

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)**

REBUTTAL TESTIMONY AND EXHIBIT OF

TYLER E. FROST

Manager of Regulatory & Finance

ON BEHALF OF

BLACK HILLS NEBRASKA GAS, LLC

October 13, 2020

Table of Contents

| <u>SECTION</u> | <u>PAGE</u> |
|-----------------------------------------------------|--------------------|
| I. INTRODUCTION AND BACKGROUND..... | 1 |
| II. MISCELLANEOUS CHARGES..... | 2 |
| III. HEAT INCENTIVES..... | 5 |
| IV. APO “CUSTOMER EDUCATION SURCHARGE” | 7 |
| V. CONCLUSION | 7 |

Exhibits

| | |
|--------------------------|-------------------------------|
| Exhibit No. TEF-5 | BHE Corrected Adj HS-7 |
|--------------------------|-------------------------------|

1 **REBUTTAL TESTIMONY OF TYLER E. FROST**

2
3 **I. INTRODUCTION AND BACKGROUND**

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

5 A. My name is Tyler E. Frost. My business address is 1731 Windhoek Drive, P.O. Box 83008,
6 Lincoln, NE 68512.

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

8 A. I am employed by Black Hills Service Company, LLC (“BHSC”). My position is Manager
9 of Regulatory and Finance.

10 BH Nebraska Gas is a wholly owned subsidiary of Black Hills Utility Holdings,
11 Inc. (“BHUH”). BHUH is a wholly owned subsidiary of Black Hills Corporation (“BHC”).
12 BHSC is a wholly owned subsidiary of Black Hills Corporation (“BHC”). BH Nebraska
13 Gas conducts business in Nebraska under the trade name of Black Hills Energy.

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

15 A. I am testifying on behalf of BH Nebraska Gas. BH Nebraska Gas is the natural gas utility
16 resulting from the recent internal consolidation of the Nebraska gas utility assets and
17 operations of BHC's two former Nebraska gas utility distribution subsidiaries, Black Hills
18 Gas Distribution, LLC (“BH Gas Distribution” or “NEGD”) and Black Hills/Nebraska Gas
19 Utility Company, LLC (“BH Gas Utility” or “NEG”)¹.

20 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

21 A. Yes, my Direct Testimony was filed in this proceeding on June 1, 2020.

¹ See Nebraska Public Service Commission Application No. NG-100.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR REBUTTAL TESTIMONY?**

2 A. Yes. I'm sponsoring the exhibits listed in Table 1 below.

3 **Table 1**

| Exhibit Name | Description |
|--------------------------|-------------------------------|
| Exhibit No. TEF-5 | BHE Corrected Adj HS-7 |

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

5 A. The purpose of my testimony is to respond to issues raised in Answer Testimony of Mr.
6 Solganick as it relates to revenue adjustments regarding miscellaneous charges, HEAT
7 incentives and the APO "Customer Education Surcharge."

8 **Q. DO YOU APPLY REASONABLE JUDGMENTS IN YOUR TESTIMONY?**

9 A. Yes, I applied reasonable judgments, engaged in prudent practices and testify in good faith
10 with the information available to me and my knowledge available at the time of the
11 testimony.

12 **II. MISCELLANEOUS CHARGES**

13 **Q. HAVE YOU REVIEWED MR. SOLGANICK'S TESTIMONY WHEREIN HE**
14 **PROPOSES A REVENUE ADJUSTMENT FOR MISCELLANEOUS CHARGES?**

15 A. Yes. I have reviewed Mr. Solganick's three adjustments in his Exhibit Nos. HS-6, HS-7,
16 and HS-8. While I agree in theory to his three adjustments and accept his adjustment in
17 Exhibit No. HS-6, I am proposing revisions to the other two adjustments. I will discuss my
18 revisions to Exhibit Nos. HS-7 and HS-8 in more detail.

1 **Q. WERE THERE ANY OTHER CONCERNS WITH MR. SOLGANICK'S**
2 **CALCULATION OF THE REVENUE ADJUSTMENT IN EXHIBIT NO. HS-7?**

3 A. To begin, the proposed charges result in consistent charges for connect, reconnect, and NSF
4 statewide, where previously there had been two sets of charges – one for Rate Area 1 and
5 one for Rate Areas 1-3. The Company is merging two distinct sets of current fees into a
6 single set of fees. Therefore, using a single present charge does not accurately calculate a
7 representative change in revenue. In addition, Mr. Solganick's exhibit shows all the
8 reconnection charge revenues as after normal hours, when the majority of those charges
9 were a result of reconnections during normal hours. Finally, the proposed reconnection
10 charge after normal hours is incorrect.

