stat. § 66-1865*. This rate application permits new eligible Pipeline Replacement Charge and SSIR projects to be recovered through those safety infrastructure mechanisms.

⁴ This Rate Review Application also permits BH Nebraska Gas its statutory right to pursue recovery through the Pipeline Replacement Charge pursuant to *Neb. Rev. Stats. §§ 66-1865 et seq.*

1 d. **SSIR Surveillance Report:** BH Nebraska Gas proposes to change the
2 frequency and content of the SSIR Surveillance Report from a quarterly report to
3 an annual report as discussed in the testimony of Mr. Bennett.

4 e. **SSIR DIIP Cost Recovery:** BH Nebraska Gas proposes to recover the cost
5 of improving the data of its gas system through the SSIR Charge as explained in
6 the testimony of Mr. Lewis and Mr. Bennett.

7 **3. Public Power Competition and HEAT Tariff Incentives**

8 BH Nebraska Gas faces constant and seemingly increased competition from public
9 power districts in Nebraska. As demonstrated in the testimony of Dr. Rosenbaum,
10 Mr. Frost, and Mr. Sullivan, competition from Nebraska's publicly owned power
11 districts poses a significant threat to the operations of BH Nebraska Gas. Those
12 competitive challenges come primarily in the form of low winter rates and electric
13 appliance rebates.

14 Other competitive advantages for power districts come in the form of
15 governmental protections, governmental immunities, lower tax burdens, different
16 regulatory structures, and exclusive service areas.

17 BH Nebraska Gas needs to meet competition from Nebraska power districts
18 in order to level the playing field and to provide its customers with valuable energy
19 options. To that end, another key of this rate review proceeding is that BH Nebraska
20 gas proposes to (a) adopt a rate design that will fairly compete with the Nebraska
21 power districts, and (b) continue the High Efficiency Appliance Tool program that
22 currently exists in BH Nebraska Gas Rate Area Five.

1 Based on the research conducted by Dr. Rosenbaum, the Company further
2 proposes to expand the HEAT Program to Rate Areas One through Three as well.
3 The testimony of Mr. Frost supports this Company proposal.

4 **4. Revenue Deficiency**

5 The Company seeks increased revenues of \$17,296,140 million to address the
6 existing revenue deficiency for BH Nebraska Gas.⁵ The company supports the
7 proposed Rate Review Application with a comprehensive Revenue Requirements
8 Study, including financial and accounting statements, schedules, testimony, and
9 other information in compliance with requirements set forth in the State Natural
10 Gas Regulation Act (“Act”), *Neb. Rev. Stats. §§ 66-1801, et seq* and applicable
11 Nebraska Public Service Commission (“Commission) Rules and Regulations
12 (“Rules and Regs.”), *241 Neb. Admin. Code. Ch. 9*.

Revenue Deficiency	Capital Structure	ROE	Cost of Debt	Weighted Cost of Capital
\$17.3 million	50% Equity/50% Debt	10%	4.11%	7.06%

13
14 **5. Statewide Consolidated Rates**

15 BH Nebraska Gas proposes uniform base rates for each customer class within the
16 BH Nebraska Gas rate areas. As part of the statewide rate consolidation,
17 BH Nebraska Gas proposes to either (a) raise the customer charges and establish
18 block rates to more effectively compete with public power districts (a/k/a “Block
19 Rate” rate design) or, alternatively, (b) increase its customer charge to cover all of
20 its fixed costs (a/k/a “Straight-Fixed-Variable” rate design). As explained in the

⁵ The Revenue Deficiency calculated on Statement N of Exhibit No. MCC-1 is \$17,295,841. The difference is due to rounding errors caused in calculation of rates.

1 testimony of Mr. Sullivan and supported by the studies of Dr. Rosenbaum, the
2 change in rate design is necessary to compete effectively with public power districts
3 in Nebraska. See Application Exhibit No. 1, Section 4, Exhibit B.

BH Nebraska Gas Recommended Rate Design (Block Rates)

	BH Gas Utility Current	BH Gas Distribution Current	BH Nebraska Gas Proposed
Residential Customer Charge	\$13.50 per Month	\$14.70 per Month	\$15.45 per Month
Commercial Customer Charge	\$18.50 per Month	\$22.75 per Month	\$31.10 per Month
Large Commercial Customer Charge	NA	\$56.15 per Month	N/A
Residential Distribution Charge Tier 1	\$.19500/Therm	\$.04675/Therm First 20 Therms	\$.59960/Therm First 20 Therms
Residential Distribution Charge Tier 2	N/A	\$.1338/Therm Over 20 Therms	\$.1500/Therm Over 20 Therms
Small Commercial Distribution Charge Tier 1	\$.17245/Therm	\$.4675/Therm First 40 Therms	\$.59960 /Therm First 40 Therms
Small Commercial Distribution Charge Tier 2	N/A	\$.1338 Therms Over 40 Therms	\$.1500/Therm Over 40 Therms
Large Commercial Distribution Charge Tier 1	N/A	\$.4675/Therm First 80 Therms	N/A
Large Commercial Distribution Charge Tier 2	N/A	\$.4675/Therm Over 80 Therms	N/A

6 *Note: The Rates Shown above do not include riders and surcharges currently in effect.*

BH Nebraska Gas Alternate Rate Design
(Straight Fixed Variable)

	Alternate Customer Charge	Alternate Volumetric Charge
Residential	\$22.81 per Month	\$.1500/Therm
Commercial	\$43.65 per Month	\$.1500/Therm

6. Covid-19 Pandemic Impact and Company Response

The global Covid-19 Pandemic (“Pandemic”) caused numerous devastating impacts to the health and well-being of people throughout the world. The public health and economy of Nebraska was also impacted significantly by this Pandemic. BH Nebraska Gas provides energy within 319 communities in Nebraska and is considered an essential service during the Pandemic.

BH Nebraska Gas is sensitive to the health, unemployment and other impacts caused by the recent pandemic. The Pandemic has had several impacts on the customer safety and service provided by the Company.⁶ One of the many actions that BH Nebraska Gas took in response to managing its business operations during this Pandemic was to prudently balance the impact on customers as a result of filing this rate application with the financial stability of BH Nebraska Gas.⁷ One of the actions taken by BH Nebraska Gas was to delay filing the Rate Review Application from May to June.

Mr. Jarosz provides testimony on actions that the Company undertook in the interest of its customer safety, and employee safety, and to help customers with

⁶ The full scope of the impact of the Pandemic may not be fully known for months due to the unclear and ongoing nature of the Pandemic.

⁷ BH Nebraska Gas also implemented other actions to avoid placing undue or unreasonable burdens on customers.

1 financial impacts resulting from the Pandemic. Another action to be determined is
2 whether the Company will need to defer collection of interim rates from customers
3 until the conclusion of this proceeding. My testimony below summarizes some of
4 the financial impact to the Company due to the Pandemic.

5 **V. BACKGROUND OF BH NEBRASKA GAS**

6 **Q. PLEASE DESCRIBE BLACK HILLS CORPORATION AND THE**
7 **HISTORY OF ITS OWNERSHIP OF BH GAS UTILITY AND BH GAS**
8 **DISTRIBUTION.**

9 **A. 1. BHC.**

10 BHC is a diversified energy company with headquarters in Rapid City,
11 South Dakota. Through its electric and gas utility subsidiaries, BHC serves over
12 1.25 million electric and natural gas customers in over 800 communities in eight
13 states – Arkansas, Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota, and
14 Wyoming.
15

16 **2. Aquila Acquisition.**

17 BHC began providing natural gas utility services to customers in Nebraska in 2008
18 with the acquisition of the gas utility assets previously owned by Aquila, Inc.
19 (“Aquila Acquisition”). BHC formed Black Hills/Nebraska Gas Utility
20 Company, LLC d/b/a Black Hills Energy (i.e., BH Gas Utility) to assume
21 ownership and control of, and commence operating, the gas utility assets in
22 Nebraska. All regulatory issues related to the acquisition of BH Gas Utility were
23 addressed in Commission Application Nos. NG-0044 (Aquila Acquisition) and
24 NG-0061 (BH Gas Utility 2009 Rate Review). Those issues are not a part of this
25 Rate Review Application.
26

1 **3. SourceGas Acquisition.**

2
3 In 2016, BHC expanded its gas utility operations in Nebraska with BHUH’s
4 acquisition of SourceGas Distribution LLC (“SourceGas Acquisition”). As a result
5 of the SourceGas Acquisition, SourceGas Distribution, which provided retail gas
6 sales and transportation services in Colorado, Nebraska, and Wyoming, was
7 acquired by BHUH, and its name was changed to Black Hills Gas
8 Distribution, LLC. BHUH also acquired the assets of SourceGas Energy Services
9 Arkansas. The Arkansas utility was renamed as Black Hills Energy Arkansas, LLC.
10 The Commission addressed SourceGas Acquisition issues in Application No. NG-
11 0084. Accordingly, except for the SourceGas Acquisition rate-related commitments
12 deferred to this rate review proceeding, issues arising under the SourceGas
13 Acquisition are not a part of this rate application.

14 **4. Consolidation of BH Gas Distribution and BH Gas Utility.**

15
16 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMMISSION**
17 **PROCEEDING APPROVING CONSOLIDATION OF BH GAS UTILITY**
18 **AND BH GAS DISTRIBUTION COMPANIES INTO BH NEBRASKA GAS.**

19 A. On March 29, 2019, BH Gas Distribution, BH Gas Utility, and BH Nebraska Gas
20 filed a Joint Application in Application No. NG-100 seeking approval of certain
21 internal transfers for the purpose of consolidating BH Gas Distribution and BH Gas
22 Utility into the newly named public utility entity, BH Nebraska Gas. The
23 Commission issued an Order Granting Application on October 29, 2019 in
24 Application No. NG-100.

1 **5. Consolidated BH Nebraska Gas Tariff.**

2
3 **Q. PLEASE DISCUSS THE BH NEBRASKA GAS CONSOLIDATED TARIFF.**

4 A. In Commission Application No. NG-100, the Commission also approved a single
5 tariff for BH Nebraska Gas. This tariff consists of one set of consolidated Rules and
6 Regulations and tariffs for BH Nebraska Gas. Although the tariffs of BH Gas Utility
7 and BH Gas Distribution were consolidated into a single tariff for BH Nebraska
8 Gas, the Application No. NG-100 Commission proceeding did not address changes
9 to rates or fee schedules of former BH Gas Utility and BH Gas Distribution. Those
10 rate schedule and utility fee issues were deferred to this Rate Review Application.

11 **6. BH Nebraska Gas Service Area.**

12
13 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE**
14 **BH NEBRASKA GAS SYSTEM, THE SERVICES PROVIDED, AND THE**
15 **AREAS SERVED.**

16 A. As of December 31, 2019, BH Nebraska Gas provided retail gas sales and
17 transportation service to approximately 295,000 natural gas customers within 319
18 communities located across Nebraska. Exhibit RJA-2 of this testimony is a map of
19 Nebraska depicting the locations of the former BH Gas Utility and former BH Gas
20 Distribution rate areas, which are now served under BH Nebraska Gas under the
21 trade name Black Hills Energy.

22 1. **Rate Areas.** The BH Nebraska Gas service area is divided into
23 five rate areas: (1) Rate Area One represents towns adjacent to the Omaha
24 Metropolitan area, (2) Rate Area Two represents the City of Lincoln and nearby
25 communities, (3) Rate Area Three represents the remaining 94 communities in the

1 former BH Gas Utility service territory; (4) Rate Area Four represents non-
2 jurisdictional transportation customers served under the High Volume Contracts or
3 Interruptible Customers, and (5) Rate Area Five represents all of the former BH Gas
4 Distribution communities. Exhibit RJA-3 is a copy of the existing rate areas
5 included within the Tariff of BH Nebraska Gas.

6 All rate areas experience competition from municipally owned electric
7 utilities, which offer discounted winter rates and conversion incentives.

8 2. **GCA and Choice Gas.** The Company procures natural gas to serve
9 Rate Areas One, Two, and Three (former BH Gas Utility) through its Gas Asset
10 Optimization department and recovers the gas cost through a single Gas Cost
11 Adjustment (“GCA”) mechanism. Customers in Rate Area Five (former BH Gas
12 Distribution) obtain natural gas commodity via third-party Certified Natural Gas
13 Providers (“Suppliers”) as part of the Choice Gas Program.

14 The Company does not propose changes to the boundaries of Rate Areas,
15 the Choice Gas Program, or the GCA areas in this rate review proceeding.⁸

16 **VI. RATE REVIEW APPLICATION OVERVIEW**

17 **A. General Overview**

18 **Q. PLEASE PROVIDE AN OVERVIEW OF THIS RATE REVIEW.**

19 A. As identified above, there are several reasons that have caused BH Nebraska Gas
20 to seek a general rate increase pursuant to the requirements of the Act and the
21 Commission Rules and Regulations. This Rate Review Application is the first

⁸ BH Gas Distribution commodity is provided by Choice Gas Suppliers through the Choice Gas Program. BH Gas Distribution is not a commodity Supplier in the Choice Program. The Company is not proposing changes to the Choice Gas program in this docket.

1 general rate application filed by BH Nebraska Gas. The previous Rate Review
2 Application for BH Gas Utility was filed in 2009.⁹ The last Rate Review
3 Application for BH Gas Distribution was filed in 2011.¹⁰

4 **B. Revenue Requirement Study Overview**

5 **Q. PLEASE EXPLAIN HOW THE REVENUE DEFICIENCY OF**
6 **BH NEBRASKA GAS DRIVES THIS GENERAL RATE REVIEW.**

7 A. As a result of the consolidation of BH Gas Utility and BH Gas Distribution
8 approved in Commission Proceeding No. NG-100, the Company must now
9 establish an appropriate rate base, annual revenue requirement and new base rates
10 for BH Nebraska Gas. Instead of filing separate rate proceedings for BH Gas Utility
11 and BH Gas Distribution and continuing separate rate structures, the Company files
12 this rate application for BH Nebraska Gas. The current filing presents the single,
13 combined revenue requirement of the previously separate assets and expenses of
14 BH Gas Distribution and BH Gas Utility.

15 The result of the revenue requirement analysis is then entered into the Class
16 Cost of Service Study to functionalize and classify costs to develop new customer
17 rates and charges.

18 This Rate Review Application follows closely after the Commission's
19 approval of the consolidation of BH Gas Utility and BH Gas Distribution
20 previously separate tariff provisions. Under this Rate Review Application,
21 BH Nebraska Gas addresses the revenue deficiency of the combined entities,

⁹ *In Re Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy, Omaha, seeking a General Rate Increase for Black Hills Energy's Rate Areas One, Two and Three (Consolidated), Application NG-0061 (2009).*

¹⁰ *In Re SourceGas Distribution, LLC, Lakewood, Colorado, seeking approval of a general rate increase; Application NG-0067 (2011).*

1 accomplishes statewide rate consolidation, expands the SSIR mechanism
2 throughout the entire state, continues and expands the HEAT Program, and
3 standardizes other tariff fees and charges as the next step towards operating
4 BH Nebraska Gas as a single entity.

5 **Q. IS IT POSSIBLE TO DEVELOP SEPARATE REVENUE REQUIREMENTS**
6 **STUDIES THAT ARE BASED ON THE COST STRUCTURES OF THE**
7 **LEGACY UTILITIES?**

8 A. Yes. Mr. Clevinger provides the separate Revenue Requirement Studies as part of
9 his work papers submitted in this proceeding. However, maintaining separate
10 jurisdictional areas into the future would defeat the purpose of the consolidation of
11 BH Gas Utility and BH Gas Distribution, and would not facilitate the move to
12 standard statewide rates.

13 Accordingly, Mr. Clevinger has developed a single revenue requirement.
14 The single Revenue Requirement Study provided as Exhibit No. MCC-2 attached
15 to the testimony of Mr. Clevinger of this Rate Review Application can be used as
16 the basis for developing all customer rates in this proceeding, whether the rates are
17 statewide or in separate rate areas.

18 **C. Rate Consolidation Overview**

19 **Q. PLEASE DISCUSS THE RATE CONSOLIDATION PROPOSED IN THIS**
20 **RATE REVIEW APPLICATION.**

21 A. In this rate review proceeding, BH Nebraska Gas proposes to consolidate its rates
22 for providing natural gas distribution services to its customers. The Company has
23 filed a single Class Cost of Service Study and uniform base rates based on the new
24 corporation that resulted from the merger of the two separate entities effective on

1 January 1, 2020.¹¹ The Company has developed a single Class Cost of Service
2 Study based on the functionalized revenue requirement that resulted from the
3 merger of the two entities and has developed a rate structure with standard statewide
4 rates that are the same for all customers in the same class.

5 **Q. WHY IS IT IN THE PUBLIC INTEREST FOR BH NEBRASKA GAS TO**
6 **HAVE STATEWIDE UNIFORM RATES?**

7 A. The corporate consolidation of the two legacy gas utilities – BH Gas Utility and
8 BH Gas Distribution – was an important first step in achieving efficiencies in
9 regulatory programs and filings and administrative matters that will result in cost
10 savings that will ultimately benefit customers. The diverse nature of the system in
11 over 319 communities across the state poses unique challenges in operating,
12 maintaining, and managing the safety and integrity of the system. Through
13 economies of scale and the ability to spread the Company’s cost of service over a
14 large, combined customer base, BH Nebraska Gas’s customers will realize benefits
15 from the move to statewide rates. When customer demand on one side of the state
16 is growing, all BH Nebraska Gas customers will benefit from the additional
17 revenues generated, whether or not their individual communities are growing at the
18 same pace. Similarly, when large investments are necessary for one area of the
19 system, the associated costs will be averaged and spread across all BH Nebraska
20 Gas customers, thereby mitigating the impacts customers would experience if the
21 system consisted of multiple smaller rate areas.

¹¹ See Application, Exhibit No. 1, Section 4 (Class Cost of Service Study).

1 Another reason for approving statewide rates for BH Nebraska Gas is that
2 Rate Area Five tariff rates are already higher than tariff rates in Rate Areas One,
3 Two, and Three. If statewide rates are not approved, then the difference between
4 tariff rates will increase over time due to the levels of investment in the gas
5 distribution systems within the different rate areas. These ongoing and necessary
6 capital investments will make statewide standardized tariff rates even more difficult
7 to approve as one set of statewide rates in the future.

8 **Q. GIVEN THE LARGE DIFFERENCES IN INVESTMENTS AND IN THE**
9 **NUMBER OF CUSTOMERS BETWEEN BH GAS UTILITY AND BH GAS**
10 **DISTRIBUTION, WHY IS BH NEBRASKA GAS PROPOSING TO**
11 **CONSOLIDATE AND STANDARDIZE RATE STRUCTURES?**

12 A. BH Nebraska Gas is now one company. Since the acquisition of SourceGas in
13 February 2016, BH Gas Utility and BH Gas Distribution day-to-day operations
14 have been managed and operated as a single entity. Business planning for capital
15 requirements, system operations, engineering support, customer service, gas
16 control, gas supply, treasury operations, energy efficiency, and regulatory support
17 were integrated following the Commission's approval of the SourceGas
18 Acquisition. The Commission's approval of the consolidation of the legal entities
19 and tariffs of BH Gas Utility and BH Gas Distribution was simply another step in
20 the process of integrating utility service under one entity, BH Nebraska Gas, in
21 Nebraska. Even though there are separate Rate Areas that exist under BH Nebraska
22 Gas, customers interact with BH Nebraska Gas as a single entity.

23 The Company's intention with this Rate Review Application is to
24 consolidate its customer rate structures within a single set of standardized statewide

1 rates. The standardization of rate design is intended to simplify interactions with
2 customers and to efficiently reduce the administrative costs of managing two
3 different regulated gas utility rate structures.

4 Even with the significant difference in who provides the natural gas
5 commodity to customers in the various rate areas (GCA vs. Choice Gas Program),
6 the consolidation of the Company's tariffs, terms and conditions, and rates is
7 consistent with the way the Company operates and supports a single entity.
8 Consolidated and standardized base rates for all BH Nebraska Gas Rate Areas will
9 benefit all customers in the long-term.

10 **D. Rate Design Overview**

11
12 **Q. EXACTLY WHAT RATE DESIGN IS BH NEBRASKA GAS PROPOSING**
13 **FOR ITS RATE AREAS?**

14 A. BH Nebraska Gas proposed the rates set forth below.

15 **BH Nebraska Gas Recommended Rate Design**
16 **(Block Rates)**
17

	Customer Charge	Volumetric Charge Tier 1	Volumetric Charge Tier 2
Residential	\$15.45 per Month	< 20 Therms \$.59960/Therm	>20 Therms \$.1500/Therm
Commercial	\$31.10 per Month	< 40 Therms \$.59960/Therm	>40 Therms \$.1500/Therm

18

1 If the Commission does not adopt the rates set forth above, then
 2 BH Nebraska Gas recommends the alternate rate design set forth below.

3 **BH Nebraska Gas Alternate Rate Design**
 4 **(Straight Fixed Variable)**
 5

	Alternate Customer Charge	Alternate Volumetric Charge
Residential	\$22.81 per Month	\$.1500/Therm
Commercial	\$43.65 per Month	\$.1500/Therm

6
 7 **Q. HOW WILL THIS PROPOSED RATE DESIGN IMPACT BH NEBRASKA**
 8 **GAS CUSTOMERS?**

9 A. The impact of proposed rates for each customer class is set forth below.

10 **Average Residential Customer Bill Impacts**
 11

BH Gas Utility Residential Winter	BH Gas Distribution Residential Winter	BH Gas Utility Residential Summer	BH Gas Distribution Residential Summer
\$5.61/mo. increase	\$.66/mo. increase	\$9.26/mo. increase	\$0.65/mo. decrease
7%/mo. Higher	1% Higher	33%/mo. Higher	2% Lower

12 **Average Small Commercial Customer Bill Impacts**
 13
 14

BH Gas Utility Small Commercial Winter	BH Gas Distribution Small Commercial Winter	BH Gas Utility Small Commercial Summer	BH Gas Distribution Small Commercial Summer
\$15.89/mo. increase	\$14.21/mo. increase	\$25.56/mo. increase	\$7.23/mo. increase
4%/mo. Higher	4% Higher	23%/mo. Higher	6% Higher

15
 16
 17 **Average Large Commercial Customer Bill Impacts**
 18

BH Gas Utility Large Commercial Winter	BH Gas Distribution Large Commercial Winter	BH Gas Utility Large Commercial Summer	BH Gas Distribution Large Commercial Summer
\$(33.37)/mo. decrease	\$(42.77)/mo. increase	\$8.95/mo. increase	\$(73.31)/mo. increase
2%/mo. Lower	3% Lower	2%/mo. Higher	12% Lower

1 **E. Capital Additions and System Safety Infrastructure Charges Overview**

2
3 **Q. PLEASE EXPLAIN HOW BH NEBRASKA GAS ADDRESSES SYSTEM**
4 **INFRASTRUCTURE INVESTMENT, CAPITAL ADDITIONS (i.e., 2020**
5 **CAPITAL INFRASTRUCTURE INVESTMENT), PIPELINE**
6 **REPLACEMENT CHARGES, AND THE SSIR MECHANISM WITHIN**
7 **THIS GENERAL RATE REVIEW APPLICATION.**

8 A. The Act.¹² Rules 004 and 005 of the Commission Rules, and the SSIR of the
9 BH Nebraska Gas Tariff permit BH Nebraska Gas the ability to recover its
10 investment in the natural gas distribution system. This rate application is necessary
11 to recover the investments in the BH Nebraska Gas system. As stated above,
12 BH Nebraska Gas plans to invest approximately \$91 million each year for the
13 foreseeable future into its natural gas infrastructure. The Capital infrastructure
14 investments (also referred to as “Capital Spend Plan”) includes projects for growth,
15 system resiliency, system reliability, and for system safety. The prior investment in
16 Capital Additions (i.e., 2020 projects completed within one year of the Test Year)
17 along with the anticipated future Capital infrastructure investment drive the need
18 for this Rate Review Application.

19 **E1. Commission Capital Addition Rate Base Rules**

20 As discussed above, BH Nebraska Gas makes gas system infrastructure
21 investment in safety, reliability, and resiliency, and growth projects. The system
22 infrastructure investments made during 2020 is defined as “Capital Additions.”

¹² Neb. Rev. Stats. §§ 66-1825, 66-1838, 66-1865, 66-1866, and 666-1867.

1 Rule 005 of the Commission Rules permits BH Nebraska Gas to include in its rate
2 base all Capital Additions that are used and useful in providing service to the public.

3 Rule 005.06D states that capital projects that are commenced and completed
4 within one year or less from the end of the Test Year may also be included in the
5 Rate Base of BH Nebraska Gas. Accordingly, Capital Additions investments made
6 or to be made by BH Nebraska Gas during 2020 is included in the Revenue
7 Requirement Study; the details of the 2020 Capital Additions are provided in the
8 testimony of Mr. Jarosz and Mr. Bennett.

9 **E2. Pipeline Replacement Charge Safety Projects**

10 Similarly, pursuant to an Infrastructure System Replacement Charge
11 (a/k/a “Pipeline Replacement Charge”) authorized by *Neb. Rev. Stats. §§ 66-*
12 *1865 et seq.*, eligible safety-related infrastructure projects placed into service may
13 be recovered through a Pipeline Replacement Charge. However, under the
14 applicable statutes, the recovery of capital investment in safety infrastructure
15 through a Commission-approved Pipeline Replacement Charge is limited to
16 eligible safety projects that were previously placed into service and are used and
17 useful. In other words, the Pipeline Replacement Charge is a backward-looking
18 recovery mechanism in that eligible safety infrastructure projects and the final costs
19 of those safety projects must be completed prior to recovery by BH Nebraska Gas.

20 Pursuant to *Neb. Rev. Stat. § 66-1865(2)*, the Commission shall not approve
21 any infrastructure system replacement cost recovery charge rate schedules for any
22 jurisdictional utility that has not had a general rate proceeding decided or dismissed
23 by issuance of a Commission order within the sixty months immediately preceding
24

1 the application by the jurisdictional utility for an infrastructure system replacement
2 cost recovery charge.

3 Accordingly, as the sixty-month period since the last rate review
4 proceedings for both BH Gas Utility and BH Gas Distribution has passed, this Rate
5 Review Application is necessary to qualify any new safety projects that may be
6 recovered under the Act.¹³

7 **E3. SSIR Projects**

8
9 In addition to Capital Additions (e.g., growth or resiliency of the gas
10 distribution system) projects and Pipeline Replacement Charge safety projects,
11 (i.e., statutory backwards looking system safety projects), the Commission also
12 provides for recovery of investment in eligible safety projects completed within a
13 following year to be recovered through an SSIR mechanism.¹⁴ Under the forward
14 looking SSIR mechanism, eligible system safety project costs are recovered more
15 contemporaneously with the investment made in those SSIR projects. All SSIR
16 projects are approved by the Commission prior to commencing the SSIR project.
17 Like the backward-looking Pipeline Replacement Charge, projects included for
18 recovery under the forward-looking SSIR mechanism must occur within sixty
19 months of a Commission-approved rate proceeding. Accordingly, as the sixty-
20 month period since the last rate review for BH Gas Distribution has passed, this
21 Rate Review Application is necessary for BH Nebraska Gas to qualify any new

¹³ BH Nebraska Gas acknowledges that most safety projects will flow under the SSIR mechanism. However, it notes that the statutory time period to file for recovery of eligible safety projects through the Pipeline Replacement Charge renews through this Rate Review Application.

¹⁴ See *In Re the Application of SourceGas Distribution, LLC seeking an order authorizing a system safety and integrity rider tariff and system safety and integrity rider charge. Commission Application No. NG -0078 (Nov. 4, 2014).*

1 SSIR projects under the SSIR mechanism for recovery through the SSIR charge.
2 The renewal of the SSIR mechanism is a primary driver for this Rate Review
3 Application.

4 **E4. SSIR Expansion**

5
6 BH Nebraska Gas is proposing to not only renew the SSIR mechanism, but
7 also seeks to expand the SSIR mechanism to all BH Nebraska Gas Rate Areas. In
8 addition, as discussed in the testimony of Mr. Jarosz, BH Nebraska Gas proposes
9 to redefine the definition of categories of projects permitted under the SSIR
10 Mechanism. For example, (1) Top of Ground projects would include Span, Shallow
11 and Exposed Pipeline Replacement; 2) Meter Relocations would include meters
12 that are located near a highway, street, alley or inside a structure; and (3) PVC Pipe
13 Replacement would also include gas pipe made from copper, Aldyl-A and
14 Orangeburg, and others.

15 As explained in more detail in the testimony of Kevin Jarosz, Jason Bennett,
16 and Marc Lewis, expansion of the SSIR mechanism is necessary to recover the
17 investment in eligible safety infrastructure projects through the SSIR Charge. If
18 renewal and expansion of the SSIR mechanism is not granted by the Commission,
19 then BH Nebraska Gas will most likely need to file Rate Review Applications on a
20 more frequent basis. The anticipated capital investment relates to the Company's
21 system safety and integrity programs, which are designed to make the system safe
22 and reliable. The investments in safety through the SSIR mechanism will rely upon
23 improved system data. The improved system data will help BH Nebraska Gas
24 identify and accelerate the replacement of higher risk pipe on a programmatic basis.

1 Mr. Lewis discusses the need for improving the data related to the BH Nebraska
2 Gas system.

3 **E5. SSIR DIIP Expansion**

4
5 The primary purpose of DIIP is to provide for improved data related to
6 safety infrastructure projects. Accordingly, providing recovery of the DIIP costs
7 through the SSIR mechanism properly links the costs of improving system data
8 with the ongoing costs of SSIR projects. In addition, recovery of DIIP through the
9 SSIR Charge also provides the Public Advocate and the Commission the ability to
10 review and approve the DIIP costs included within an SSIR filing for prudence.

11 **E6. SSIR Mechanics**

12
13 The expanded SSIR is intended to be an ongoing part of the BH Nebraska
14 Gas tariff. Apart from a few proposed modifications, the Company is proposing
15 regular planning meetings, filings, and reporting associated with the renewed and
16 expanded SSIR Charge similar to the existing SSIR mechanism approved by the
17 Commission for BH Gas Distribution. Under the proposed SSIR, BH Nebraska Gas
18 will file its annual forward-looking SSIR by September 1 of each year, with the
19 SSIR Charge to become effective the following January 1.¹⁵

20 In addition, instead of filing a Quarterly Surveillance Report, the Company
21 proposes to file only an Annual Surveillance Report contemporaneous with the
22 SSIR application. BH Nebraska Gas understands that the original purpose of the
23 SSIR Quarterly Surveillance Report was to frequently monitor the actual returns of
24 the Company with and without the SSIR recovery mechanism. However, after years

¹⁵ Currently the SSIR Charge becomes effective on February 1. This Rate Review Application moves the effective date to January 1.

1 of experience with the SSIR charge and the effort to compile the Quarterly
2 Surveillance Reports, limiting the Surveillance Report to annually will accomplish
3 its original purpose. Accordingly, BH Nebraska Gas proposes to review the
4 company earnings at the time it is considering a new SSIR application.

5 Like the existing SSIR mechanism, recovery of new SSIR investment is
6 proposed to continue until SSIR costs are included in the SSIR Charge and
7 associated capital accounts are rolled into base rates in subsequent rate review
8 proceedings.

9 **E7. 2021 SSIR Project Recovery**

10 Normally, BH Gas Distribution, now BH Nebraska Gas would file its new
11 SSIR Charge application by October 1 to become effective on February 1.
12 However, as the SSIR mechanism and SSIR Charge is subject to renewal and
13 expansion under this Rate Review Application, BH Nebraska Gas is including its
14 2021 SSIR to become effective on contemporaneous with Final Rates as part of this
15 Rate Review Application. *See Exhibit No. JLB-3 attached to the testimony of*
16 *Jason Bennett.*

17
18 The primary reason for filing the BH Nebraska Gas 2021 SSIR Application
19 in this rate review proceeding is to permit recovery of eligible SSIR project costs
20 that will be incurred by BH Nebraska Gas in 2021.

21 BH Nebraska Gas could wait until October, 2020 to separately file the SSIR
22 application; however, as the SSIR mechanism and SSIR charge need to be renewed
23 and expanded as part of this Rate Review Application, BH Nebraska Gas elected
24 to provide the Public Advocate of Nebraska and the Commission with additional
25 investigation time and data to consider the 2021 SSIR projects at the same time it

1 is considering renewal and expansion of the SSIR mechanism and SSIR tariff
2 charge.

3 Going forward, BH Nebraska Gas will file its SSIR application for safety
4 projects intended to be placed in service during the upcoming year by September 1
5 with the new SSIR tariff charge to become effective on January 1. As noted above,
6 BH Nebraska Gas will also file an annual report showing the updated revenue
7 requirement at the same time it files its SSIR application (by September 1 each
8 year). The annual revenue report will provide the Commission with data needed to
9 monitor BH Nebraska Gas revenues as it considers a new SSIR and will also
10 eliminate the extra cost and employee time that is currently required on a quarterly
11 basis.

12 **F. Overall Objectives Overview**

13
14 **Q. PLEASE SUMMARIZE THE OVERALL OBJECTIVES OF**
15 **BH NEBRASKA GAS UNDER THIS RATE REVIEW APPLICATION.**

16 A. This BH Nebraska Gas Rate Review Application will establish the appropriate rate
17 base, annual revenue requirement, and new base rates for BH Nebraska Gas.

18 **G. Rate Review Application Overview**

19
20 **G1. Base Year and Test Year Defined**

21
22 **Q. WHAT ARE THE BASE AND TEST YEARS FOR THIS RATE REVIEW?**

23 A. The Base Year for this Rate Review Application is the twelve months ending on
24 December 31, 2019, reflecting actual financial performance as recorded in the
25 Company's financial records. The Test Year for this rate review proceeding is
26 derived by taking the Base Year and adjusting it for known and measurable

1 changes, as well as applying normalization adjustments, as required by the Act, and
2 an annualized adjustment to correct for out-of-period billing entries. The Company
3 is proposing to include in rate base capital projects that went into service after the
4 end of the Base Year and through the end of 2020.

5 **G2. Rate Review Application Organization Overview**

6
7 **Q. HOW IS THE BH NEBRASKA GAS RATE APPLICATION ORGANIZED?**

8 A. Table RJA-1 below depicts how the Company has organized its Rate Review
9 Application in accordance with the Commission’s Rules and Regulations.¹⁶

TABLE RJA-1 – Rate Review Application		
Application Exhibit Sections	Description	Rule Reference
Section 1	General Information	004.02 004.02A through 004.02G
Section 2	Revenue Requirement <ul style="list-style-type: none"> • Rate Base Schedules • Operating Expense Schedules • Rate of Return & Cost of Capital Schedules • Revenue Schedules 	004.03A through 004.05B
Section 2 (cont.)	Cost Allocation Manual	004.04G
Section 2	Rate of Return and Cost of Capital Schedules	004.05 A through 004.05B
Section 3	Rate Design	004.06A through 004.06B2
Section 4	Cost of Service Study	004.07

¹⁶ *Neb. Admin. Code, Title 291, Chapter 9 Pipeline Common Carriers Rules and Regulations.*

Section 5	Pre-Filed Direct Testimony and Exhibits	004.08
Section 6	Tariffs – Redlined and Clean	NA
Section 7	Workpapers	004.01C

1

2

VII. BH NEBRASKA GAS ACTIONS RELATED TO THE COVID-19

3

A. Covid-19 Pandemic Impacts and Actions

4

Q. PLEASE DESCRIBE THE ACTIONS TAKEN BY BH NEBRASKA GAS TO MANAGE THE IMPACTS OF THE COVID-19 PANDEMIC.

5

6

A. As noted above, BH Nebraska Gas is sensitive to the health, unemployment and other impacts caused by the Pandemic. For example, in addition to delaying the original filing date of this Rate Review Application, BH Nebraska Gas (1) provides extended payment plans for customers with account arrearages, (2) waives disconnect and reconnect fees for customers with account arrearages, (3) issued work-from-home orders for those employees who could work from home, (4) adopted new procedures for Service Technicians who are required to enter a customer's premise, (5) issued Service Technicians with personal protective equipment to protect both Customers and employees, (5) made a donation of \$50,000 to assist various charities, and (6) has taken other actions outlined in the testimony of Mr. Jarosz.

7

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B. Rate Review Application Filing Delay

18

19

Q. WHY DID BH NEBRASKA GAS NOT POSTPONE THIS APPLICATION UNTIL LATER IN 2020 OR NEXT YEAR?

20

21

A. As stated above, the Company must prudently balance the interests and impacts of its customers in relationship with the long-term financial integrity of the business.

22

1 First, it is important to remember that BH Nebraska Gas has not filed a Rate Review
2 Application in almost a decade.¹⁷ BHC analyzed the impact of delaying the filing
3 of the Rate Review Application and elected to file after one month.

4 Once the federal and state governing authorities reopened the economy,
5 BHC again considered whether to delay this rate application to a later date.
6 Ultimately, BHC determined that filing the BH Nebraska Gas Rate Review
7 Application on June 1, 2020 would not place undue or unreasonable burdens on its
8 customers and would prudently balance the interests of Company investors.¹⁸

9 **Q. PLEASE EXPLAIN THE DELAY IN FILING THIS APPLICATION.**

10 A. Regarding the financial analysis conducted by the Company to consider Pandemic
11 impacts, BH Nebraska Gas calculated that over \$2.0 Million in safety infrastructure
12 rider revenue expires in July, 2020 and \$5.9 Million expires in January 2021. In
13 addition, for every month of delay in filing, the financial impact to BH Nebraska
14 Gas represents \$1.5 Million in unrecovered revenues. Furthermore, a lengthy delay
15 in filing the rate application would result in stale and potentially less representative
16 Test Year data.

17 A delayed filing of the BH Nebraska Gas Rate Review Application could
18 require a recalculation of the revenue requirement and cost of service models,
19 which, in turn, could result in a substantial cost. In total, if BH Nebraska Gas
20 delayed filing a Rate Review Application beyond December 31, 2020, then the lost
21 revenue to BH Nebraska Gas would be \$8.0 million.

¹⁷ BH Nebraska Gas acknowledges that the period between filings was aided by the SSIR and acquisition of SourceGas.

¹⁸ Interim rates do not take effect until September, and customer impacts are not realized until October bills. If Interim Rates are deferred, then the increase in rates will not take effect until February or March 2021.

1 A significant delay would also have a potentially confusing and negative
2 impact on customers. For example, if the filing delayed beyond the termination of
3 the Pipeline Replacement Charge and SSIR Charges, then the reduction in rates due
4 to the elimination of rider revenues followed by an eventual increase in customer
5 rates due to interim rates could cause customer confusion and frustration.

6 **C. Extended Payment Plans**

7

8 **Q. PLEASE EXPLAIN THE BENEFIT OF EXTENDED PAYMENT PLANS**
9 **FOR CUSTOMERS WITH ARREARAGES.**

10 A. Extending the payment plans for customers in financial distress is appropriate to
11 help customers continue receiving natural gas service as the Nebraska economy
12 recovers from the Covid-19 Pandemic.

13 **D. Waiving Late Payment Fees**

14 **Q. PLEASE EXPLAIN THE BENEFITS FROM WAIVING LATE PAYMENT**
15 **FEES.**

16 A. Customers will not incur late payment fees during the pendency of the rate
17 review, or as otherwise required by law.

18 **E. Other Prudent BH Nebraska Gas Management Actions**

19 **Q. WHAT OTHER ACTIONS HAS BH NEBRASKA GAS TAKEN IN**
20 **RESPONSE TO THE PANDEMIC?**

21 A. Other items are presented in the testimony of Mr. Jarosz.

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4
5

VIII. INTRODUCTION OF WITNESSES

Q. WHO ARE THE COMPANY’S OTHER WITNESSES PROVIDING SUPPORTING TESTIMONY IN THIS PROCEEDING?

A. Table RJA-2 below lists witnesses providing testimony in support of the Rate Review Application:

TABLE RJA-2 – Witness List and Purpose of Testimony	
WITNESS	PURPOSE OF TESTIMONY
Robert J. Amdor Director, Regulatory & Finance	Application Overview, Case Drivers, Witness Introduction, Company Policy, Prior Proceeding Commitments, Employee Compensation, Cost of Capital, Interim Rates and Covid-19 Pandemic
Jason L. Bennett Manager, Regulatory & Finance	Filing Requirements, Accounting, & Capital Spend, Contributions, Dues, and Lobbying, Farm Tap Replacement Program, SSIR Modifications, 2021 SSIR, ALLO Surcharge, Consolidation synergies, and Rate Review Expenses
Michael C. Clevinger Senior Manager, Regulatory & Finance	Revenue Requirement Study, CAMS, and Adjustments
Tyler E. Frost Manager, Regulatory & Finance	High Efficiency Appliance Tool, Low Income Customer Support, Changes in Fees, and Tariff Sheets
Douglas N. Hyatt Principal Analyst, Regulatory & Finance	Rate Design & Billing Determinants
Kevin M. Jarosz Vice President Nebraska Operations	Operations, Customer Service, Capital Spend, and Capital Infrastructure Investment Projects
Justin W. Klapperich Finance Director III, Tax	ADIT and Taxes
Marc I. Lewis Director, Gas Pipeline and System Integrity	Safety Investment & Risk Ranking
Adrien M. McKenzie FinCap	Return on Equity and Capital Structure
Dr. David Rosenbaum Rosenbaum Consulting	Customer Growth & HEAT Program
Thomas J. Sullivan Navillus Consulting	Class Cost of Service and Rate Design

1 **1. Robert J. Amdor, Director – Regulatory and Finance**

2 The purpose of my testimony is set forth above.

3 **2. Mr. Jason L. Bennett, Manager - Regulatory and Finance**

4 Mr. Bennett addresses Rate Review Application filing requirements, Company
5 accounting methods, contributions, dues, lobbying, Capital Infrastructure Project
6 Investment, Capital Additions, the Farm Tap Replacement Program, System Safety
7 and Integrity Rider (SSIR) modifications, ALLO Regulatory Accounting Order
8 Surcharge mechanism, Consolidation Synergies, Rate Review Expenses, and Gas
9 Storage Inventory.