11 **Q. DID YOU CALCULATE REVISED MISCELLANEOUS CHARGES**
12 **ADJUSTMENT?**

13 A. Yes. For each miscellaneous charge (connect, reconnect, and NSF), I separated the 2019
14 actual revenues for Rate Areas 1-3 from those for Rate Area 5. Then using the applicable
15 present and proposed charges, I used the same methodology as in Mr. Solganick's Exhibit
16 No. HS-7 to calculate the incremental revenue. I calculate incremental revenue of \$597K
17 compared to Mr. Solganick's proposed incremental revenue of \$760K. In the response to
18 Data Request No. BH-PA 2-24, Mr. Solganick agreed that the revised adjustment on Exhibit
19 No. TEF-5, the Corrected Adj HS-7 is correct, subject to receipt of supporting data.

20 **Q. WHAT REVISIONS ARE YOU PROPOSING TO MR. SOLGANICK'S**
21 **ADJUSTMENT IN EXHIBIT NO. HS-8?**

22 A. I am proposing it be eliminated entirely. Mr. Solganick's testimony indicates there should
23 be a revenue adjustment because the diversion fees are new rate elements. These diversion

1 fees, however, are not new rate elements. As Mr. Solganick admits in its response to Data
2 Request No. BH-PA 2-22, the Company's tariff currently provides for Company to charge
3 Diversion Fees. The Company has been assessing these charges, as allowed by the current
4 tariff language. Where the current tariff has broad language concerning labor and material
5 costs, the Company merely added specificity to the tariff. Since there are no incremental
6 charges being proposed, there are no incremental revenues. I recommend eliminating
7 Exhibit No. HS-8 entirely.

8 **Q. WERE THERE ANY OTHER CONCERNS WITH MR. SOLGANICK'S**
9 **CALCULATION OF THE REVENUE ADJUSTMENT?**

10 A. Yes. There were a couple of errors – (1) the after-hours Reconnect fee had the Present and
11 Proposed charges switched; (2) there was not an after-hours connection line (even though
12 there were a few occurrences in 2019); (3) there were no normal hours reconnect dollars
13 (even though the majority of reconnects occur during normal hours).

14 **Q. CAN YOU SUMMARIZE YOUR RECOMMENDATION FOR A REVENUE**
15 **ADJUSTMENT?**

16 A. Yes. Accepting Mr. Solganick's adjustment in Exhibit No. HS-6, revising adjustments in
17 Exhibit No. HS-7, and eliminating the adjustment in Exhibit No. HS-8 as discussed above,
18 I recommend a revenue adjustment of \$389,426 for miscellaneous charges as depicted in
19 Table 2 below.

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Table 2

| Misc Charges | HS-6 | HS-7 | HS-8 | Total | Rebuttal Position by Adj | | | |
|------------------------|-----------|---------|--------|---------|--------------------------|---------|------|---------|
| | | | | | HS-6 | HS-7 | HS-8 | Total |
| LPC | (207,515) | | | | (207,515) | | | |
| Connect (normal hrs) | | 680,434 | | | | 550,715 | | |
| Connect (after hrs) | | - | | | | 26,059 | | |
| Reconnect (normal hrs) | | - | | | | 11,980 | | |
| Reconnect (after hrs) | | 53,509 | | | | (9,156) | | |
| NSF | | 25,866 | | | | 17,342 | | |
| Diversion | | | 36,115 | | | | - | |
| Total | (207,515) | 759,809 | 36,115 | 588,409 | (207,515) | 596,941 | - | 389,426 |

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III. HEAT INCENTIVES

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Q. MR. SOLGANICK TESTIFIES THAT COLLECTING HEAT INCENTIVES PAID IN RATE AREA 5 DURING SEPTEMBER TO DECEMBER FROM ALL CUSTOMERS BURDENS RATE AREAS 1, 2, AND 3 WITH ADDITIONAL CHARGES ALTHOUGH THEY HAVE NO OPPORTUNITY TO RECEIVE THE INCENTIVE. HE FURTHER TESTIFIES THAT ONLY AFTER INCENTIVES HAVE BEEN AVAILABLE FOR A TWELVE-MONTH PERIOD SHOULD ALL CUSTOMERS BE CHARGED FOR THE COST OF THE INCENTIVES. DO YOU AGREE?