10 **3. Mr. Michael C. Clevinger, Sr., Manager – Regulatory and Finance**

11 Mr. Clevinger sponsors the Revenue Requirement Study and explains the requested
12 revenue increase by describing the Test Year, rate base, revenues, and operating
13 expenses, with known and measurable and certain other adjustments, to reflect the
14 revenue needed to recover the costs to provide service to the BH Nebraska Gas
15 customers and for the Company to have the opportunity to earn a fair return. He
16 presents the results of a depreciation study used in the Revenue Requirement Study
17 and sponsors the Cash Working Capital calculation and Lead-Lag Study.
18 Mr. Clevinger discusses changes to the Cost Allocation Manual resulting from the
19 consolidation of BH Gas Utility and BH Gas Distribution, and corporate changes,
20 including the allocation impacts related to consolidation of support services now
21 provided by BHSC. Mr. Clevinger supports adjustments related to facilities, merit
22 increases, IT Cyber Security Improvements, BHSC employee additions, and others.
23 Finally, Mr. Clevinger addresses Affiliate Transactions.

1 4. **Mr. Tyler E. Frost, Manager - Regulatory and Finance**

2 Mr. Frost supports the proposed tariff changes, explains the HEAT program
3 proposal and competitive threats.

4 5. **Mr. Douglas N. Hyatt, Principal Regulatory Analyst – Regulatory &**
5 **Finance**

6 Mr. Hyatt discusses the billing determinants used in the Class Cost of Service
7 Study, presents adjustments to the billing determinants, discusses the weather
8 normalization adjustment, and provides Test Year billing determinants. He also
9 sponsors the customer class load factor analysis, and sponsors the revenue proofs.

10 6. **Mr. Kevin M. Jarosz, Vice President - Operations**

11 Mr. Jarosz provides a general overview of the Company’s Nebraska gas system and
12 service territory, staffing, customer service, community involvement and
13 performance. He also discusses the Company’s existing practices to maintain the
14 safety and integrity of the Nebraska pipeline system and describes the specific
15 projects BH Nebraska Gas is proposing to include in the SSIR mechanism. He also
16 supports the proposed SSIR as the appropriate recovery mechanism for the
17 significant investment programs. Mr. Jarosz also discusses the capital additions
18 between January 1, 2020 and December 31, 2020.

19 7. **Mr. Justin W. Klapperich, Director - Tax**

20 Mr. Klapperich supports the calculation of income tax expense and related
21 Accumulated Deferred Income Taxes (“ADIT”) in the Revenue Requirement
22 Study. He also discusses the tax impacts of the Tax Cuts and Jobs Act of 2017 on
23 the requested revenue requirement, including the accounting for excess deferred
24 income taxes (“EDIT”) in compliance with Application No. NG-0095-PI-213, NG-

1 0095.2, NG-0095.3. Mr. Klapperich supports a Transition Report (a/k/a “Synergy
2 Savings Report”) required under Commission Application No. NG-0084
3 (SourceGas Acquisition).

4 **8. Mr. Marc I. Lewis, Director - Gas Pipeline and System Integrity**

5 Mr. Lewis describes the programmatic capital investment and risk ranking of
6 Capital Infrastructure Projects developed for BH Nebraska Gas. Mr. Lewis
7 describes the federal and state regulations governing pipeline safety and the
8 Company’s specific system safety and integrity projects. Mr. Lewis discusses the
9 Company’s approach to assessing and prioritizing efforts to improve the overall
10 safety of the gas distribution system. Mr. Lewis supports the Data Integrity
11 Improvement Program and explains how investing in data systems will benefit
12 customers in the future.

13 **9. Mr. Adrien M. McKenzie, President - Financial Concepts and Applications**

14 Mr. McKenzie supports the proposed cost of common equity used in the capital
15 structure to determine the weighted average cost of capital incorporated in the
16 Revenue Requirement Study. Mr. McKenzie discusses current capital markets and
17 provides an expert assessment of the range of reasonable rates of return on equity
18 for BH Nebraska Gas of 9.6% to 10.8%. Mr. McKenzie’s testimony supports a 10%
19 return on equity requested by BH Nebraska Gas.

20 **10. Dr. David Rosenbaum - Rosenbaum Economic Consulting**

21 Dr. Rosenbaum presents analyses performed to verify the cost effectiveness of
22 the Company’s High Efficiency Appliance Tool (“HEAT”) program rebates to
23 address the challenges related to rural decline and competition from publicly owned
24 electric utilities.

1 Dr. Rosenbaum provides research confirming that most new appliance
2 installations within the BH Nebraska Service Rate Areas are electric, and except
3 for the most recent years, Rate Areas Three (former BH Gas Utility) and Five
4 (former BH Gas Distribution) experienced a decline in population and customer
5 count.

6 This research proves the necessity of continuing the existing appliance
7 incentive program, but also supports expanding the HEAT Program throughout all
8 BH Nebraska Rate Areas.

9 **11. Mr. Thomas J. Sullivan, President - Navillus Utility Consulting LLC**

10 Mr. Sullivan sponsors the Class Cost of Service Study and Rate Design model,
11 provides a historical review of rural decline and competitive threats, and discusses
12 the perspective development of the proposed customer classes, the combination of
13 the classes resulting from the consolidation of the two gas utilities, the Company's
14 approach to mitigating the rate impacts of consolidating customer classes, and the
15 development of the proposed customer rates for all customer classes. He also
16 provides historical perspective of the competitive threats to the system and
17 recommends several tools to offset these challenges. Mr. Sullivan provides an
18 alternative Straight-Fixed Variable rate design in the event the Commission does
19 not prefer the block rate designed recommended by BH Nebraska Gas.

IX. PRIOR PROCEEDING COMMITMENTS

Q. PLEASE PROVIDE A LIST AND SUMMARY OF COMMITMENTS MADE BY THE COMPANY IN PRIOR COMMISSION PROCEEDINGS THAT ARE ADDRESSED WITHIN THIS RATE REVIEW APPLICATION?

A. As noted above, this is the first application for BH Nebraska Gas seeking a general rate increase. This filing comes several years after either BH Gas Utility or BH Gas Distribution filed a Rate Review Application. Throughout that extended period, several Commission proceedings involving BH Gas Utility or BH Gas Distribution have established commitments for either BH Gas Utility or BH Gas Distribution or both that were deferred until this rate review proceeding.

Table RJA-3 below provides a list and summary of the commitments made by the Company in prior Commission proceedings:

TABLE RJA-3 – Prior Proceeding Commitments			
Commission Application No.	Proceeding Type	Summary of Commitment	Status of Commitment
NG-0061	BH Gas Utility Rate Case	File Employee and Executive Comp. and Benefits evidence	<i>Satisfied – See Testimony of Amdor</i>
NG-0067	BH Gas Dist. Rate Case	Roll in SSIR Investments	<i>Satisfied – See testimony of Amdor, et al.</i>
<i>Neb. Rev. Stat. § 66-1865 et seq.</i>	BH Nebraska Gas	Reset Statutory 60-month time period for Pipeline Replacement Charges	<i>Satisfied by Operation of Law</i>
NG-78.7	2020 SSIR	Reset Mechanism and expand SSIR	<i>Satisfied See Testimony of Bennett, Jarosz and Lewis</i>

<p>NG-0084</p>	<p>SourceGas Acquisition</p>	<p>Track Costs and benefits showing consolidation of corporate facilities</p> <p>Annual Transition Report showing regulated return</p> <p>No Transition Cost recovery</p> <p>No Acquisition premium recovery</p> <p>Reg. Asset for Severance Costs</p> <p>No shareholder litigation costs</p> <p>Cost of capital – commensurate with the risks for BH-Nebraska</p> <p>No dividends if equity below 40%</p> <p>Money Pools and Ring fencing</p> <p>Transition report</p>	<p><i>Satisfied – See Testimony of Amdor, Bennett Jarosz, and Klapperich</i></p>
<p>NG-0090.2</p>	<p>BH Gas Utility Farm Tap</p>	<p>Include remaining unrecovered Farm Tap purchase or replacement costs in rate application</p>	<p><i>Satisfied – See testimony of Bennett</i></p>
<p>NG-0093</p>	<p>BH Gas Utility ALLO – gas line location costs</p>	<p>BH Gas Utility - Accounting Order for extraordinary line locate expense recovered from Lincoln customers in Rate Review Application</p>	<p><i>Satisfied – recovery through a proposed surcharge to Lincoln area customers</i></p>

NG-0095.2	Tax Cut and Jobs Act	ADIT Reconciliation BH Gas Utility	<i>Satisfied – See testimony of Klapperich</i>
NG-0095.3	Tax Cut and Jobs Act	ADIT Reconciliation BH Gas Distribution	<i>Satisfied – See testimony of Klapperich</i>
BHUH and BHSC Jurisdictional Simplification	Service Company Consolidation	Explain Shift of Shared Resource Affiliates	<i>Satisfied – See Testimony of Amdor and Clevinger</i>
NG-100	BH Nebraska Gas Tariff Combined	Accept latest version of consolidated tariff	<i>Satisfied – See testimony of Frost</i>
NG-100 <i>Recommendations on page 3 of the PA’s Report</i>	BH Nebraska Gas Tariff Combined	BH should maintain individual company accounting records sufficient to perform detailed CCOS study to determine consolidation of rates.	<i>Satisfied – See testimony of Sullivan</i>
NG-100	BH Nebraska Gas Tariff Combined	Detailed CCOS study that analyzes class rate of return for each individual rate and projected class rate of return. Study may include both companies within one study.	<i>Satisfied – See testimony of Sullivan</i>

NG-100	BH Nebraska Gas Tariff Combined	Study to determine the positive effects and opportunities for increases in performance and decreases in costs that will flow through to customers. Study should consider short-term, medium term, and long-term opportunities and have a detailed timeline for implementation along with cost estimates.	<i>See testimony of Amdor, Bennett, and Jarosz for efficiencies from legal entity consolidation</i>
NG-100	BH Nebraska Gas Tariff Combined	Document any increased revenue that has resulted (or may result) from the changes permitted in the consolidated tariff (such as Budget billing, bill due date, and line extensions).	<i>Satisfied - See testimony of Clevinger and Frost for revenue increase due to tariff charge standardization</i>
NG-100	BH Nebraska Gas Tariff Combined	Maintain ring-fencing conditions that resulted from the two acquisition proceedings	<i>Satisfied – See testimony of Amdor</i>
NG-100	BH Nebraska Gas Tariff Combined	Black Hills shall continue to comply with all requirements set forth in previous dockets, including the customer protection provisions set for in Application No. NG-84	<i>See testimony of Amdor, Bennett, and Jarosz for efficiencies from legal entity consolidation</i>

NG-100	BH Nebraska Gas Tariff Combined	Tariff Charges deferred to the rate review: <ul style="list-style-type: none"> • itemized diversion fees in the tariff; • standardized statewide Late Payment Charge; • standardization of credit card fees for BH Gas Utility; • standardization of other miscellaneous fees 	<i>See testimony of Frost for tariff charge standardization</i>
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1

2 **Q. PLEASE SUMMARIZE HOW BH NEBRASKA GAS SATISFIED EACH OF**
 3 **THE COMMITMENTS DEFERRED TO THIS RATE REVIEW?**

4 A. The information presented in the application, supporting testimony, and exhibits of
 5 BH Nebraska Gas satisfies each of the commitments deferred to this rate
 6 proceeding. The last column of the table shown above provides a reference to how
 7 the prior Commission commitment has been satisfied within this Rate Review
 8 Application. To be clear, this Rate Review Application does not seek to reopen or
 9 reinvestigate previous Commission proceedings. The Commission has already
 10 issued its decisions in those proceedings. Instead, this rate review proceeding
 11 presents a limited number of items from those prior Commission proceedings,
 12 which were reserved for further action within this rate review proceeding.

1 **Q. PLEASE BRIEFLY DISCUSS EACH OF THE COMMITMENTS**
2 **IDENTIFIED IN THE TABLE SET FORTH ABOVE.**

3 A. The testimony below briefly discusses the commitments identified above which had
4 items reserved for this review application.

5 **A. NG-0061 - BH Gas Utility Prior Rate Proceeding**

6
7 **Q. DID THE COMMISSION’S ORDER IN NG-0061 REQUIRE BH GAS**
8 **UTILITY (NOW BH NEBRASKA GAS) TO INCLUDE CERTAIN**
9 **EVIDENCE AT THE TIME IT FILES A RATE REVIEW APPLICATION?**

10 A. Yes. The Commission has stated that an applicant must provide the Commission
11 with sufficient information in its direct case to establish just and reasonable rates,
12 thereby balancing the interests of utilities and ratepayers. *BH Gas Utility Rate*
13 *Order at p. 3.*

14 **Q. WHAT SPECIFIC INFORMATION IS BH NEBRASKA GAS**
15 **COMMITTED TO PROVIDE IN ITS DIRECT CASE TO COMPLY WITH**
16 **THE COMMISSION’S ORDER IN APPLICATION NO. NG – 0061?**

17 A. 1. **CWIP and Plant in Service.** On page 6 of the Commission’s Order in
18 Application No. NG-0061, the Commission restated its testimony requirements
19 related to plant in service and for adjustments for construction work in progress
20 (“CWIP”).

21 The direct evidence required by the Commission for CWIP includes the following:

22
23 A discussion of each project, why the utility has determined that the
24 project is necessary to the provision of safe and reliable service; and
25 how the project costs are being financed whether through debt or
26 internally generated cash. Additionally, the utility should describe
27 why it is necessary for the project to be included in rates before it is
28 complete and in service.
29

1 The Commission further suggested that the evidence for plant in
2 service should include:

3
4 A list of all construction projects the utility is requesting to include
5 in plant in service which should include a description of the project;
6 location of the project; purpose of the project; date construction was
7 begun; expected completion date; actual costs incurred as of the last
8 day of the Test Year; and finally, the total expected cost of the
9 project at completion. *BH Gas Utility Rate Order at p. 6.*

10
11 2. **Employee and Executive Compensation Evidence.** On pages 19 and 22
12 of the Commission Order in Application No. NG – 0061, the Commission stated as
13 follows:

14 In its next rate filing, the utility must file in its direct case the type
15 of information provided by Ms. Patterson’s testimony and additional
16 historic information regarding payouts of variable compensation
17 between rate cases. *BH Gas Utility Rate Order at p. 19.*

18
19 The Commission finds that the affiliate costs as proposed should be
20 approved. However, in the future rate cases the Commission expects
21 more specific evidence in the company’s direct case regarding the
22 methods used by the company to ensure that affiliate costs
23 approximate market value. Furthermore, the Commission finds that
24 in future cases, information related to executive compensation
25 should be provided for each executive position. *BH Gas Utility Rate
26 Order at p. 22.*

27
28 3. **Dues and Contributions.** On page 25 of the Commission Order in
29 Application No. NG–0061, the Commission stated as follows:

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

34
35 **Q. HAS BH NEBRASKA GAS PROVIDED THE INFORMATION REQUIRED**
36 **IN COMMISSION APPLICATION NO. NG-0061 AS PART OF ITS**
37 **DIRECT CASE IN THIS RATE REVIEW PROCEEDING?**

38 A. Yes.

1 4. **Shared Resources Affiliate Cost Evidence.** Mr. Clevinger provides
2 testimony regarding Shared Resources Affiliate costs that flow from the BHSC cost
3 Allocation Manual (“CAM”).¹⁹ Regarding Shared Resources Affiliate costs, the
4 supplies purchased by BHSC for BH Nebraska Gas are done so primarily through
5 the Company’s Supply Chain Department. That department conducts competitive
6 bidding for many items critical to the operations of BH Nebraska Gas. The
7 purchases are at cost and BHSC does not include additional cost or profits. The
8 purchases are done to achieve economies of scale under which, by definition, costs
9 are lower to each participant than they would be if they purchased the service from
10 a third party. *See e.g., Commission Order in Application No. NG-0067 at p. 13*
11 *(May 22, 2012).*

12 Mr. Clevinger also provides a schedule of Affiliate Transactions between
13 BH Nebraska Gas subsidiary affiliates.

14 5. **Contributions, Dues, and Lobbying Expenses.** Mr. Bennett provides
15 testimony that discusses how BH Nebraska Gas complies with the Commission’s
16 precedence on these items and includes the list of organizations establishing a
17 representative level of Membership Fees and Dues.

18 6. **Employee Compensation and Benefits Evidence.** As directed by the
19 Commission, my testimony provides the same type of employee compensation and
20 benefits evidence that was provided by Ms. Patterson in Application No. NG-0061.
21 For example, the compensation and benefits testimony provides a list of
22 compensation and benefit studies that BHC relies upon to establish market

¹⁹ A Shared Resources Affiliate is an affiliate whose primary purpose is to share employees, departments or other physical assets used by the jurisdictional utility as defined in Commission Rule 001.01A1.

1 competitive compensation and benefits for employees at BH Nebraska Gas or
2 BHSC who support the continued utility service provided by BH Nebraska Gas.

3 7. **Executive Compensation and Benefits Evidence.** As part of its
4 Application, BH Nebraska Gas provides a copy of BHC's Annual Report and
5 Annual Meeting Proxy, which is filed with the Securities and Exchange
6 Commission. That document provides a detailed explanation of how Executive
7 Compensation is determined. *Exhibit No. RJA-4.*

8 **B. NG-0067 - BH Gas Distribution Prior Rate Proceeding**

9

10 **Q. DID THE COMMISSION'S ORDER IN NG-0067 REQUIRE BH GAS**
11 **DISTRIBUTION (NOW BH NEBRASKA GAS) TO INCLUDE CERTAIN**
12 **EVIDENCE AT THE TIME IT FILES A RATE REVIEW APPLICATION?**

13 A. Yes. The Commission stated that the schedule imposed by statute and the inherently
14 imprecise nature of the rate-making process present challenges for both the Public
15 Advocate and the Commission. However, the end-goal for all parties and the
16 Commission is to reach just and reasonable rates. *BH Gas Distribution Rate Order*
17 *at p. 5.* Accordingly, the Commission ordered that the Company provide certain
18 evidence at the time it files a Rate Review Application.

19 **Q. WHAT SPECIFIC INFORMATION IS BH NEBRASKA GAS**
20 **COMMITTED TO PROVIDE IN ITS DIRECT CASE TO COMPLY WITH**
21 **THE COMMISSION'S ORDER IN APPLICATION NO. NG-0067?**

22 A. **Weather Normalization.** On pages 14 and 15 of the Commission's Order in
23 Application No. NG-0067, the Commission stated as follows:

24
25
26

The Commission is satisfied with the normalization adjustment and methodology utilized by the Company in this rate proceeding. However, the Commission finds jurisdictional utilities should be

1 mindful in future proceedings, of the methods and procedures
2 utilized by a company to select and apply weather data, especially
3 when data from some weather stations in the service area are missing
4 or incomplete. The technical process of selection and application of
5 weather data has the potential bias, particularly when matching
6 regional weather to load data for weather normalization. Utilities
7 should consider providing sensitivity analyses or different
8 alternatives that match weather station data and area-specific energy
9 consumption. *BH Gas Distribution Order at p. 15.*
10

11 **Q. HAS BH NEBRASKA GAS PROVIDED THE INFORMATION REQUIRED**
12 **IN COMMISSION APPLICATION NO. NG-0067 AS PART OF ITS**
13 **DIRECT CASE IN THIS RATE REVIEW PROCEEDING?**

14 A. Yes. The testimony of Mr. Hyatt addresses the weather normalization adjustment
15 applied in the BH Nebraska Gas Rate Review Application.

16 **C. BH Nebraska Gas Pipeline Replacement Charge Reset**

17
18 **Q. HOW DOES FILING A RATE REVIEW APPLICATION SATISFY THE**
19 **STATUTORY REQUIREMENTS RELATED TO A PIPELINE**
20 **REPLACEMENT CHARGE?**

21 A. An Infrastructure System Replacement Charge (a/k/a Pipeline Replacement
22 Charge) is authorized by *Neb. Rev. Stats. §§ 66-1865 et seq.* and permits recovery
23 of prudent investment in eligible safety-related infrastructure projects previously
24 placed into service.

25 Pursuant to *Neb. Rev. Stat. § 66-1865(2)*, the Commission shall not approve
26 any infrastructure system replacement cost recovery charge rate schedules for any
27 jurisdictional utility that has not had a general rate proceeding decided or dismissed
28 by issuance of a Commission order within the sixty months immediately preceding

1 the application by the jurisdictional utility for an infrastructure system replacement
2 cost recovery charge.

3 In accordance with *Neb. Rev. Stat. § 66-1866*, the rate review proceeding
4 will also establish the requirements (e.g., return on equity, depreciation, capital
5 structure, etc.) to be applied to Pipeline Replacement Charge projects included
6 within a future Pipeline Replacement Charge filing.

7 Accordingly, as the sixty-month period since the last rate review for both
8 BH Gas Utility and BH Gas Distribution has passed, this Rate Review Application
9 is necessary to qualify any new BH Nebraska Gas safety projects that may be
10 recovered under the Pipeline Replacement Charge mechanism authorized under the
11 Act.

12 **D. SSIR Mechanism Reset and Expansion**

13
14 **Q. HOW DOES FILING A RATE REVIEW APPLICATION SATISFY THE**
15 **TARIFF REQUIREMENTS RELATED TO THE SSIR MECHANISM AND**
16 **SSIR CHARGE?**

17 A. Like the Pipeline Replacement Charge, new SSIR projects must occur within
18 sixty (60) months of a Commission-approved rate proceeding. In addition, because
19 the SSIR was implemented under the tariff of BH Gas Distribution, BH Nebraska
20 Gas filed this rate application to expand the SSIR mechanism and SSIR Charge
21 throughout the entire BH Nebraska Gas service area. This filing seeks to reset the
22 sixty-month period for filing SSIR applications, and to expand the SSIR to Rate
23 Areas One, Two, and Three. In addition to resetting the SSIR sixty (60) month
24 period and expanding the area in which the SSIR mechanism will apply, BH
25 Nebraska Gas proposes to (1) extend the SSIR tariff to include “Reliability”

1 projects, (2) modify the criteria and categories of projects to reflect the types of
2 projects including within SSIR filings, (3) revise the SSIR reporting period to an
3 annual period, and (4) recover the cost of the Data Integrity Improvement Program
4 within the SSIR Charge. As noted above, BH Nebraska Gas also includes its 2021
5 SSIR Application as part of this application and applies the proposed revisions to
6 the SSIR mechanism.

7 This Rate Review Application will establish the requirements (e.g., return
8 on equity, depreciation, capital structure, etc.) to be applied to SSIR projects
9 included within a future SSIR application filing.

10 **E. NG-0084 - SourceGas Acquisition Commitments**

11

12 **Q. DID THE COMMISSION'S ORDER REGARDING THE SOURCEGAS**
13 **ACQUISITION REQUIRE A CONFIDENTIAL ANNUAL REPORT?**

14 A. Yes. In Commission Application No. NG-0084, in which the Commission granted
15 the joint application approving the SourceGas Acquisition, the Commission
16 required the Company to file an annual report showing the rate of return for the
17 regulated portion of the Nebraska utility. Page 11 of the Commission's Order
18 provides as follows:

19 In order to show the results of agreeing to a rate moratorium
20 in exchange for the Company's opportunity to recover an
21 acquisition premium from customers in rates, Black Hills
22 NE shall file an annual confidential report for informational
23 purposes with the Commission and the PA until the
24 Company files a general rate case or the year 2020,
25 whichever is earlier. The annual report shall show BHUH's
26 rate of return for the regulated portion of its Nebraska utility
27 operations. Any earnings that might be considered above
28 those typically authorized by the Commission shall be
29 retained by Black Hills NE in exchange of foregoing its
30 rights to seek recovery of the acquisition premium from
31 Nebraska customers. *SourceGas Acquisition Order at p. 11.*

1 **Q. HAS BH NEBRASKA GAS SUBMITTED ANNUAL CONFIDENTIAL**
2 **REPORTS WITH THE COMMISSION AND PUBLIC ADVOCATE AS**
3 **REQUIRED BY THE APPROVED SETTLEMENT AGREEMENT IN THE**
4 **SOURCEGAS ACQUISITION PROCEEDING IN APPLICATION NO. NG-**
5 **0084?**

6 A. Yes. The testimony of Mr. Bennett discusses how this commitment was satisfied.

7 **E1. NG-0084 SourceGas Acquisition - Transition Costs**

8
9 **Q. HAS BH NEBRASKA GAS INCLUDED ANY TRANSITION COSTS**
10 **ASSOCIATED WITH THE SOURCEGAS ACQUISITION IN THE**
11 **REVENUE REQUIREMENT STUDY IN THIS RATE REVIEW**
12 **PROCEEDING?**

13 A. No. Except as permitted by the Commission for (1) costs related to long-term
14 financing for the Transaction, and (2) limited severance related costs as described
15 below, there is no amount related to the transition costs included in either expense
16 or rate base in the Revenue Requirement Study presented by Mr. Clevinger in this
17 rate review proceeding. As a result of the Settlement Agreement in Commission
18 Application No. NG-0084, BHC shareholders are required to bear the transition
19 costs.

20 **E2. NG-0084 Corporate Facilities Consolidation**

21
22 **Q. HAS BH NEBRASKA GAS INCLUDED CONSOLIDATED CORPORATE**
23 **FACILITIES IN ITS RATE BASE?**

24 A. Yes. The testimony of Mr. Jarosz presents the costs and benefits of consolidating
25 the corporate service centers as part of this Rate Review Application. The lower

1 costs associated with the consolidated facilities is included within the Revenue
2 Requirement Study provided in Exhibit No. MCC-2.

3 **E3. NG-0084 SourceGas Acquisition - Acquisition Premium**

4

5 **Q. HAS BH NEBRASKA GAS INCLUDED ANY COSTS ASSOCIATED WITH**
6 **THE SOURCEGAS ACQUISITION PREMIUM IN THE REVENUE**
7 **REQUIREMENT STUDY IN THIS RATE REVIEW PROCEEDING?**

8 A. No. There is no amount related to the acquisition premium included in either
9 expense or rate base in the Revenue Requirement Study presented by Mr. Clevinger
10 in this rate review proceeding. In fact, none of the acquisition premium associated
11 with the SourceGas Acquisition is reflected on the books of BH Nebraska Gas. As
12 a result of the Settlement Agreement in Commission Application No. NG-0084,
13 BHC shareholders are required to bear the costs of the acquisition premium.

14 **E4. NG-0084 SourceGas Acquisition - Regulatory Asset**

15

16 **Q. DID THE COMMISSION'S ORDER REGARDING THE SOURCEGAS**
17 **ACQUISITION PROVIDE FOR ESTABLISHING A REGULATORY**
18 **ASSET AND FOR THE RECOVERY OF THE COSTS OF THAT ASSET?**

19 A. Yes. In Commission Application No. NG-0084, in which the Commission granted
20 the joint application approving the SourceGas Acquisition, the Commission
21 authorized the creation of a regulatory asset to account for certain employee
22 severance costs related to the integration of SourceGas. Pages 11 and 12 of the
23 Commission's Order provide as follows:

24

25

26

27

28

Black Hills NE will establish a regulatory asset
(account) to be amortized for determining the revenue
requirements in its next general rate case. The regulatory
asset value shall be established by the total sum of the Black
Hills NE allocated share of the annual base salary of each

1 employee of Black Hills Service Company (“BHSC”),
2 BHUH and the acquired SourceGas companies that have
3 been granted a severance payment within the first eighteen
4 months following the closing of the acquisition. The
5 allocation shall be determined as provided for in the Black
6 Hills cost allocation manuals that are effective at the time of
7 the severance. Black Hills NE shall not earn a return on the
8 value of the regulatory asset.
9

10 The amortization expense for determining the
11 revenue requirement in Black Hills NE’s first rate case shall
12 be the value of the regulatory asset amortized over a four (4)
13 year period. The parties agree that Black Hills NE will be
14 able to include this amortization for a minimum of four (4)
15 years regardless of when a general rate proceeding is
16 implemented. The Parties agreed that there will be no
17 tracking or true-up associated with this amortization.
18 *SourceGas Acquisition Order at pp. 11 and 12 (Jan. 26,*
19 *2016; See also Id. at p. 16).*
20

21 **Q. HAS BH NEBRASKA GAS INCLUDED THE COST OF THE**
22 **REGULATORY ASSET RELATED TO EMPLOYEE SEVERANCE**
23 **STEMMING FROM THE SOURCEGAS ACQUISITION IN THE**
24 **REVENUE REQUIREMENT STUDY?**

25 A. Yes. Mr. Clevinger included BH Nebraska Gas’ allocated share of this regulatory
26 asset in the Revenue Requirement Study. The total allocated share for BH Nebraska
27 Gas is \$850,705, which is being amortized over four years.

28 **E5. NG-0084 SourceGas Acquisition – Shareholder Litigation**
29

30 **Q. HAS BH NEBRASKA GAS INCLUDED THE COST OF SHAREHOLDER**
31 **LITIGATION ARISING FROM THE SOURCEGAS ACQUISITION IN**
32 **THE REVENUE REQUIREMENT STUDY?**

33 A. No. There is no amount related to the shareholder litigation arising out of the
34 SourceGas Acquisition included in either expense or rate base in the Revenue
35 Requirement Study presented by Mr. Clevinger in this rate review proceeding. As

1 a result of the Settlement Agreement in Commission Application No. NG-0084,
2 BHC shareholders are required to bear the costs of the Shareholder litigation costs.

3 **E6. NG-0084 SourceGas Acquisition - Cost of Capital**

4

5 **Q. DID BH NEBRASKA GAS ISSUE DEBT THAT CAUSED THE STAND-
6 ALONE EQUITY LEVEL FOR BH NEBRASKA GAS TO BE REDUCED
7 BELOW 40% OF THE TOTAL LONG-TERM CAPITALIZATION?**

8 A. No. The stand-alone equity level for BH Nebraska Gas has remained above 40% of
9 the long-term capitalization since the SourceGas Acquisition.

10 **Q. HAS BH NEBRASKA GAS INCLUDED A COST OF CAPITAL THAT IS
11 COMMENSURATE WITH THE RISK OF BH NEBRASKA GAS?**

12 A. Yes. As explained in my testimony below, along with the supporting testimony of
13 Mr. McKenzie, BH Nebraska Gas included a cost of capital based on the risk
14 attendant to the regulated utility operations of BH Nebraska Gas.

15 **E7. NG-0084 SourceGas Acquisition – Ring Fencing**

16

17 **Q. WILL THIS RATE REVIEW APPLICATION IMPACT THE RING-
18 FENCING PROTECTION ESTABLISHED FOR BH NEBRASKA GAS?**

19 A. No. BH Nebraska Gas is committed to meeting and continuing the customer
20 protection and ring-fencing conditions established and agreed to in both the Aquila
21 Acquisition and the SourceGas Acquisition proceedings to protect BH Nebraska
22 Gas and its customers to the extent that BHC engages in higher-risk non-
23 jurisdictional activity.

1 **E8. NG-0084 SourceGas Acquisition – Transition Report**

2 **Q. DID THE COMMISSION’S ORDER REGARDING THE ACQUISITION**
3 **OF SOURCEGAS PROVIDE FOR ESTABLISHING A TRANSITION**
4 **REPORT?**

5 A. Yes. In Commission Application No. NG-0084, in which the Commission granted
6 the joint application approving the SourceGas Acquisition, the Commission
7 required a Transition Report. Page 13 of the Commission’s Order provides as
8 follows:

9 Four (4) years after closing, or as part of a general rate
10 filing made, whichever is sooner, BHUH will submit a
11 confidential report to the PA and the Commission
12 detailing the costs eliminated as a result of the
13 Transaction. If Black Hills NE files a general rate case
14 with rates to be effective sooner than four (4) years after
15 closing, Black Hills NE will file such report as part of
16 the general rate filing. Black Hills NE will provide actual
17 costs incurred for the designated time frame as compared
18 to 2015 inflated actual costs incurred (by FERC
19 Account). *SourceGas Acquisition Order at p. 13 (Jan.*
20 *26, 2016).*
21

22 **Q. HAS BH NEBRASKA GAS INCLUDED THE TRANSITION REPORT**
23 **REQUIRED UNDER THE COMMISSION’S SOURCEGAS ACQUISITION**
24 **ORDER IN APPLICATION NO. NG-0084?**

25 A. Yes. Mr. Klapperich provides the Transition Report (“Synergy Savings Report”)
26 commitment arising from the SourceGas Acquisition. Direct Testimony of Justin
27 W. Klapperich, Exhibit Nos. JWK-2 and JWK-3. The Synergy Savings Report and
28 Supplemental Synergy Savings Report show that BH Nebraska Gas customers
29 saved approximately \$900,000 during the Base Year as a result of the SourceGas
30 Acquisition. As Mr. Klapperich testifies, the savings from the SourceGas

1 Acquisition are already embedded in the Revenue Requirement Study prepared by
2 Mr. Clevinger in this Rate Review Application. *Exhibit No. MCC-2.*

3 **F. NG-90 - BH Gas Utility Farm Tap Safety Program Investment**

4

5 **Q. ARE THERE ANY COSTS FROM THE FARM TAP REPLACEMENT**
6 **PROGRAM FOR BH GAS UTILITY (NOW BH NEBRASKA GAS) WITHIN**
7 **THIS BH NEBRASKA GAS RATE APPLICATION?**

8 A. Yes. In Commission Application No. NG-0090, in an effort to provide for greater
9 customer and public safety, the Commission granted approval for BH Gas Utility
10 to replace or purchase hundreds of rural customer-owned natural gas fuel lines
11 (i.e., Farm Tap Customer) facilities over a multi-year period. The original estimate
12 submitted by BH Gas Utility and approved by the Commission in 2016 was
13 approximately \$4 million to be collected through a Farm Tap Surcharge.

14 As discussed in the testimony of Mr. Bennett, since the original estimate,
15 the actual cost of replacing and purchasing natural gas facilities under the Farm Tap
16 Replacement Program has proven to be more expensive than originally
17 contemplated. The unavoidable additional costs realized by BH Gas Utility arise
18 from a variety of different reasons.

19 As of the end of April 2020, BH Nebraska Gas reported a cumulative
20 investment of \$7,945,044 for the Farm Tap Replacement Program. BH Nebraska
21 Gas identified 679 total Farm Taps to be replaced or purchased. As of the end of
22 April 2020, only 12 Farm Taps are left to be completed. The Farm Taps not
23 completed have been delayed primarily due to legal disputes related to easements
24 needed to replace the line.

1 **Q. WHAT AMOUNTS WERE INCLUDED IN THIS RATE PROCEEDING?**

2 A. As explained in the testimony of Mr. Bennett, BH Nebraska Gas is seeking the
3 actual cost of its investment be included within rate base. That amount includes the
4 additional cost of \$6,800,474,²⁰ which includes the original \$4 million investment
5 first authorized by the Commission in Application NG-090. The Public Advocate
6 indicated that the amounts above \$4 million are subject to further investigation and
7 consideration regarding prudence.²¹ BH Nebraska Gas restates that the original
8 purpose of the program is to fulfill its statutory duty of providing safe and reliable
9 service. The Farm Tap program, including the actual cost of the replacement or
10 purchases are, in my opinion, a necessary and prudent cost to provide for customer
11 safety.

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

14 A. The Company will include the additional cost (i.e., those costs above the
15 \$6,800,474 included in the Revenue Requirement Study) for the Farm Tap
16 Replacement Program within the Capital Additions adjustment included in the Rate
17 Review Application.

18 **Q. WHAT ARE THE AMOUNTS TO BE RECOVERED THROUGH THE
19 CAPITAL ADDITIONS ADJUSTMENT?**

20 A. The Company will include and revise its Capital Additions adjustment at the time
21 of its Rebuttal Testimony to include the amount of rate base above the \$6,800,474.

²⁰ Includes \$6,117,295 of costs through 2019 and \$683,179 of costs in 2020 Capital Additions.

²¹ *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 Commission Application No. NG - 0090.2 at p. 15.*

1 As noted above, the level of Farm Tap Replacement Program investment was at
2 \$7,945,044 as of April 30, 2020. As noted above, the May 2020 investment level is
3 not known at the time of this filing. As part of the rebuttal process, BH Nebraska
4 Gas will true up the cost and status of all projects included in Capital Additions to
5 be placed in service by December 31, 2020. The Farm Tap Replacement Project
6 will be trued up to the final costs at that time.

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

10 A. In the event that the Farm Tap Replacement Program projects are not all completed
11 at the time of rebuttal, any remaining prudently incurred costs incurred for
12 remaining Farm Tap customers will be included in a future Commission
13 application.

14 **G. NG-0093 - ALLO Line Location Expense Accounting Order**

15 **Q. DID THE COMMISSION'S ORDER REGARDING THE**
16 **EXTRAORDINARY LINE LOCATING COSTS ASSOCIATED WITH THE**
17 **ALLO PROJECT WITHIN THE CITY OF LINCOLN, NEBRASKA**
18 **PERMIT BH GAS UTILITY (NOW BH NEBRASKA GAS) TO CREATE A**
19 **REGULATORY ASSET AND FOR THE RECOVERY OF THE COSTS OF**
20 **THAT ASSET?**

21 A. Yes. In Commission Application No. NG-0093, the Commission authorized the
22 creation of a regulatory asset to account for the 2011-2018 gas line location costs
23 that Applicant has incurred and will incur in order to accommodate the ALLO

1 Project, up to a total of \$1.526 million. Page 4 of the Commission's Order in
2 Application No. NG-0093 provide as follows:

3 Based upon the PA's review and report, and upon the parties'
4 stipulated agreement, the Commission finds that it is
5 appropriate for Black Hills to create a regulatory asset on its
6 books and records, comprised of the 2011-2018 gas line
7 location costs that Applicant has incurred and will incur in
8 order to accommodate the ALLO Project, up to a total of
9 \$1.526 million.

10
11 The Commission emphasizes that the creation of a
12 regulatory asset is not a guarantee that the commission will
13 allow Applicant to recover costs associated with the ALLO
14 Project in a future rate proceeding. The Commission
15 reserves the ability to reverse its approval of regulatory asset
16 treatment of these expenses in the future. In the event the
17 Commission reverses its approval of regulatory asset
18 treatment, the costs associated with the ALLO Project will
19 then be recorded as an expense on Applicant's books and
20 records, and the Applicant would be in much the same
21 position as prior to any decision by the Commission.
22

23 The Commission further finds that in conjunction with the
24 creation of the regulatory asset, Applicant must continue to
25 maintain prudent cost controls related to the ALLO project
26 and must continue to evaluate all reasonable alternatives for
27 reimbursement of the costs related to the ALLO project.
28 Applicant must continue to communicate and cooperate with
29 the Public Advocate and the Commission to minimize costs
30 associated with the ALLO Project and to explore alternatives
31 to recovery of ALLO Project costs. *ALLO Project Order at*
32 *p. 4 (Mar. 20, 2018).*
33

34 **Q. HAS BH NEBRASKA GAS INCLUDED THE COST OF THE**
35 **REGULATORY ASSET RELATED TO EXTRAORDINARY LINE**
36 **LOCATION COSTS STEMMING FROM THE ALLO PROJECT IN THE**
37 **REVENUE REQUIREMENT STUDY?**

38 A. No. Mr. Clevinger excluded this regulatory asset in the Revenue Requirement
39 Study. As explained in the testimony of Mr. Bennett, the \$1.526 million will be

1 amortized and recovered through a surcharge applied to City of Lincoln customers
2 over three years.

3 **Q. DID BH NEBRASKA GAS MONITOR AND CONTAIN THE CONTRACT**
4 **COSTS, PREVENT DAMAGES TO PERSON AND PROPERTY, AND**
5 **MINIMIZE THE DISRUPTION OF UTILITY SERVICES RESULTING**
6 **FROM ACCIDENTS CAUSED BY DAMAGE TO UNDERGROUND**
7 **FACILITIES?**

8 A. Yes.

9 **Q. DID BH NEBRASKA GAS SUPPORT FINDING OTHER ALTERNATIVES**
10 **FOR COST REIMBURSEMENT?**

11 A. Yes. The Company supported legislation in 2019 that was proposed to shift these
12 types of incremental line location costs to the project developers. The bill was
13 unsuccessful.

14 **Q. WERE THE LINE LOCATION COSTS REASONABLE?**

15 A. Yes. The costs were subject to a line location contract between United States
16 Infrastructure Company (“USIC”) and the Company. The contract was provided to
17 the Public Advocate and the Commission as part of the ALLO Project Commission
18 proceeding in Application No. NG-0093. The testimony of Mr. Jarosz provides
19 more detail on this matter.

20 **Q. WILL THE ALLO PROJECT COSTS BE RECOVERED FROM LINCOLN**
21 **CUSTOMERS?**

22 A. Yes. A separate surcharge will provide for recovery from residents located within
23 the City of Lincoln. The specifics of the ALLO surcharge mechanism are presented
24 in the testimony of Mr. Bennett.