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A. No, I do not agree. Although the specific HEAT incentives were not available for Rate Areas 1-3 until September 2020, the benefits of the HEAT Program are available to all customers beginning with the implementation of the interim rates that went into effect in September 2020. The Company's implementation of a consolidated Program rate, implemented with the interim rates in September 2020, is intended to match the Program's availability initiation to Rate Areas 1-3 customers with rate initiation and limit customer confusion.

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Under Mr. Solganick's recommendation, customers experience a change in base rates in September 2020 on an interim basis, final base rates pursuant to a Commission

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1 final order in 2021, and then an additional rate for HEAT Program recovery in
2 September 2021, with no perceived benefit, as the benefit was received in September 2020.

3 Thus, the Company believes a methodology that limits customer confusion, rate
4 changes, and aligns the customer's benefits and recovery is appropriate.

5 **Q. MR. SOLGANICK PROPOSES THAT THE COSTS OF THE HEAT PROGRAM**
6 **BE SHARED BETWEEN THE JURISDICTIONAL CUSTOMERS AND THE**
7 **COMPANY. DO YOU AGREE WITH THE PROPOSAL?**

8 A. No, I do not agree for several reasons First, the HEAT Program is intended to assist
9 customers with the costs associated with the purchase and installation of new or
10 replacement natural gas burning space heating and water heating appliances.

11 In the case of a new installation, Dr. Rosenbaum's testimony clearly demonstrates
12 the HEAT Program benefits both for the participating customer as well as all Nebraska
13 customers.

14 In the case of an existing, or current customer who replaces existing natural gas
15 equipment with new natural gas equipment under the HEAT Program, again, as
16 Dr. Rosenbaum testifies, all Nebraska customers receive a benefit. In this instance, the
17 existence of the HEAT Program prevents customer loss and an increase to rate base costs
18 for all remaining customers. Further, as Dr. Rosenbaum testifies, the Company's rates and
19 rate-of-return are fixed by the Commission and any increased margin will be adjusted in
20 the rate setting process. There is no difference in costs for the HEAT Program and other
21 costs, such as capital costs. The Company has an incentive to increase the revenue with
22 growth resulting from system expansions. Yet these costs are not shared between the
23 customers and the Company and are adjusted in the rate setting process. However, should

1 the Commission elect to adjust for beneficial changes between rate filings, the Company
2 would argue similar accommodations should be allowed for detrimental changes as well.

3 Finally, the Company arguably participates and shares in the cost of the HEAT
4 Program and has since its inception. As per Commission Order in NG-0036, Order
5 Approving Stipulation, entered December 27, 2006, the Company bears all cost of
6 administering and advertising the HEAT Program, collecting only the actual costs of
7 rebates from Nebraska customers.

8 **IV. APO "CUSTOMER EDUCATION SURCHARGE"**

9 **Q. MR. SOLGANICK TESTIFIES THAT THE APO CUSTOMER EDUCATION**
10 **SURCHARGE SHOULD NOT BE CHARGED TO CUSTOMERS NOT ELIGIBLE**
11 **TO PARTICIPATE IN THE APO PROGRAM. DO YOU AGREE?**

12 A. The Company believes there was an error in the tariff sheets and First Revised Sheet No. 81
13 will be revised to indicate the Customer Education Surcharge shall be collected from all
14 Residential Customers, in Rate Areas 1, 2, and 3.

15 **V. CONCLUSION**

16 **Q. PLEASE SUMMARIZE THE POSITIONS OF BH NEBRASKA GAS AS OF THE**
17 **DATE OF THIS REBUTTAL TESTIMONY.**

18 A. Mr. Solganick's revenue adjustments should be corrected as set forth earlier in this
19 testimony. The HEAT Program charges should remain as proposed by Company. Company
20 agrees to revise its tariff to indicate the APO Customer Education Surcharge applies only
21 to those customers eligible to participate in the APO Program; Rate Areas 1, 2, and 3.

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 A. Yes.

STATE OF NEBRASKA)
) SS
COUNTY OF LANCASTER)

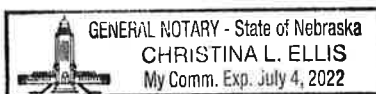
I, Tyler E. Frost, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.



Tyler E. Frost

Subscribed and sworn to before me this 9th day of October, 2020.

(SEAL)





Notary Public

My Commission Expires:

July 4, 2022