1 **H. Application Nos. NG-0095.2 and NG -0095.3 - Tax Cut and Jobs Act**

2 **Q. HAS BH NEBRASKA GAS ADDRESSED THE IMPACTS OF THE TAX**
3 **CUTS AND JOBS ACT IN THIS RATE REVIEW?**

4 A. Yes. The current filing also includes the on-going impacts of the Tax Cuts and Jobs
5 Act (“TCJA”). The testimony of Mr. Klapperich addresses how the tax issues
6 deferred from the Commission Application No. NG–0095 proceeding is addressed
7 within this rate review proceeding or will be managed into the future.

8 **Q. HAS THE COMPANY INCLUDED IN THE REVENUE REQUIREMENT**
9 **STUDY ANY TAX BENEFITS RESULTING FROM THE INTERNAL**
10 **CONSOLIDATION OF BH GAS UTILITY AND BH GAS DISTRIBUTION**
11 **INTO BH NEBRASKA GAS?**

12 A. No. As discussed by Mr. Klapperich in his direct testimony, the tax benefits
13 resulting from the consolidation are directly related to the acquisition premiums the
14 Company paid for the Aquila and SourceGas Acquisitions.

15 **I. BHUH and BHSC Service Company Simplification**

16 **Q. HAVE THE COST ALLOCATION MANUALS AND SHARED RESOURCE**
17 **AFFILIATE SERVICES CHANGED SINCE THE LAST RATE**
18 **PROCEEDINGS FOR EITHER BH GAS UTILITY OR BH GAS**
19 **DISTRIBUTION?**

20 A. Yes. Upon closing of the SourceGas Acquisition, BH Gas Distribution adopted the
21 CAMs of BHUH and BHSC. Thereafter, effective January 1, 2019, BHC
22 consolidated central services that were previously provided by two service
23 companies, BHSC and BHUH, into a single service company Black Hills Service
24 Company, LLC. The CAM of BHSC filed as Application Exhibit No. 1, Section 3,

1 Exhibit F (Commission Rule 004.04G) is the CAM that now applies to BH
2 Nebraska Gas. The current CAM of BHSC reflects the current allocation of costs
3 from the shared resources to BH Nebraska Gas. During 2019 the CAM allocated
4 costs to BH Gas Utility and BH Gas Distribution as well as other corporate changes
5 that occurred in 2019. The testimony of Mr. Clevinger discusses CAMs and the
6 allocated costs in the Revenue Requirement Study in more detail.

7 **J. NG -100 -BH Nebraska Gas - Legal Entity and Tariff Consolidation**

8 **Q. PLEASE PROVIDE A SUMMARY OF THE CONSOLIDATION OF**
9 **BH GAS UTILITY AND BH GAS DISTRIBUTION APPROVED BY THE**
10 **COMMISSION EFFECTIVE JANUARY 1, 2020 IN APPLICATION**
11 **NO. NG-100.**

12 A. On October 29, 2019, the Commission issued an order in Application No. NG-100
13 approving the transfer and merger of the assets and liabilities from BH Gas
14 Distribution into BH Gas Utility and the subsequent name change of the combined
15 entity to BH Nebraska Gas.

16 BH Gas Utility is the legacy gas utility previously acquired by BHC from
17 Aquila, Inc. BH Gas Distribution is the legacy gas utility acquired in Black Hills
18 Utility Holdings, Inc.'s ("BHUH") acquisition of SourceGas Distribution, LLC.

19 The transfer of the assets and liabilities from BH Gas Distribution into
20 BH Gas Utility along with the name change of the consolidated entity to
21 BH Nebraska Gas became effective January 1, 2020. The consolidated tariffs of
22 BH Nebraska Gas also became effective on January 1, 2020 pursuant to the
23 Commission's approval in Application No. NG-100.

1 **Q. WHAT ISSUES RAISED IN APPLICATION NO. NG-100 ARE**
2 **ADDRESSED IN THIS RATE REVIEW?**

3 A. The actions and recommendations from Application No. NG-100 that need further
4 consideration in this rate review is as follows:

- 5 (1) NG-100 - BH Nebraska Gas - File Combined Tariff
- 6 (2) NG-100 - BH Nebraska Gas - File Detailed Class Cost of Service Study
- 7 (3) NG-100 - BH Nebraska Gas - Prepare Study of synergies resulting from the
8 consolidation of BH Gas Utility and BH Gas Distribution in Nebraska.
- 9 (4) NG-100 - BH Nebraska Gas - Document Increased Revenue
- 10 (5) NG-100 - BH Nebraska Gas - Maintain Ring Fencing
- 11 (6) NG-100 -BH Nebraska Gas - Maintain Customer Protections
- 12 (7) NG-100 -BH Nebraska Gas - Itemized Diversion Fees
- 13 (8) NG-100 - BH Nebraska Gas - Standardized Late Payment Fees
- 14 (9) NG-100 - BH Nebraska Gas - Standardized Credit Card Fees
- 15 (10) NG-100 - BH Nebraska Gas - Standardization of Other Fees

16 **Q. HAS BH NEBRASKA GAS ADDRESSED THE VARIOUS ITEMS**
17 **DEFERRED IN APPLICATION NG-100 TO THIS RATE REVIEW?**

18 A. Yes. The various items are address by different witnesses in this Rate Review
19 Application. Table RJA-4 below points to where the issue is addressed:

TABLE RJA-4 – NG-100 Rate Review Application References	
Issue from NG-100	Rate Review Application Reference
Combined Tariff	Completed prior to filing. Clean and Redlined tariff filed with Application, Exhibit No. 1, Section 6.
Tax Issues	Testimony and Exhibits of Mr. Klapperich

1 **X. COMPANY VISION, MISSION, VALUES, AND GOALS**

2 **A. Capital Investment Policy and Capital Spending Plan**

3 **Q. HOW DO THE VISION, MISSION, VALUES, AND GOALS OF BHC**
4 **IMPACT THIS RATE PROCEEDING?**

5 A. Black Hills Corporation has been transforming its corporate organization into a
6 “pure play” utility over the past decade. The Aquila Acquisition and SourceGas
7 Acquisition were significant in establishing BHC as an organization that is Ready
8 to be the energy provider of choice. BHC understands and emphasizes daily the
9 importance of safety and customer service as two of its many values that are
10 mission critical. Accordingly, as identified above, a primary driver of this Rate
11 Review Application is a corporate focus centered upon growing BHC’s system
12 along with improving the safety and integrity of the gas distribution system in
13 Nebraska. BHC plans on investing almost \$100 million per year within the State of
14 Nebraska to ensure that its natural gas distribution system remains safe, reliable,
15 and able to accommodate growth of customer demand into the future.

16 As the testimony of Mr. Lewis, Mr. Bennett, and Mr. Jarosz discuss, the
17 investment in safety infrastructure is not optional. In fact, most safety capital
18 projects are mandated by an increased emphasis on safety under state and federal
19 Pipeline Safety Acts. With several years of operating a utility system within many
20 states, including Nebraska, BHC knows that a programmatic approach to safety and
21 reliability is the most prudent course of action for a utility to follow.

1 **Q. PLEASE DISCUSS HOW THE CORPORATE POLICY OF SAFETY AND**
2 **RELIABILITY DIRECTLY IMPACT BH NEBRASKA GAS.**

3 A. The primary impact of BHC's ownership of BH Nebraska Gas is that it can access
4 the capital resources needed to invest in both system safety and system growth
5 projects. As described in the testimony of Mr. McKenzie and below in this
6 testimony, that capital is only available if investors are afforded a realistic
7 opportunity to earn a fair return on their investment.

8 **B. System Safety Capital Spending Policy and Planning**

9
10 **Q. WHAT ACTIONS IS BH NEBRASKA GAS UNDERTAKING TO**
11 **IMPROVE THE INTEGRITY AND RELIABILITY OF ITS**
12 **DISTRIBUTION SYSTEM?**

13 A. As the Commission is aware, in recent years there has been important national focus
14 on the integrity of many types of infrastructure in the United States. The areas of
15 focus include the status of the natural gas pipelines, storage systems and distribution
16 systems. Many natural gas distribution utilities have initiated plans to assess,
17 evaluate and bolster the integrity and safety of their systems. The Commission has
18 previously approved special integrity infrastructure investment riders for
19 BH Nebraska Gas and BH Gas Distribution.

20 In their direct testimony in this proceeding, Mr. Jarosz and Mr. Lewis
21 discuss the impetus behind the development of integrity programs and the types of
22 programs that BH Nebraska Gas is undertaking. In summary, incomplete records,
23 aging infrastructure, obsolete materials and technologies, and expanded
24 urbanization require the natural gas industry, including BH Nebraska Gas, to take

1 a close and programmatic look at existing systems and to undertake replacement
2 programs to improve the integrity, reliability and safety of the gas delivery systems.

3 **Q. WHAT TYPES OF INTEGRITY PROGRAMS IS BH NEBRASKA GAS**
4 **IMPLEMENTING?**

5 A. The Company's programs are described by Mr. Jarosz and Mr. Lewis. BH Nebraska
6 Gas has identified nine areas of focus and has developed the following programs:

- 7 • Bare Steel Distribution;
- 8 • Transmission Pipelines;
- 9 • Barricades;
- 10 • Cathodic Protection and Corrosion Prevention;
- 11 • Town Border Stations;
- 12 • Top of Ground Pipe and Shallow Pipe;
- 13 • At-Risk Meter Relocations and Inside Meter Relocations;
- 14 • Obsolete Infrastructure; and
- 15 • Facility Relocations

16 Beginning in 2019, the Company has been accelerating its programs to
17 systematically address these important areas. BH Nebraska Gas plans to spend
18 approximately \$51 million in 2021 on SSIR-eligible projects. Similar levels of
19 SSIR investment will occur over the next five years.²² As discussed by Mr. Lewis,
20 the Company is committed to identifying the location and condition of its assets,
21 many of which were installed decades ago and have been buried in locations for
22 which there are no known maps, material records, or tracer wires. In many cases,

²² As noted above, BH Nebraska Gas will invest approximately \$91 million per year over the next five years, with about \$51 million of the \$91 million in SSIR projects.

1 the Company is aware that the materials used when the pipes were first installed
2 are no longer considered appropriate. The passage of time, as well as weather and
3 erosion, have also exposed portions of our systems to the elements. All these
4 reasons validate the need for these integrity programs.

5 Mr. Jarosz provides an overview of the BH Nebraska Gas system and
6 discusses how the Company previously handled higher risk pipeline, the specific
7 costs associated with each program, and why the programs are in the public interest.
8 The accelerated replacement of higher risk pipeline is a widespread public and
9 private safety issue that should be addressed by utility experts on a programmatic
10 basis.

11 **Q. HOW IS BH NEBRASKA GAS PROPOSING TO RECOVER THE COSTS**
12 **OF THESE PROGRAMS?**

13 A. As mentioned, BH Gas Distribution has had a system integrity program in place
14 since 2014 to address pipeline infrastructure integrity projects, including
15 replacement, remediation and protection. The costs of these programs are recovered
16 through a separate rider known as the SSIR. BH Nebraska Gas is proposing in this
17 proceeding to recover the costs related to the five programs identified above (“SSIR
18 Programs”) through the SSIR mechanism. BH Nebraska Gas is proposing to use
19 similar integrity program specific templates and regular meetings with the
20 Commission Staff to present, prioritize and document progress toward improving
21 the integrity and safety of the system. The Company proposes the SSIR be
22 expanded to include all statewide integrity projects with a single, statewide rate
23 incremental to the base rates being proposed in this proceeding.

1 **Q. HAS BH NEBRASKA GAS FINALIZED ALL ASPECTS OF ITS SSIR**
2 **PROGRAMS?**

3 A. No. As discussed by Mr. Lewis, the Company is in the process of building up its
4 gas system design, engineering and analytics staff. In recognition of the need for
5 enhanced focus on system safety and integrity, the Company is committing the
6 resources necessary to systematically assess, prioritize and perform the work
7 necessary to improve the gas delivery system. The projects the Company's subject
8 matter experts have identified for 2021 and 2022 are necessary and of high
9 importance.

10 **Q. WHAT IS THE BILL IMPACT OF IMPLEMENTING THE PROPOSED**
11 **SSIR ON AVERAGE RESIDENTIAL AND COMMERCIAL**
12 **CUSTOMERS?**

13 A. Mr. Bennett discusses SSIR bill impacts in his direct testimony. Beginning in 2021,
14 when the new SSIR is proposed to become effective at the same time that final rates
15 in this proceeding are implemented, BH Nebraska Gas estimates the impact on
16 average residential customers' bills to be \$0.65 per month or 1.2% of the monthly
17 bill.

18 **XI. CUSTOMER SERVICE IMPROVEMENT**

19 **Q. WHAT ACTIONS HAS BH NEBRASKA TAKEN TO IMPROVE**
20 **CUSTOMER SERVICE?**

21 A. The testimony of Mr. Jarosz provides several different examples of how
22 BH Nebraska Gas seeks to improve its customer service. One of the primary
23 customer satisfaction measuring tools noted by Mr. Jarosz is the Medallia Survey
24 results. In addition, the Company has dedicated Customer Care representatives to

1 address formal and informal complaints lodged with the Company, the Commission
2 or the Attorney General. Other efforts to improve customer service can be found in
3 the Company's response to the Covid-19 Pandemic. Mr. Jarosz lists a number of
4 actions that the Company undertook in response to that public health challenge.
5 Mr. Frost identifies the standardization of several tariff charges and fees for
6 BH Nebraska Gas. Among other things, the uniform fees are designed to reduce
7 confusion of customers who may move from one Rate Area to another. In addition,
8 the Company is continually investing in customer information systems,
9 encouraging electronic billing, installing improved data management systems,
10 improving its safety data, and making other changes that will benefit the customers.

11 **XII. EMPLOYEE AND EXECUTIVE COMPENSATION AND BENEFITS**

12 **A. Employee Compensation and Benefits**

13
14 **Q. PLEASE DESCRIBE THE BENEFIT PLANS THAT BHC PROVIDES TO**
15 **ITS EMPLOYEES.**

16 **A.** BHC offers a combination of company-provided and voluntary benefits to its
17 employees, including employees of BH Nebraska Gas. Employees are enrolled in
18 certain company-provided benefits upon start of employment such as short-term
19 and long-term disability and life insurance. Employees choose whether to
20 participate in the voluntary benefits and pay a portion or all associated costs. These
21 company-provided and voluntary benefit programs consist of: (1) medical, dental,
22 and vision plans; (2) flexible spending accounts and Health Savings Accounts;
23 (3) life insurance and accidental death and dismemberment insurance; (4) paid time
24 off; (5) retirement (for example, 401k and pension); and (6) other benefits including
25 educational assistance, holiday pay, business travel accident insurance, rewards and

1 recognition programs, additional short and long-term disability coverage, employee
2 assistance program, long-term care insurance, and wellness programs.

3 **Q. WHAT IS BHC'S GENERAL COMPENSATION PHILOSOPHY?**

4 A. As a company focused on the long-term sustainability of its business, the BHC
5 general compensation program is structured to support operations and customer
6 service and is based on principles designed to:

- 7 • attract, motivate, retain, and encourage personal and professional
8 development of qualified employees;
- 9 • provide compensation that is competitive;
- 10 • promote safe and reliable service;
- 11 • promote the relationship between pay and performance;
- 12 • promote overall performance; and
- 13 • appropriately recognize and reward individual performance.

14 All compensation programs are designed to be strategically aligned,
15 externally competitive, internally equitable, personally motivating, cost effective,
16 and legally compliant. All compensation programs apply to BHC legal
17 organizations, including BH Nebraska Gas and BHSC.

18 **Q. PLEASE IDENTIFY THE COMPONENTS OF BHC'S COMPENSATION**
19 **PROGRAM.**

20 A. The primary components of the overall BHC compensation program are:

- 21 • Base Pay: Base pay represents the fixed portion of an employee's total cash
22 compensation opportunity; and
- 23 • Variable Compensation: Variable compensation is pay that is not fixed or
24 guaranteed. Variable compensation is awarded based on performance or

1 achievement against specific performance-based goals. Variable
2 compensation programs include Annual Incentive Plan (“AIP”), Short-Term
3 Incentive Plan (“STIP”), Recognition Programs, and Long-Term Incentive
4 Plan (“LTIP”).

5 **B. Total Compensation Including Base Pay and Merit Increases**

6
7 **Q. PLEASE EXPLAIN BHC’S PHILOSOPHY ON BASE COMPENSATION.**

8 A. Annual base pay, which equals 2080 hours worked per year for full-time employees,
9 is intended to reflect the median of the market for similar positions in similar
10 companies. There are three pay structures; one for non-exempt positions (eligible
11 for overtime), one for exempt positions (not eligible for overtime), and one for
12 executive level, i.e., Vice Presidents and above.

13 Positions are assigned a pay grade using benchmark information from the
14 external marketplace for similar jobs. Each pay grade has a minimum, midpoint,
15 and maximum pay level and includes an incentive target. This ensures competitive
16 targeted total cash compensation (which includes base pay and cash incentive) for
17 non-exempt and exempt level employees, for those below the executive level.
18 Executive pay is competitive as it relates to targeted total direct compensation
19 (which includes base, incentive, and equity compensation). The BHC Human
20 Resources Compensation team takes a comprehensive position review process that
21 compares positions to market data obtained by third party surveys that report on
22 actual compensation paid to employees by position, in order to ensure that current
23 compensation remains within the competitive range.

1 **B1. Market Competitive Compensation**

2
3 **Q. WHAT STEPS DOES BHC TAKE TO ENSURE THAT ITS TOTAL CASH**
4 **COMPENSATION PROGRAM IS REASONABLE AND MARKET**
5 **COMPETITIVE?**

6 A. The BHC Human Resources Compensation team conducts an annual review of its
7 pay structure. In addition, BHC routinely monitors employee compensation levels
8 to avoid employee retention concerns and recruiting challenges. BHC uses national
9 compensation and benefit surveys to evaluate the competitiveness of its programs.

10 These surveys provide market base salary and incentive compensation
11 (annual bonus and incentive targets). This allows BHC to match positions to those
12 in the salary surveys that are most similar to BHC in terms of duties and company
13 revenue and number of employees. The market information that surveys provide is
14 used to establish the market rate and pay grade for positions. The same market
15 information is used to create new or update existing pay ranges and incentive
16 structures to ensure compensation is competitive.

17 **Q. HOW WOULD AVERAGE BASE SALARIES BE AFFECTED IF**
18 **VARIABLE COMPENSATION AND EQUITY COMPENSATION IS**
19 **ELIMINATED?**

20 A. If BHC offered compensation only through base pay, the increase would most-
21 likely become an annual fixed cost as it would be cash-based compensation.
22 Having a variable (incentive) pay component encourages a focus on annual key
23 performance measurements and reduces overall fixed labor costs by avoiding the
24 compounding effect of annual base pay increases at a higher rate. A variable pay
25 approach also removes additional fixed costs to benefit-related expenses

1 associated with base pay such as 401k matches, life insurance premiums, long-
2 term and short-term disability premiums, etc. If compensation was provided
3 through base (cash) pay only, the additional fixed costs would increase benefit-
4 related expenses. This is another example of cost savings for customers that
5 results from designing a compensation program with both base and incentive
6 components.

7 **Q. HOW DOES BHC'S COMPENSATION STRATEGY COMPARE TO THE**
8 **MARKET?**

9 A. As of March 1, 2020, the average base pay for non-union employees of
10 BH Nebraska Gas was 67% in range of the pay grade, which indicates that base
11 compensation for employees is competitive and reasonable. The average base pay
12 for employees of BHSC was 55% in range of the pay grade. This is a "point in
13 time" metric as the employee population is not static. Employee pay can vary
14 between the minimum of a pay range to the maximum based on various factors such
15 as time in position, skills, experience and degree/education.

16 **B2. Merit Increases and Wage Adjustments**

17
18 **Q. WERE THERE MERIT INCREASES TO BASE PAY IN 2019?**

19 A. Yes. The average 2019 merit increase awarded, based on 2019 individual
20 performance, was 2.7% for all BH Nebraska Gas eligible, non-bargaining unit
21 employees. The average 2019 merit increase awarded, based on 2019 individual
22 performance, was 2.76% for BHSC employees. BH Nebraska Gas employees under
23 the collective bargaining agreement receive increases in pay in accordance with the
24 terms of that negotiated agreement.

1 **Q. HOW OFTEN DOES BHC PROVIDE WAGE INCREASES OUTSIDE OF**
2 **THE MERIT INCREASES?**

3 A. Non-merit wage increases may be provided to certain positions and employees as
4 a part of BHC's compensation strategy to maintain competitive pay with the
5 industry and unionized pay rates.

6 "Wage adjustments" may include any (or a combination) of the following
7 reasons for a pay increase/decrease during any given year above/beyond annual
8 merit increase opportunity:

- 9 • Accepted posted position (new position/new pay)
- 10 • Adjustment (reasons may include career progression,
11 reorganization, pay equity adjustment, increase when pay falls
12 below range minimum change for retention/competitive reasons)
- 13 • Change in salary grade (position changed grade due to a market
14 review/market adjustment)
- 15 • Field Career Path Program Adjustment (promotion to next highest
16 level in job family or movement within salary grade)
- 17 • Promotion (in-grade promotion or placement in higher salary grade
18 due to job change)
- 19 • Union Contract Increases (per collective bargaining agreement:
20 annual, progression/step progression)

21
22 **B3. Nebraska Workforce and Unions**

23
24 **Q. PLEASE DESCRIBE THE BH NEBRASKA GAS WORKFORCE.**

25 A. BH Nebraska Gas has a diverse workforce including employees in bargaining unit
26 and non-bargaining unit positions. Approximately 69% of the workforce represents
27 employees covered by two separate collective bargaining agreements: IBEW Local
28 Union No. 244 and CWA Local Union No. 7476.

1 **Q: WHAT IS THE STATUS OF THE CURRENT COLLECTIVE**
2 **BARGAINING AGREEMENTS?**

3 A. The current collective bargaining agreement with IBEW Local Union No. 244
4 expires March 13, 2022. Under that agreement, the last wage increase for gas
5 employees was awarded on March 13, 2020 in the form of a three percent (3%)
6 general wage increase.

7 The current collective bargaining agreement with CWA Local Union
8 No. 7476 expires October 30, 2022. Under that agreement, the last wage increase
9 for gas employees was awarded on January 13, 2020 in the form of a two
10 percent (2%) adjustment for Measurement Technicians and a general wage increase
11 of three percent (3%) for all other collective bargaining positions.

12 **Q: WHEN WILL THE NEXT COLLECTIVE BARGAINING AGREEMENTS**
13 **BE NEGOTIATED?**

14 A. Negotiations with IBEW Local Union No. 244 are anticipated to begin in
15 March 2022. Negotiations with CWA Local Union No. 7476 were finalized
16 January 2020 and the contract was ratified in February 2020.

17 **Q: HOW ARE BARGAINING EMPLOYEE WAGE INCREASES**
18 **DETERMINED?**

19 A. As mentioned above, BH Nebraska Gas includes two bargaining units, IBEW Local
20 Union No. 244 and CWA Local Union No. 7476. Wages for employees covered by
21 a collective bargaining agreement are negotiated. Proposed wage rates are based on
22 those negotiations and market rates gathered by the union and BH Nebraska Gas.

1 **C. Variable Compensation**

2 **Q. PLEASE LIST THE VARIABLE COMPENSATION PROGRAMS BHC**
3 **OFFERS.**

4 A. As mentioned above and described in more detail below, BHC variable
5 compensation programs include the Annual Incentive Plan ("AIP"), Short Term
6 Incentive Plan ("STIP"), Long Term Incentive Plan ("LTIP"), and recognition
7 programs.

8 **C1. AIP**

9 **Q. PLEASE DESCRIBE THE ANNUAL INCENTIVE PLAN.**

10 A. AIP, which also applies to BH Nebraska Gas, is designed to share in BHC's success
11 by creating a strong link between an employee's efforts and accomplishments and
12 BHC's performance. Objectives of the plan are to: (1) reward eligible employees
13 who contribute to the success of the company and/or business unit; (2) reward
14 employees who contribute to safe, reliable and affordable service provided to
15 customers; (3) motivate work performance and behavior that supports the financial
16 and non-financial goals; and (4) increase employees' understanding of business
17 goal and performance objectives. In addition, the AIP is an important component
18 of the total pay package necessary to ensure that BHC and BH Nebraska Gas are
19 competitive with market practices. The AIP percentage amounts is based on the
20 employee's salary grade. The AIP for union employees is included in the collective
21 bargaining agreement. The eligible amount of payout depends upon company and
22 individual performance

23

1 **Q. HOW DO THE VARIABLE COMPENSATION PROGRAMS BENEFIT**
2 **CUSTOMERS?**

3 A. Variable compensation programs benefit customers because they allow BHC to hire
4 and retain skilled employees, which directly affects its ability to provide safe,
5 reliable service to customers. Not offering a competitive compensation package that
6 includes an incentive would limit BHC's ability to hire skilled workers and would
7 also increase the risk of losing employees to other companies that do provide
8 incentive pay. Having an unskilled workforce would make BHC vulnerable to
9 operational safety risks, customer service complaints, higher costs due to turnover
10 and the need to constantly recruit. Total compensation, which includes base pay and
11 incentives, would be significantly less competitive without the incentive plan
12 component.

13 **Q. HOW IS THE AIP STRUCTURED?**

14 A. The AIP is aligned with our four key organizational goals of (1) Profitable Growth;
15 (2) Valued Service; (3) Better Every Day and (4) Great Workplace. Each goal lists
16 one or more performance objectives that the company strives to meet or exceed
17 during the year. The safety related performance goals are also connected to a
18 "wellness modifier," meaning that the company encourages employees to not only
19 focus on safe practices at work, but also apply wellness to their daily, personal lives.

20 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE AIP?**

21 A. The performance objectives are reviewed and edited annually to align with the
22 company and/or business unit's strategy, but all connect/relate to the above four key
23 goal areas.

1 Corporate level performance objectives include financial, customer service,
2 and safety related measurements.

3 The business unit performance objectives also include the four key goal
4 areas related to financial, customer service and safety related measurements. The
5 financial performance measurement is related earnings per share and operating
6 income. Customer focused measurements include customer project completion and
7 customer satisfaction (net promoter score). Safety measurements reflect aggregate
8 safety goals for the organization for Total Case Incident Rate (TCIR)²³ and
9 Preventable Motor Vehicle Incidents (PMVI). The operational goals are designed
10 to maximize customer satisfaction, minimize operational safety risks, and reduce
11 costs.

12 Each performance objective is weighted and has a threshold, target, and
13 maximum achievement level. The performance objectives are scored individually,
14 and the threshold of each measurement must be met in order for employees to be
15 eligible for the respective percent amount of the goal. Meeting the threshold level
16 qualifies employees for up to 50% of the incentive compensation associated with
17 the particular performance objective. Meeting the target level qualifies employees
18 for up to 100% of the incentive compensation associated with the specific
19 performance objective, and meeting the maximum level qualifies employees for up
20 to 150%.

²³ TCIR is defined by the Occupational Health and Safety Administration (“OSHA”) as the number of work-related injuries per 100 full-time workers during a 1-year period. OSHA uses the TCIR to monitor high-risk industries.

1 **Q. HOW DOES THE ACHIEVEMENT OF THESE PERFORMANCE**
2 **OBJECTIVES BY BH NEBRASKA GAS EMPLOYEES BENEFIT**
3 **CUSTOMERS?**

4 A. Variable compensation programs benefit customers because they allow BHC to hire
5 and retain skilled employees, which directly affects our ability to provide safe,
6 reliable service to customers. In addition, employees focused and engaged in the
7 organizational and/or business unit performance goals benefit customers in the
8 following ways:

- 9 • **Financial performance goals** at both the corporate level and business unit
10 level benefit customers by promoting efficiency, and customers benefit
11 when they are being served by a financially secure utility that can provide
12 service in an efficient and economical manner. (EPS & Operating Income)
- 13 • **Safety and Wellness objectives** encourage employees to work carefully
14 and safely in order to avoid safety incidents that could result in harm to
15 employees, the public, or BH Nebraska Gas infrastructure. They also draw
16 a focus on individual safety and wellness, and benefit customers because an
17 employee who is safety-conscious and healthy is better able to provide safe
18 and reliable service.
- 19 • **Customer satisfaction objectives** are tied to customer project completion
20 and net promoter score, and benefit customers by motivating employees to
21 provide excellent service. The net promoter score is derived from surveys
22 provided to customers asking to rate technician service they were recently
23 provided.

1 **Q. WHY IS THE AIP AN IMPORTANT PART OF BHC EMPLOYEE**
2 **COMPENSATION?**

3 A. The AIP is critical for keeping total compensation received by BHC employees
4 competitive. An employee's total cash compensation potential (base salary plus AIP
5 incentive award) depends on (1) a competitive base salary and (2) a competitive
6 incentive pay opportunity awarded for the achievement of key operating and
7 strategic goals. The AIP gives BHC employees the opportunity to earn additional
8 compensation to bring their total compensation in line with competitive market
9 rates for total cash compensation.

10 **Q. WHAT WAS THE PAYOUT FOR THE AIP RELATED TO 2019**
11 **PERFORMANCE?**

12 A. With respect to the 2019 AIP, paid in 2020, the actual payout amount for BH
13 Nebraska Gas employee was 97.66% of target. The payout amount for BHSC
14 employees supporting BH Nebraska Gas was 101.4% of target.

15 **Q. WHAT AMOUNT OF AIP IS BH NEBRASKA GAS REQUESTING TO**
16 **RECOVER IN THIS CASE?**

17 A. BH Nebraska Gas is requesting recovery of the AIP incentive at target amounts.
18 This level is appropriate for recovery because it reflects the achievement of the
19 performance objectives that comprise the plan and the resulting customer benefits.

20 **C2. STIP**

21
22 **Q. PLEASE DESCRIBE BHC'S SHORT-TERM INCENTIVE PLAN.**

23 A. The Short-Term Incentive Plan ("STIP") is the incentive plan applicable to
24 employees in positions of Director and above and is a percent of annual base salary
25 determined in part by salary grade and market rates. Similar to the AIP, directors

1 share the same goals and scorecard of the employees they supervise. Performance
2 goals vary by position and are both financial and operational in nature.

3 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE**
4 **STIP?**

5 A. Similar to the AIP, STIP participants are assigned the same goals that align with our
6 four key organizational goals of (1) Profitable Growth; (2) Valued Service; (3)
7 Better Every Day and (4) Great Workplace. Performance objectives include
8 financial, customer service and safety related measurements. Each performance
9 goal is weighted and has a threshold, target and maximum level. The performance
10 goals are scored individually, and a threshold level must be met in order to be
11 eligible for any incentive compensation based on the specific performance goal.
12 Meeting the threshold level qualifies employees for 50% of the goal's weighted
13 value. Meeting the target level qualifies employees for 100%, and the maximum
14 level qualifies employees for 150% or 200% of the goal's weighted value based on
15 the achievement of the goal's performance measure and depending on the
16 employee's position.

17 **Q. HOW DOES THE ACHIEVEMENT OF THE STIP PERFORMANCE**
18 **GOALS BENEFIT CUSTOMERS?**

19 A. The performance objectives of the STIP are the same as the objectives of the AIP.
20 Thus, the benefits to customers under the STIP are similar to the performance
21 objectives of the AIP benefit to customers as noted above.

22 **Q. WHAT IS THE PURPOSE OF BHC'S STIP?**

23 A. Like the AIP, the STIP is an important component of the total pay package necessary
24 to ensure that BHC is competitive with employee pay market practices. STIP is

1 designed to: (1) reward eligible salaried exempt employees who contribute to the
2 success of BHC and their assigned business units; (2) reward employees who
3 contribute to the leadership and execution of the Company's strategy and strategic
4 initiatives; (3) motivate work performance and behavior that supports the financial
5 and non-financial goals of BHC; and (4) promote the successful execution of the
6 Company's overall annual objectives.

7 **C3. AIP and STIP Payout Data**

8

9 **Q. HOW ARE AIP AND STIP TARGETS DEVELOPED?**

10 A. The AIP and STIP incentives are a percentage of annual base salary and is
11 established on the average of the median value of incentives offered by similar
12 employers with whom BHC competes for talent.

13 **Q. HOW IS INCENTIVE COMPENSATION CALCULATED FOR**
14 **EMPLOYEES?**

15 A. The Company's formula for calculating incentive payouts is as follows: Eligible
16 Employee's Earnings of respective scorecard year x Bonus Target Percentage X
17 Scorecard Result = Incentive Award Amount.

18 Prorated payments may be paid to participants. Types of prorated payments that are
19 included in calculating AIP payments:

- 20 • Participants who are newly hired on or before September 30 of the Plan
- 21 Year
- 22 • Participants who are promoted, transferred or demoted during the Plan
- 23 Year
- 24 • Participants who are on an approved leave of absence during the Plan
- 25 Year
- 26 • Participants who are on military leave during the Plan Year
- 27 • Participants who leave the company due to disability during the Plan
- 28 Year
- 29 • Participants who voluntarily leave the company due to retirement during
- 30 the Plan Year

- 1 • Participant death during the Plan Year
- 2 • Participants who transfer to or from a position

3 **Q. WHAT WAS THE PAYOUT FOR INCENTIVE PROGRAMS RELATED TO**
4 **2019 PERFORMANCE?**

5 A. The 2019 AIP and STIP, paid in 2020, for BH Nebraska Gas employees was 97.66%
6 of target, and the payout for BHSC employees supporting BH Nebraska Gas was
7 101.40%.

8 **Q. WHAT WAS THE PAYOUT FOR INCENTIVE PROGRAMS FOR 2017 AND**
9 **2018?**

10 A. The 2016 AIP and STIP paid to BH Nebraska Gas employees in in 2017 was
11 109.51% of target, and the payout for BHSC employees was 119.81%; the 2017
12 AIP and STIP paid to BH Nebraska Gas employees in 2018, was 73.3% of target,
13 and the payout for BHSC employees was 98.39%. The 2018 AIP and STIP, paid in
14 2019, was 124.41% of target and the payout for BHSC employees Gas was
15 116.52%.

16

<u>YEAR</u>	<u>BH Nebraska Gas</u>	<u>BHSC</u>
2016 paid in 2017	109.5%	119.81%
2017 paid in 2018	73.3%	93.39%
2018 paid in 2019	124.41%	116.52%
2019 paid in 2020	97.66%	101.40%

17

18 **Q. WHAT AMOUNT OF STIP IS BH NEBRASKA GAS REQUESTING TO**
19 **RECOVER IN THIS CASE?**

1 A. BH Nebraska Gas is requesting recovery of the STIP incentive at full amount
2 (i.e. 100%) of the target payout for AIP and STIP. This level of variable
3 compensation is appropriate for recovery as it reflects the achievement of the
4 performance objectives that comprise the plan and the customer benefits that result.

5 **D. Employee Recognition Programs**

6

7 **Q. WHAT RECOGNITION PROGRAMS ARE OFFERED TO EMPLOYEES?**

8 A. BHC offers a number of recognition programs designed to reward employees and
9 recognize teamwork, years of service, and exemplary performance. These programs
10 promote teamwork and enhance employee morale while creating focus on
11 efficiencies, customer service improvements, and employment longevity.

12 **D1. Energize!**

13

14 Energize! is a peer-to-peer recognition program in which employees can award
15 points to other employees that can be redeemed for various services and
16 merchandise. Non-points-based recognition is also awarded in the form of
17 certificates of appreciation and thank you notes.

18 **D2. Service Awards**

19

20 Service awards for reaching certain length-of-service milestones are provided
21 automatically to qualifying employees. Awards include plaques and gifts of varying
22 monetary value.

23 **D3. Project Bonuses**

24

25 Project bonuses are provided to employees who work on projects that provide
26 substantial savings to the company or excellent service and process improvements
27 that benefit customers.

1 **Q. WHAT AMOUNT OF RECOGNITION PROGRAMS IS BH NEBRASKA**
2 **GAS REQUESTING TO RECOVER IN THIS CASE?**

3 A. The Company is requesting full recovery of the recognition programs.

4 **E. LTIP**

5
6 **Q. PLEASE DESCRIBE THE LONG-TERM INCENTIVE PLAN.**

7 A. The BHC Long-Term Incentive Plan ("LTIP") is comprised of several components
8 for the purpose of rewarding, recognizing, and providing competitive pay to certain
9 employees where stock-based pay is a regular part of their pay package per market
10 norms. The long-term incentives available under the program for Vice Presidents
11 and above include two forms of equity grants: (1) restricted stock and
12 (2) performance share awards. Although limited in use, restricted stock grants can
13 be offered to any employee for critical performance recognition and retention or for
14 certain new hires and/or as an attraction inducement to replace what the employee
15 may forfeit by leaving their prior company to work for BHC.

16 **Q. WHAT IS THE PURPOSE OF OFFERING EQUITY COMPENSATION**
17 **UNDER THE LTIP?**

18 A. Both forms of equity grants under the long-term incentive plan are intended to
19 attract and retain key employees with incentives for excellent performance and to
20 ensure competitive pay. Employees receiving restricted stock do not have
21 immediate full rights to that stock; it typically vests over a three-year period.
22 Therefore, employees who receive restricted stock are provided an incentive to stay
23 with the company for at least the three-year period necessary for all the stock to
24 vest. The company benefits from this arrangement by retaining the talent and
25 knowledge the employee brings to the company for a longer period of time. In

1 addition, equity grants provided through the LTIP are used to recognize
2 achievement of goals and overall individual performance. Furthermore, the
3 program is intended to motivate employees to make significant contributions to the
4 success of company's key initiatives including operational goals.

5 **Q. HOW DOES THE LTIP BENEFIT BH NEBRASKA GAS CUSTOMERS?**

6 A. The LTIP programs benefit BH Nebraska Gas customers by establishing a
7 framework providing an incentive for long-term operational objectives by giving
8 BHC tools to attract and retain quality leadership and highly skilled employees.

9 Beyond giving BHC the ability to attract and retain key employees who help
10 shape the business, the LTIP programs encourage employees to think like owners.
11 When the financial interests of the individual employees are aligned with those of
12 the utility, the employees will be more invested in the operational objectives and
13 reputation of the organization, including the provision of safe and reliable service,
14 operational efficiency, and customer service.

15 **Q. IS IT REASONABLE FOR BH NEBRASKA GAS TO RECOVER THE**
16 **COSTS OF EQUITY COMPENSATION PAID TO EMPLOYEES?**

17 A. Yes. The payment of equity compensation to employees is consistent with market
18 practices for similar positions in terms of knowledge, skills, abilities and scope of
19 responsibilities. Equity compensation is a common form of compensation for high-
20 level executive leadership positions in the industry and is necessary to attract and
21 retain talent.

22 **F. Executive Compensation**

23
24 **Q. IS THE COMPENSATION PROVIDED TO EXECUTIVES OF BLACK**
25 **HILLS CORPORATION COMPETITIVE WITH MARKET?**

1 A. Yes. The Executive compensation relies upon independent market surveys and are
2 established by the Chief Executive Officer and then approved by the BHC Board
3 of Directors. Exhibit No. RJA-4 provides a copy of the 2019 Black Hills
4 Corporation Proxy Statement that was issued with the 2019 Black Hills Corporation
5 Annual Report. The Proxy Statement sets forth the compensation philosophy and
6 independent compensation analysis that the Board of Directors completed to
7 establish fair compensation for BHC's Executives. This information is provided
8 pursuant to the Commission's Order in Application No. NG-0060.

9 **G. Other Commission Approval of Compensation and Benefits**

10 **Q. ARE YOU AWARE OF OTHER STATE COMMISSIONS THAT HAVE**
11 **APPROVED THE EMPLOYEE COMPENSATION AND BENEFIT**
12 **STRUCTURE PROPOSED IN THIS PROCEEDING?**

13 A. Yes. Through rate review proceeding settlements and contested proceedings,
14 Commissions governing the regulated utilities of BHC in Arkansas, Colorado,
15 Iowa, Kansas, South Dakota, and Wyoming in both gas and electric rate review
16 proceedings have approved this employee compensation and benefit structure.
17 BHC places emphasis on maintaining a common employee compensation
18 structure and program. The same is true for its proposal related to its employees
19 supporting BH Nebraska Gas customers.

20 **XIII. CAPITAL STRUCTURE AND COST OF CAPITAL**

21 **Q. DOES THIS TESTIMONY SUPPORT ANY SPECIFIC RATE REVIEW**
22 **APPLICATION REQUIREMENTS?**

23 A. Yes. My testimony supports the capital structure and cost of capital proposed under
24 Application Exhibit No. 1, Section 2, Rate of Return and Cost of Capital Schedules

1 (i.e., Statement G, Schedule G-1 of the Revenue Requirement Study provided as
2 Exhibit No. MCC-2 within Mr. Clevinger’s testimony).

3 **Q. WHAT ARE THE COMPANY’S CAPITAL STRUCTURE AND COST OF**
4 **CAPITAL RECOMMENDATIONS?**

5 A. The Company proposes to use a *pro forma* capital structure of 50% equity and 50%
6 debt. The Company proposes a return on equity (“ROE”) of 10.0% and a cost of
7 debt of 4.11% for a weighted-average cost of capital (“WACC”) of 7.06%. These
8 recommendations are incorporated into Statement G of the Revenue Requirement
9 Study presented in Exhibit No. MCC-2.

10 A. **Financial Integrity of the Company**

11
12 **Q. PLEASE EXPLAIN THE FINANCE PHILOSOPHY OF BH NEBRASKA**
13 **GAS.**

14 A. The finance philosophy of BH Nebraska Gas is aligned with the overall corporate
15 finance philosophy of BHC, which is to always maintain its financial integrity and
16 ability to access capital as needed at a reasonable cost. Financial integrity is critical
17 to the ability of BH Nebraska Gas to satisfy its obligation to provide safe and
18 reliable natural gas delivery services to its customers. BHC defines financial
19 integrity as having the financial stability necessary to weather the peaks and valleys
20 of business cycles, volatility in financial markets and interest rates, and
21 unanticipated changes in operational requirements, all of which may strain an
22 organization’s ability to finance expenditures and provide quality service. A strong
23 financial position provides the flexibility necessary to meet the ongoing demand
24 for regulated public utility services to provide safe and reliable service. BHC is
25 conservative in its financial philosophy and takes on risk where appropriate and

1 reasonable. However, even with a conservative corporate finance philosophy, no
2 corporation is insulated from market forces, market instability, credit crunches, and
3 other financing difficulties that cannot be foreseen or avoided.

4 **Q. WILL THE CONSOLIDATION OF THE BHC NEBRASKA GAS**
5 **UTILITIES AFFECT THE FINANCE PHILOSOPHY OR FINANCIAL**
6 **INTEGRITY OF BHC?**

7 A. No. BH Nebraska Gas will continue to be managed in line with the overall BHC
8 finance philosophy to maintain financial integrity, as discussed above.

9 **B. Credit Rating Agency Valuations**

10
11 **Q. HOW DO INVESTORS EVALUATE A COMPANY'S FINANCIAL**
12 **INTEGRITY?**

13 A. Adrien McKenzie covers this topic in detail in his Direct Testimony at page 6.
14 Investors generally rely on nationally recognized credit rating services to evaluate
15 a company's financial integrity and to inform them of the company's current
16 financial position. As shown on Exhibit No. RJA-5, BHC maintains credit ratings
17 with three nationally recognized credit rating services: Moody's Investors Service
18 ("Moody's"), Standard and Poor's ("S&P"), and Fitch Ratings ("Fitch"). BHC
19 remains focused on maintaining solid investment grade credit ratings. As of the date
20 of this Rate Review Application, the BHC senior unsecured ratings are BBB+ by
21 Fitch and S&P, and Baa2 by Moody's, all with a "stable" outlook.

22 **Q. HOW DO RATING AGENCIES EVALUATE COMPANIES?**

23 A. Each individual credit rating service maintains a framework to which all companies
24 must adhere. In general, a company will provide detailed financial, regulatory, and
25 operational information to the rating agencies for their analysis before credit ratings

1 are issued for an entity's securities. Rating agencies utilize both qualitative and
2 quantitative factors in determining their credit ratings. Quantitative measures
3 generally focus on financial performance and strength. Qualitative measures assess
4 regulatory climate, ability to recover costs and earn reasonable returns, and
5 management's integrity, as examples.

6 The credit ratings given by these agencies provide important information to
7 creditors, investors, vendors and counterparties regarding the creditworthiness and
8 financial risk of BHC and its subsidiaries.

9 **Q. WHAT CRITERIA DO RATING AGENCIES USE IN EVALUATING A**
10 **UTILITY?**

11 A. As noted above, rating agencies will review a variety of both qualitative and
12 quantitative factors during their credit evaluation process. For a regulated utility,
13 rating agencies will assess the regulatory support received by evaluating the utility's
14 ability to recover costs and earn reasonable returns within a particular regulatory
15 jurisdiction. The rating agencies also consider the level of risk posed by the
16 business. The evaluation of these factors, among many others established by the
17 credit rating agencies, results in an overall assessment of the qualitative business
18 risk for an entity.

19 As part of the quantitative assessment, the rating agencies review numerous
20 financial metrics for a given entity. These metrics are used to review trends over
21 periods of time for the entity, as well as to provide comparisons among other
22 companies in each industry, or among various industry averages.

23 For example, Moody's framework has identified four key areas they
24 consider most useful in completing its credit analysis for regulated utility

1 companies. They include: (1) regulatory framework (25%); (2) ability to recover
2 costs and earn returns (25%); (3) diversification (10%); and (4) financial strength
3 and liquidity (40%). By maintaining credit quality and investment-grade credit
4 ratings, BHC has an opportunity to achieve more favorable credit terms and lower
5 cost of debt, which directly benefits the customers of BH Nebraska Gas.

6 **Q. HOW DO THE CREDIT RATINGS AFFECT A COMPANY'S ABILITY TO**
7 **ISSUE DEBT?**

8 A. Credit ratings affect a company's ability to issue debt in a couple of ways. First, the
9 lower the credit rating, the greater the risk premium required from investors.
10 Second, a lower rating limits the number of potential investors interested in a
11 company's debt securities, which reduces the market for the company's debt
12 securities. Both circumstances tend to increase the overall cost of debt to a
13 company.

14 Credit ratings are integral to BHC's access to the short-term debt markets.
15 Access to the Commercial Paper markets is typically cheaper than borrowing from
16 a Revolving Credit Facility. Access to short-term debt is important to funding the
17 daily cash needs of utility operations and the initial phases of construction projects.

18 **Q. HOW DO BHC CREDIT RATINGS AFFECT BH NEBRASKA GAS?**

19 A. Since BH Nebraska Gas does not directly access the credit markets, its liquidity
20 needs and source of financing on a going-forward basis are provided through BHC.
21 In general, a strong investment-grade credit rating at BHC will result in lower
22 interest costs for BH Nebraska Gas, which benefits its customers. Additionally, a
23 strong credit rating affords BHC the financial strength to make investments and
24 meet the needs of the system.

1 **C. Financial Integrity of BH Nebraska Gas**

2 **Q. WHAT IS THE FINANCIAL INTEGRITY OF BH NEBRASKA GAS?**

3 A. The financial integrity of BH Nebraska Gas is sound. The goal of BH Nebraska Gas
4 is to establish and sustain strong stand-alone financial integrity and contribute to
5 maintaining and, if possible, improving the financial integrity and credit metrics for
6 BHC. If BHC's credit metrics are weak, its ability to obtain short- and long-term
7 financing, favorable financing costs and vendor payment terms, including collateral
8 requirements, will be negatively impacted. While BH Nebraska Gas does not have
9 its own credit rating, it receives all of its capital requirements from BHC. The
10 financial integrity of BH Nebraska Gas is a relevant factor in supporting the BHC
11 investment-grade credit ratings.

12 In support of the BHC investment-grade credit ratings, BH Nebraska Gas
13 generally targets an equity-to-capitalization level of approximately 50% and
14 expects to maintain this equity-to-capitalization percentage through ongoing active
15 management of the capitalization structure for BH Nebraska Gas.

16 **Q. HOW DOES BHC'S FINANCING PHILOSOPHY AFFECT THE RETURNS**
17 **THAT EQUITY INVESTORS EXPECT?**

18 A. For a company to attract equity capital, the potential investor must believe that the
19 company has financial stability and will earn a return that exceeds the cost of
20 capital. If a company earns less than its cost of capital, value is destroyed for its
21 investors and, consequently, the ability to raise additional capital for future projects
22 declines. The components of cost of capital include both the cost of debt and the
23 cost of equity. The cost of equity is impacted by several factors, including the equity
24 risk premium investors expect above the long-term U.S. Treasury Rates, the market

1 risk of the company, the industry risk premium, the size of market capitalization,
2 and the financial risk of the company.

3 In consideration of these factors and the Direct Testimony of Adrian
4 McKenzie, BH Nebraska Gas is requesting a ROE of 10.0% to support a reasonable
5 return. Although it could justify a ROE of 10.2%, the 10.0% ROE proposed in the
6 Rate Review Application will allow BH Nebraska Gas to continue to meet the
7 return expectations of the BHC investors and to access capital markets. Having the
8 ability to access capital markets allows BH Nebraska Gas to continue to make
9 prudent investments.

10 **Q. HOW DOES THE CAPITAL STRUCTURE, COST OF DEBT, AND ROE OF**
11 **BH NEBRASKA GAS IMPACT ITS FINANCIAL INTEGRITY?**

12 A. These factors have an important impact on the financial integrity of BH Nebraska
13 Gas and the financial integrity of BH Nebraska Gas is important to the overall
14 financial health and integrity of BHC. First, authorized return on equity and the
15 capital structure impact the ability to fund capital investments with internally
16 generated funds. Investors expect BHC to be able to internally generate funds to
17 substantially fund its investments instead of issuing additional capital in the
18 markets. Second, the capital structure and Weighted Average Cost of Capital
19 (“WACC”) have an impact on credit metrics. Several metrics are driven by cash
20 flow and the ability of BHC to cover interest and debt obligations in the future; a
21 lower equity ratio reduces cash flow metrics. Finally, the ability of BH Nebraska
22 Gas to recover its costs in a timely manner and earn its return on equity is expected
23 by both investors and rating agencies. These entities take into consideration the

1 regulatory environment in which we operate to assess business risk and the ability
2 of BH Nebraska Gas to meet future obligations.

3 **Q. DO THE RATING AGENCIES ONLY CONSIDER THE CAPITAL**
4 **STRUCTURE OF BHC FOR CONSIDERATION OF CREDIT?**

5 A. No. BHC is the parent holding company of multiple gas and electric utilities, each
6 of which is integral to the whole. The financial integrity of BH Nebraska Gas is
7 important to the overall financial health and integrity of BHC. The creditworthiness
8 of BHC is based on the financial integrity, regulatory environment, and operational
9 performance of all of its business units, including BH Nebraska Gas. Each business
10 unit is responsible for maintaining its financial integrity to support the commitment
11 of BHC to maintaining solid investment-grade credit ratings.

12 An investment-grade credit rating provides the basis for access to the capital
13 markets on reasonable terms and conditions. Regulated operations should
14 contribute their fair share to the creditworthiness and financial integrity of BHC,
15 the corporate entity responsible for raising debt capital on behalf of BH Nebraska
16 Gas.

17 **D. BH Nebraska Gas Proposed Capital Structure**

18 **Q. WHAT CAPITAL STRUCTURE IS BH NEBRASKA GAS PROPOSING BE**
19 **ADOPTED FOR PURPOSES OF DEVELOPING THE REVENUE**
20 **REQUIREMENT IN THIS PROCEEDING?**

21 A. BH Nebraska Gas is proposing to use the *pro forma* capital structure of 50% equity
22 and 50% long-term debt.

1 **Q. WHAT WAS THE BH NEBRASKA GAS CAPITAL STRUCTURE AS OF**
2 **DECEMBER 31, 2018 AND DECEMBER 31, 2019?**

3 A. The combined BH Gas Utility and BH Gas Distribution capital structure as of
4 December 31, 2018 was 51.58% equity and 48.42% long-term debt. The combined
5 BH Gas Utility and BH Gas Distribution capital structure as of December 31, 2019
6 was 49.59% equity and 50.41% long-term debt.

7 **Q. ARE THERE ANY CHANGES TO THE CAPITAL STRUCTURE OF**
8 **BH NEBRASKA GAS SINCE DECEMBER 31, 2019 BASE YEAR**
9 **ACTUALS?**

10 A. Yes, BH Nebraska Gas plans to include the addition of approximately \$100 million
11 of capital expenditures throughout 2020. These long-term assets will require long-
12 term financing. Additional long-term debt of approximately \$41 million will be
13 allocated to BH Nebraska Gas by December 31, 2020. Infusion of approximately
14 \$19 million in equity is anticipated, in addition to the forecasted retained earnings
15 during 2020, to arrive at the *pro forma* capital structure of 50% equity and 50%
16 debt. This also ties to the targeted capital structure of BH Nebraska Gas of 50%
17 equity and 50% debt. These changes are included in Application Exhibit 1, Revenue
18 Requirement Study, Statement G.

19 **Q. WHY IS IT APPROPRIATE TO USE THE *PRO FORMA* CAPITAL**
20 **STRUCTURE PROPOSED FOR BH NEBRASKA GAS AT**
21 **DECEMBER 31, 2020?**

22 A. As explained by Mr. Clevinger in his direct testimony, BH Nebraska Gas plans to
23 include the addition of over \$102 million of capital expenditures throughout 2020.
24 These long-term assets will require long-term financing, therefore the BH Nebraska

1 Gas *pro forma* capital structure projected as of December 31, 2020 best reflects the
2 capital structure BH Nebraska Gas expects to maintain, in line with the targeted
3 capital structure of 50% debt and 50% equity.

4 **Q. WHAT WERE THE BH GAS UTILITY AND BH GAS DISTRIBUTION**
5 **CAPITAL STRUCTURES APPROVED AS OF THE LAST RATE REVIEW?**

6 A. In BH Gas Utility's last gas rate review, Application No. NG-0067, the Commission
7 approved a capital structure that reflected 51.16% common equity and 48.84%
8 long-term debt. In BH Gas Distribution's last rate review, Application No. NG-
9 0061, the Commission approved a capital structure that reflected 52% common
10 equity and 48% long-term debt.

11 **Q. DOES THE PROPOSED CAPITAL STRUCTURE INCLUDE THE IMPACT**
12 **OF SHORT-TERM DEBT?**

13 A. No, it does not. The short-term debt of BH Nebraska Gas is typically used to fund
14 operations and maintenance activities as well as construction in progress. The rate
15 base of BH Nebraska Gas is made up of long-term assets and is funded with like
16 financing; i.e., long-term debt and equity. Short-term debt is not intended to be used
17 to finance utility plant. Furthermore, use of short-term debt by BH Nebraska Gas is
18 seasonal in nature. At times, there is a requirement at the utility to borrow to cover
19 short-term cash needs while other times, BH Nebraska Gas may have some excess
20 cash.

21 As a general matter, it does not make sense to finance long-term assets with
22 short-term variable rates for a utility. Use of variable rate debt as permanent
23 financing for long-lived utility assets not only introduces refinancing risk and
24 interest rate risk, but a mismatch of tenor with these long-lived utility assets.

1 **Q. WAS THERE ANY IMPACT RESULTING FROM THE CONSOLIDATION**
2 **ON THE CAPITAL STRUCTURE OF BH NEBRASKA GAS?**

3 A. No. The consolidation had no material impact on the capital structure of
4 BH Nebraska Gas. The consolidation was simply a summation of each entity's
5 separate capital structure.

6 **Q. HOW DOES BHC CAPITALIZE BH NEBRASKA GAS?**

7 A. On a quarterly basis, BHC reviews the capital structure of each its regulated utility
8 subsidiaries. Since BHC finances the rate base of its utilities with a combination of
9 long-term debt and equity based on a targeted capital structure, in this Rate Review
10 Application 50% equity and 50% debt, adjustments are made periodically as
11 changes in rate base or capital structure occur. Rate base for the utility is compared
12 to the current capital structure to determine if the utility has a need for more long-
13 term debt (or equity) to finance its current rate base or alternatively, if the utility
14 can pay a dividend to the parent or pay down long-term debt.

15 **E. Money Pools and Non-regulated Activities**

16
17 **Q. DOES BH NEBRASKA GAS MAINTAIN MONEY POOLS TO SEPARATE**
18 **CASH FROM THE REGULATED BUSINESS AND CASH FROM AN**
19 **UNREGULATED BUSINESS?**

20 A. Yes. BH Nebraska Gas does participate in a separate money pool, containing only
21 regulated utilities referred to as Utility Money Pool (“UMP”). Unregulated
22 businesses are segregated in a different money pool known as Non-Utility Money
23 Pool.

1 **Q. HOW DOES THIS UTILITY MONEY POOL WORK?**

2 A. The UMP provides liquidity and available credit to support the operational needs
3 for all BHC regulated entities. If BH Nebraska Gas is in a net borrowing position
4 or needs to borrow in the short-term, it will receive funding from the UMP. In this
5 instance, BH Nebraska Gas would have a payable to the UMP and the UMP would
6 have a receivable from BH Nebraska Gas. If BH Nebraska Gas is in a net excess
7 cash position, BH Nebraska Gas will lend money to the UMP. This creates a
8 receivable from the UMP at BH Nebraska Gas, and the UMP would have a payable
9 to BH Nebraska Gas. Participating utilities with excess cash loan that cash daily to
10 the UMP and utilities with a cash deficit daily borrow funds from the UMP. When
11 the UMP itself is in a net borrowing position, it borrows from BHC. If BHC does
12 not have enough cash available to fund the UMP, BHC will utilize its Commercial
13 Paper Program to borrow funds and lend that cash into the UMP. The consolidated
14 UMP position, which incorporates cash positions from all the regulated entities
15 participating in the agreement, can never be in a lending or net receivable position
16 with BHC.

17 **F. Cost of Long-Term Debt**

18
19 **Q. WHAT IS THE COST OF DEBT FOR BH NEBRASKA GAS?**

20 A. As shown in Exhibit 1, Section 2, Schedule G-1 of the Revenue Requirement Study
21 to the Application, the actual cost of debt for BH Nebraska Gas as of January 1,
22 2020, is 4.11%.

1 **Q. HOW DOES THE PROPOSED COST OF DEBT FOR BH NEBRASKA GAS**
2 **COMPARE TO THE COST OF DEBT LAST APPROVED BY THE**
3 **COMMISSION IN PRIOR RATE REVIEWS?**

4 A. It reflects a significant reduction. In the prior dockets listed above, the cost of debt
5 for BH Gas Utility and BH Gas Distribution was 8.04% and 5.642%, respectively.

6 **Q. WHY IS IT APPROPRIATE TO USE THE ACTUAL COST OF DEBT AT**
7 **JANUARY 1, 2020 FOR BH NEBRASKA GAS?**

8 A. In 2020, BHC amended the methodology for allocating debt from BHC to its
9 subsidiaries. The new methodology allows for BH Nebraska Gas to take advantage
10 of a slightly lower cost of debt and reflects its actual cost of debt on a go forward
11 basis.

12 **Q. HOW WAS COST OF DEBT DETERMINED PRIOR TO JANUARY 1, 2020**
13 **FOR BH NEBRASKA GAS?**

14 A. Prior to January 1, 2020, BHC allocated specific pieces of bonds issued by BHC
15 based on need for long-term debt at that time and available unallocated debt. The
16 cost of long-term debt was then determined by taking the sum of the weighted
17 average amount of each individual debt issuance allocated to BH Nebraska Gas and
18 its respective interest rate (coupon rate, discount, deferred financing costs, loss on
19 reacquired debt, and any swap lock settlements).

20 **Q. PLEASE EXPLAIN THE NEW METHODOLOGY.**

21 A. The new allocation methodology is based on the weighted average cost of all long-
22 term debt issued by BHC. Each subsidiary is allocated a portion of all long-term
23 debt issued by BHC at a weighted average cost. To establish the weighted average
24 cost, the total cost of each note (coupon rate, discount, deferred financing costs,

1 loss on reacquired debt, and any swap lock settlements) is calculated on an annual
2 basis. The annual cost of money from each note is totaled and divided by the total
3 principal of the BHC notes to determine the weighted average cost. When a
4 subsidiary has a need for debt it will be allocated a piece of the total pool at the
5 weighted average rate.

6 **Q. PLEASE SUMMARIZE THE LONG-TERM DEBT REFLECTED IN THE**
7 ***PRO FORMA* CAPITAL STRUCTURE.**

8 A. The components of long-term debt included within the *pro forma* capital structure
9 for BH Nebraska Gas are shown in Application Exhibit 1, Section 2, Schedule G-1
10 of the Revenue Requirement Study. Because BH Nebraska Gas does not issue its
11 own debt securities, the long-term debt is a pro rata portion of total debt issued by
12 BHC and reflects the weighted average cost of debt for all BHC-issued debt, as of
13 January 1, 2020. At December 31, 2020, BH Nebraska Gas expects to have
14 \$325 million in long-term debt or approximately 12.4% of total BHC debt,
15 excluding the debt issued under the Cheyenne Light, Fuel and Power Company
16 (“CLFP”) and Black Hills Power, Inc. (“BHP”) indentures.

17 Application Exhibit 1, Section 2, Schedule G-1 of the Revenue Requirement
18 Study also includes the cost of debt under the prior methodology for the periods
19 ending December 31, 2018 and 2019.

20 **Q. WHY DOES BH NEBRASKA GAS NOT ISSUE ITS OWN DEBT?**

21 A. It is more efficient and beneficial to customers for long-term debt to be issued and
22 serviced at the BHC parent level than at the various individual subsidiary utility
23 levels. In addition to being the only Black Hills entity that issues publicly traded
24 stock, BHC issues, acquires, and controls all the debt securities within the

1 organization. Two BHC subsidiaries do, however, issue their own bonds. BHP and
2 CLFP have separate legacy bond indentures that date back to 1941 and 1948,
3 respectively, when they were independent corporations that issued their own
4 common stock and issued their own bonds under their respective indentures. New
5 debt needs for both BHP and CLFP are now serviced and allocated from BHC.

6 Outside of those debt securities, BHC completes all its financing at the BHC
7 parent level to take advantage of economies of scale. Due to the small scale of many
8 of our operational utilities, including BH Nebraska Gas, it is more cost effective
9 and efficient to issue larger tranches of index-eligible debt at the parent level and
10 make allocations and assignments of this debt to the various subsidiaries. Index-
11 eligible debt is more liquid and provides an investor with the ability to trade the
12 instrument more efficiently in the market, if necessary. This is viewed positively by
13 bond investors. The larger and more liquid the bond instrument is, the more
14 opportunities an investor has to trade the instrument. The Barclays Investment
15 Grade Index, which is the benchmark index for investment grade debt, requires a
16 minimum tranche size for index inclusion of \$300 million. Many investors use this
17 index to benchmark their debt and will not invest in non-index eligible bonds.
18 Fewer investors potentially means less liquidity and higher bond costs for issuers.
19 Because the majority of BHC's subsidiaries, including BH Nebraska Gas, do not
20 have financing needs that require a minimum of \$300 million in debt, BHC bundles
21 its financing needs for many of its subsidiaries and issues index-eligible or larger
22 debt tranches at the parent level and then makes inter-company loan assignments to
23 the subsidiaries. For smaller scale companies (e.g., size of balance sheet), like
24 BH Nebraska Gas, it is typically more difficult to attract a competitive number of

1 investors that want to invest in smaller bond issuances with less liquidity at
2 competitive pricing. Additionally, the administrative cost of issuing debt is
3 decreased by aggregating and reducing the number of issuances. Hence, it is more
4 cost effective to issue debt at the BHC level and assign the appropriate proportion
5 of long-term debt to the subsidiaries based on their needs.

6 **G. Return on Equity**

7

8 **Q. WHAT IS THE RETURN ON EQUITY ("ROE") REQUESTED IN THIS**
9 **RATE REVIEW FILING?**

10 A. BH Nebraska Gas has relied upon the testimony and analysis of Mr. McKenzie, and
11 is requesting a return on equity of 10.0%. The Direct Testimony of Mr. McKenzie
12 provides a range with an ROE midpoint of 10.2%. However, given the Covid-19
13 Pandemic and other requests set forth in the Rate Review Application, the Company
14 is requesting a ROE of 10%.

15 **Q. WHAT IS THE RANGE OF ROE RECOMMENDED BY MR. MCKENZIE?**

16 A. Adrien McKenzie is recommending a cost of equity range of 9.6% - 10.8% with a
17 midpoint ROE of 10.2%. BH Nebraska Gas is requesting an ROE of 10%, which
18 is less than the midpoint.

19 **XIV. INTERIM RATES**

20 **A. Traditional Interim Rate Revenues**

21 **Q. WHAT ARE "CURRENT RATES?"**

22 A. Current Rates are the rates and charges of BH Nebraska Gas which are currently on
23 file with the Commission.

1 **Q. WHAT ARE CURRENT RATE REVENUES?”**

2 A. Current Rate Revenues are the revenues derived by the Company when applying
3 the Current Rates to natural gas service provided to all BH Nebraska Gas
4 customers. In other words, the revenues earned by the Company through the
5 collection of its Customer Charges and “Delivery Charges (i.e. volumetric
6 commodity charges), and any other tariff fees.

7 **Q. WHAT ARE “INTERIM RATES?”**

8 A. Interim Rates are the rates and charges proposed to be collected by the Company
9 in its Rate Review Application. The Interim Rates are also called “Proposed Rates.”

10 **Q. WHAT ARE INTERIM RATE REVENUES?**

11 A. Interim Rates Revenues are the revenues derived by the Company when applying
12 its Rate Review Application Proposed Rates to natural gas service to all
13 BH Nebraska Gas customers.²⁴

14 **Q. WHAT ARE “FINAL RATES?”**

15 A. Final Rates are the rates and charges determined by the Commission to be “just and
16 reasonable” under the Act. Final Rates are established under a final order approving
17 those rates by the Commission. Once determined, Final Rates may be charged by
18 BH Nebraska Gas for natural gas service provided on and after the 90th day of filing
19 its Rate Review Application.

²⁴ Interim Rates are the rates proposed in the Rate Review Application, which are subject to refund. Neb. Rev. Stat. § 66-1838 (10)(b).

1 **Q. WHAT ARE “FINAL RATE REVENUES?”**

2 A. Final Rate Revenues are the revenues derived by the Company when applying the
3 Final Rates determined by the Commission to natural gas service to all
4 BH Nebraska Gas customers.

5 **Q. WHAT IS AN “INTERIM RATE PERIOD?”**

6 A. The Interim Rate Period is the time period between the 90th day after the Company
7 files its Rate Review Application and the effective date of Final Rates.

8 **Q. WHAT IS AN “INTERIM RATE REFUND?”**

9 A. An Interim Rate Refund is calculated by subtracting the Final Rate Revenues from
10 the Interim Rate Revenues during the Interim Rate Period. The specific
11 methodologies and refund calculations for each jurisdictional customer and
12 customer class is set forth in a Refund Plan filed by the Company within 30 days
13 after the Commission issues an order establishing Final Rates. The Interim Rate
14 Refund would only be required if BH Nebraska Gas begins charging its Interim
15 Rates on the 90th day after filing its Rate Review Application.

16 **Q. IS INTEREST APPLIED TO THE INTERIM RATE REFUND AS PART OF**
17 **THE REFUND PLAN?**

18 A. Yes. The Commission has previously ordered that the Company apply the Nebraska
19 statutory judgment rate to the Interim Rate Refund.²⁵

20 **Q. DOES BH NEBRASKA GAS INTEND ON IMPLEMENTING INTERIM**
21 **RATES IN THIS PROCEEDING?**

22 A. Yes.

²⁵ See, e.g. Commission Applications No. NG-0061 (Order Approving Refund Plan).

1 **Q. HOW DOES BH NEBRASKA GAS INTEND TO IMPLEMENT INTERIM**
2 **RATES IN THIS PROCEEDING?**

3 A. As permitted in Neb. Rev. Stat. § 66-1838(10)(b), BH Nebraska Gas will place its
4 Interim Rates (i.e., Proposed Rates) into effect commencing ninety (90) days after
5 its filing unless the condition of the Nebraska economy coupled with the ability of
6 BH Nebraska Gas Customers to pay their monthly bills during the Interim Rate
7 Period warrants deferral of collection of Interim Rate Surcharge Revenues until
8 after the conclusion of the rate review proceeding.²⁶

9 **Q. IF BH NEBRASKA GAS IMPLEMENTS INTERIM RATES 90 DAYS**
10 **AFTER FILING ITS RATE REVIEW APPLICATION, HOW WILL IT**
11 **CALCULATE REFUNDS, IF ANY?**

12 A. BH Nebraska Gas will calculate any refunds required in this rate review proceeding
13 in accordance with the Act and consistent with prior Commission rate review
14 refund orders.²⁷ BH Nebraska Gas understands that Interim Rates implemented on
15 the 90th day after filing its Rate Review Application are subject to refund upon the
16 Commission's determination of Final Rates pursuant to the Act.

17 If Interim Rate Revenues are collected on and after the 90th day after filing
18 its Rate Review Application, then BH Nebraska Gas will file a Refund Plan that (a)
19 calculates the revenues collected from customers under Interim Rates during the

²⁶ The 90th day after the date of filing is August 30. Final Rate Revenues – Current Rate Revenues = Incremental Rate Surcharge Revenues. BH Nebraska Gas may implement but defer collection of the Incremental Rate Surcharge Revenues if authorized by the Commission until after the Commission determines just and reasonable rates in this proceeding.

²⁷ See, e.g., Commission Application No. NG-0061, and Commission Application No. NG -0067 Refund Plans.

1 Interim Rate period, (b) calculate the revenues that would have been collected from
2 customers under Final Rates during the Interim Rate collection period.

3 The Interim Rate Refund amount is essentially the difference in revenues
4 collected under the Interim Rates and the revenues that that are authorized by the
5 Commission to be collected under Final Rates.

6 **B. Interim Rate Surcharge Revenues**

7 **Q. WHAT ARE “INTERIM RATE SURCHARGE REVENUES?”**

8 A. Interim Rate Surcharge Revenues are calculated by subtracting Current Rate
9 Revenues from the Final Rate Revenues.

10 **Q. WHAT IS AN “INTERIM RATE SURCHARGE?”**

11 A. An Interim Rate Surcharge is a charge to recover the Interim Rate Surcharge
12 Revenues. The Interim Rate Surcharge would be effective only if BH Nebraska Gas
13 does not implement Interim Rates on the 90th day after filing its Rate Review
14 Application. Thus, instead of filing an Interim Rate Refund Plan, as it has done in
15 prior rate review proceedings, BH Nebraska Gas would collect the Interim Rate
16 Surcharge Revenues for the Interim Rate Period through an Interim Rate Surcharge.

17 The specific methodologies and surcharge calculations for each
18 jurisdictional customer and customer class would be set forth in an Interim Rate
19 Surcharge Plan filed by the Company within 30 days after the Commission issues
20 an order establishing Final Rates. The Interim Rate Surcharge would collect the
21 Interim Rate Surcharge Revenues over a twelve-month period. The Interim Rate
22 Surcharge would be effective after Commission approval of the Company’s Interim
23 Rate Surcharge Plan and effective date of Final Rates.

1 **Q. WHAT FACTORS WILL BH NEBRASKA GAS CONSIDER IN DECIDING**
2 **WHETHER TO DEFER COLLECTION OF INTERIM RATES?**

3 A. BH Nebraska Gas prefers to implement interim rates, subject to refund,
4 commencing on September 1, 2020 as permitted under the Act. However, the
5 Company, may, in the sole discretion of BH Nebraska Gas, elect to defer collection
6 of the Final Rate Revenues that BH Nebraska Gas could have lawfully collected
7 commencing on September 1, 2020 until the implementation of Final Rates.²⁸ BH
8 Nebraska Gas proposes to collect the uncollected Incremental Rate Revenue
9 through a surcharge mechanism.

10 BH Nebraska Gas will consider a variety of different factors prior to
11 deferring recovery of the Commission-approved level of Final Rate Revenues (i.e.,
12 Final Current Rates).

13 For example, BH Nebraska Gas will consider the strength of the Nebraska
14 economy, the level of unemployment in Nebraska, the bad debt level BH Nebraska
15 Gas is experiencing, the outlook of the economy through the pendency of the
16 proceeding, the level of complaints received from its Customers, the level of other
17 surcharges that will go into effect at the conclusion of the rate review proceeding,
18 the amount of customer confusion by deferring the collection of Incremental Rate
19 Revenue, and other factors that may present after filing this Rate Review
20 Application.

²⁸ Current Rates x customer charges and volumes consumed = Current Rate Revenues. Final Rates x customer charges and volumes consumed = Final Rate Revenues. Final Rate Revenues – Current Rates Revenues = Incremental Rate Surcharge Revenues.

1 BH Nebraska Gas will also consult with its experts, Mr. McKenzie and Dr.
2 Rosenbaum as to their assessment of the capital markets and the Nebraska economy
3 respectively.

4 **Q. ARE THERE ANY CONDITIONS THAT MUST BE FULFILLED PRIOR**
5 **TO A DECISION OF BH NEBRASKA GAS TO DEFER COLLECTION OF**
6 **INTERIM RATES?**

7 A. Yes. As the Act permits collection of interim rates 90 days after filing the Rate
8 Review Application, BH Nebraska Gas has established four prerequisites for it to
9 delay collection of the interim rates.

10 **Q. WHAT REQUIREMENTS MUST OCCUR FOR BH NEBRASKA GAS TO**
11 **DEFER COLLECTION OF THE INCREMENTAL RATE REVENUES?**

12 A. First, the Commission must permit the continued collection of BH Nebraska Gas
13 Current Rates until the determination and effective date of Final Rates.

14 Second, the Commission must issue an interlocutory order in this rate
15 proceeding at least one-week prior to September 1, 2020 permitting BH Nebraska
16 Gas to recover the Interim Rate Surcharge Revenues that BH Nebraska Gas would
17 have collected from its customers during the Interim Rate Period.

18 Third, at least one week prior to September 1, 2020, all Parties to the
19 proceeding must agree that BH Nebraska Gas is authorized to collect the Interim
20 Rate Surcharge Revenues (i.e., Final Rate Revenue – Current Rate Revenues during
21 the Interim Rate Period) over a twelve-month period through an Interim Rate
22 Surcharge.

23 Finally, all parties must waive their rights to rehearing or appeal of the
24 deferred collection of the Interim Rate Surcharge Revenues and the collection of

1 those revenues through the Interim Rate Surcharge approved by the Commission in
2 this proceeding.

3 **Q. DOES THE COMPANY PROPOSE TO APPLY INTEREST TO THE**
4 **INTERIM RATE SURCHARGE AS PART OF THE REFUND PLAN?**

5 A. Yes. The Company proposes to apply interest at its Weighted Average Cost of
6 Capital (“WACC”) determined by the Commission in this rate review proceeding.

7 **Q. WHY IS APPROPRIATE TO APPLY A STATUTORY JUDGMENT RATE**
8 **FOR INTERIM RATE REFUNDS, BUT A WACC TO THE INTERIM**
9 **RATE SURCHARGE REVENUES?**

10 A. The Interim Rate Period is generally only four or five months long.²⁹ In addition,
11 the Interim Rate Refunds collected by the Company during the Refund Period are
12 generally refunded within 60 to 90 days after Final Rates are determined.
13 Accordingly, the Company does not possess the over-collected revenues for a very
14 long period of time. The Company essentially holds the Interim Rate Refund
15 amount like an escrow until Final Rates are determined.

16 On the other hand, if the Company defers collection of the Interim Rate
17 Surcharge Revenues and amortizes the recovery of those revenues over a 12-month
18 period through the Interim Rate Surcharge, then it is appropriate for the Company
19 to apply its WACC through that period of recovery. By apply its WACC, the
20 Company is kept whole and is not punished by deferring recovery of Interim Rates
21 Surcharge Revenues from the 90th day until after Final Rates are determined.

22

²⁹ The period from the 90th day to the end of the proceeding at the 210 or 240th day.

1 **XV. OTHER PROPOSED TARIFF CHANGES**

2 **Q. IS THE COMPANY PROPOSING TO REVISE CHARGES UNDER ITS**
3 **TARIFF?**

4 A. Yes. As discussed by Mr. Frost, the Company is proposing to standardize a variety
5 of charges and fees. Mr. Frost identifies and discusses each of these items.

6 **XVI. CHOICE GAS AND ENERGY OPTIONS**

7 **Q. DOES THE RATE REVIEW APPLICATION PROPOSE CHANGES TO**
8 **THE RATE AREA FIVE CHOICE GAS PROGRAM?**

9 A. No. The Choice Gas Program structure and other tariff change issues related to the
10 Choice Gas Program will be reserved for other Commission proceedings. The
11 Company does not propose to change the Choice Gas Program offered by
12 BH Nebraska Gas, except to alter the Commission-regulated transportation rates.
13 Issues regarding the 2020-2021 and 2021-2022 Choice Gas Program years can be
14 addressed in Commission Proceeding No. 102 or other separate Commission
15 proceedings.

16 The Company is not proposing to either expand or contract the Choice Gas
17 Program as part of this Rate Review Application. Thus, any issues related to such
18 actions would not be appropriate or relevant to this Rate Review Application.

19 **Q. DOES THE RATE REVIEW APPLICATION PROPOSE CHANGES TO**
20 **THE RATE AREAS ONE, TWO, AND THREE ENERGY OPTIONS-**
21 **FIRM?**

22 A. No. The Energy Options – Firm service structure and other tariff change issues
23 related to the Energy Options - Firm will be reserved for other proceedings. The
24 Company does not propose to change the Energy Options - Firm services offered

1 by BH Nebraska Gas, except to alter the Commission-regulated transportation
2 rates. Issues regarding the current Energy Options-Firm service can be addressed
3 in Commission Proceeding No. 102 or other separate Commission proceedings.

4 The Company is not proposing to either expand or contract the Energy
5 Options-Firm service as part of this Rate Review Application. Thus, any issues
6 related to such actions would not be appropriate or relevant to this Rate Review
7 Application.

8 **XVII. RATE REVIEW PROCEEDING EXPENSES**

9 **Q. PLEASE DISCUSS HOW RATE REVIEW PROCEEDING EXPENSES ARE**
10 **ADDRESSED IN THIS RATE REVIEW APPLICATION?**

11 A. BH Nebraska Gas proposes that Rate Review Expense incurred by all parties should
12 be passed on to customers through a customer surcharge amortized over a three-
13 year period. The amount of rate review proceeding expense incurred by the
14 Company along with the recovery method is discussed in the testimony of Mr.
15 Bennett.

16 **XVIII. SUMMARY AND CONCLUSION**

17 **Q. PLEASE SUMMARIZE WHAT BH NEBRASKA IS SEEKING IN THIS**
18 **RATE REVIEW PROCEEDING?**

19 A. BH Nebraska Gas has filed a single Revenue Requirement Study that reflects the
20 combination of the revenue, investments and expenses of BH Gas Utility and
21 BH Gas Distribution. The Revenue Requirement Study shows that, for the Test
22 Period, BH Nebraska Gas has a total rate base of \$586 Million at the end of this

1 proceeding, which excludes GCA revenues. The Revenue Requirement Study
2 calculates a revenue deficiency for the Test Period of \$17,296,140.

3 **Q. PLEASE SUMMARIZE THE CAPITAL STRUCTURE AND RETURN ON**
4 **EQUITY RECOMMENDATIONS SUPPORTED BY YOUR TESTIMONY.**

5 A. The appropriate 2020 year-end *pro forma* capital structure of BH Nebraska Gas is
6 50% equity and 50% debt. The appropriate return on equity (“ROE”) for
7 BH Nebraska is 10.0%, as supported by the testimony of Mr. McKenzie. Using a
8 proposed cost of debt of 4.11%, the Company proposes a WACC of 7.06%. These
9 recommendations are incorporated into the Revenue Requirement Study presented
10 in Statement G of the Revenue Requirement Study included with Application
11 Exhibit 1, Section 2 (Rate of Return and Cost of Capital Schedules).

12 **Q. IS THE OVERALL LEVEL OF COMPENSATION INCLUDED IN THE**
13 **REVENUE REQUIREMENT STUDY REASONABLE?**

14 A. Yes, the level of total compensation included in the Revenue Requirement Study is
15 reasonable and necessary. The pay range midpoint and incentive target amounts are
16 derived from compensation surveys and assist BHC with attracting and retaining
17 qualified employees needed to provide safe and reliable service.

18 **Q. PLEASE SUMMARIZE THE BILL IMPACTS TO AN AVERAGE**
19 **RESIDENTIAL CUSTOMER OF THE COMBINATION OF THE**
20 **PROPOSED CHANGES IN BASE RATES?**

21 A. Table RJA-5 below summarizes the bill impacts for an average residential customer
22 of the proposed changes in base rates.

23
24
25

Table RJA – 5 – Average Residential Customer Bill Impacts			
BH Gas Utility Residential Winter	BH Gas Distribution Residential Winter	BH Gas Utility Residential Summer	BH Gas Distribution Residential Summer
\$5.61/mo. increase	\$.66/mo. increase	\$9.26/mo. increase	\$0.65/mo. decrease
7%/mo. Higher	1% Higher	33%/mo. Higher	2% Lower

1

2 **Q. PLEASE SUMMARIZE THE BILL IMPACTS TO AN AVERAGE**
3 **COMMERCIAL CUSTOMER OF THE COMBINATION OF THE**
4 **PROPOSED CHANGES IN BASE?**

5 A. Table RJA-6 below summarizes the bill impacts for an average small commercial
6 customer of the proposed changes in base rates.

7

Table RJA-6-Average Small Commercial Customer Bill Impacts			
BH Gas Utility Small Commercial Winter	BH Gas Distribution Small Commercial Winter	BH Gas Utility Small Commercial Summer	BH Gas Distribution Small Commercial Summer
\$15.89/mo. increase	\$14.21/mo. increase	\$25.56/mo. increase	\$7.23/mo. increase
4%/mo. Higher	4% Higher	23%/mo. Higher	6% Higher


8

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

10 A. Yes.

STATE OF NEBRASKA)
) SS
COUNTY OF LANCASTER)

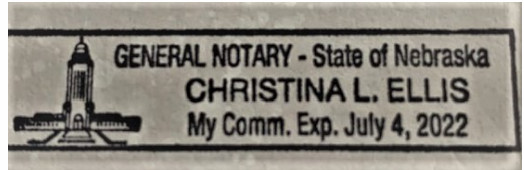
I, Robert J. Amdor, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.



Robert J. Amdor

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

(SEAL)





Notary Public

My Commission Expires:

July 4, 2022