

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy, for Approval of the Commission to Make Certain Changes in its Rate for natural Gas Service

Docket No.

14-BHCG-502 -RTS

DIRECT TESTIMONY OF

LON P. MEYER

FOR BLACK HILLS KANSAS GAS UTILITY COMPANY, LLC

1

2

I. INTRODUCTION

3

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4

A. My name is Lon P. Meyer, and my business address is 601 North Iowa St.,
Lawrence, KS 66044.

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

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A. I am employed by Black Hills Kansas Gas Utility, LLC (hereinafter "Black Hills
Kansas," or "Company") as Director of Operations.

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Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS

10

EXPERIENCE.

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A. I have a Bachelor's degree in Business Administration and Economics from the

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University of Nebraska at Kearney, and a Master's degree in Organizational

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Leadership from Fort Hays State University. I have over 14 years of experience

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in natural gas operations including supervision of front line personnel, strategic

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planning, customer service, project management, regulatory compliance, safety

1 related planning and administration, O&M and Capital budgeting, and community
2 partnership.

3 I began my career in the 2000 as a Division Manager with Kinder Morgan in
4 Kearney, NE. In 2005, I was hired by Aquila, Inc. ("Aquila"), where I started as
5 an Operations Supervisor, overseeing 28 operations and maintenance
6 employees. In 2010, I served 9 months as a Continuous Improvement Manager,
7 focusing my efforts solely on productivity, efficiency, and cost saving
8 improvements for the organization and our customers. In October 2010, I was
9 promoted to Operations Manager, overseeing the safe and reliable operation of
10 the SW Kansas region. In August 2012, I took a position of Project Manager of
11 Technology Integration, in which I focused on special projects relating to
12 technology enhancements and strategic work force planning initiatives. In July
13 2013, I was asked to fill the role of interim General Manager for Kansas' natural
14 gas operations. In January 2014, I was promoted to my current position of
15 Director of Operations and continue to serve as the interim General Manager.

16 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF KANSAS**
17 **OPERATIONS?**

18 A. I am responsible for the financial and operational performance of Black Hills
19 Kansas' gas distribution operations in Kansas. In this role, I oversee the
20 operating functions including natural gas distribution network operations,
21 maintenance, construction, customer service, customer relations and community
22 relations. I am also involved in the oversight of other functions that are
23 centralized in Black Hills Corporation ("BHC") and provide support to the Kansas

1 operations, including gas supply services, regulatory services, legislative affairs
2 and the Company's call centers.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

4 A. My testimony will:

- 5 • describe the Company's Kansas operations;
- 6 • explain the Company's actions to control costs since the last rate case;
- 7 • explain challenges caused by an aging workforce and employee retirements,
8 and a proposal to hire and train replacement workers to address that
9 challenge;
- 10 • explain the Company's proposal to accelerate its five year integrity capital
11 replacement plan and a related Accelerated Pipeline Replacement Rider; and
- 12 • explain the Company's proposal for a rider to pass on revenues recovered
13 from customers previously served by Anadarko who are considered at-risk
14 due to their ability to possibly by-pass the utility.

15
16 **II. DESCRIPTION OF BLACK HILLS KANSAS OPERATIONS**

17 **Q. PLEASE DESCRIBE BLACK HILLS KANSAS' GAS OPERATIONS.**

18 A. Black Hills Kansas serves approximately 111,000 retail customers in 64
19 communities and areas in 48 counties in Kansas. The Kansas Operations have
20 management centers located in Lawrence, Wichita, Garden City, Dodge City,
21 Liberal and Goodland. The Company's Kansas operations are widely disbursed,
22 and the average community is quite small. Black Hills Kansas serves 27,959
23 customers in Wichita, 33,534 customers in Lawrence, and 49,769 customers in

1 the remainder of the state. The average size community other than Wichita and
2 Lawrence has only 850 customers. Most towns in the service territory
3 experience minimal to low growth, and some are struggling to maintain
4 population. The Company served approximately 7,000 more customers in 2013
5 compared to the last rate case due to a number of small acquisitions over the
6 eight-year period.

7 **Q. DOES THE COMPANY HAVE NON-REGULATED OPERATIONS IN KANSAS?**

8 A. Yes. Black Hills Kansas offers appliance repair services and construction work
9 performed through technical service contracts, the Company's only non-
10 regulated activities in the state.

11 **Q. PLEASE SUMMARIZE THE MANAGEMENT STRUCTURE OF THE STATE**
12 **OPERATIONS.**

13 A. The Kansas operations are divided into three operating regions: Lawrence,
14 Wichita and Southwest Kansas, which is further subdivided into service centers
15 in Garden City, Dodge City, Liberal and Goodland. Managers in these regions
16 are responsible for operations, customer service and community relations within
17 the region. The regions share one customer relations manager and two
18 customer relations representatives responsible for maintaining relationships with
19 our larger customers and promoting the use of natural gas; two external affairs
20 managers responsible for community support and economic development; and a
21 government affairs manager. The map included in Section 14 of the Application
22 shows Black Hills Kansas' service territories.

1 **Q. PLEASE SUMMARIZE THE COMPANY'S CUSTOMER COUNTS AND USAGE**
2 **BY CLASS.**

3 A. Table 1 below shows the customer counts and average customer usage for the
4 test year.

Table 1: 2013 Customer Counts and Usage by Customer Class

<u>Class</u>	<u>Customers</u>	<u>Volumes</u> <u>(Therms)</u>	<u>Average</u> <u>(Therms)</u>
Residential	98,879	70,347,245	711
Small Commercial	8,671	12,508,905	1,443
Small Volume (Firm & Interruptible)	996	12,786,417	12,838
Large Volume (Firm & Interruptible)	44	6,468,583	147,013
Irrigation	1,291	30,539,100	23,655
Transportation – Small Comm.	121	232,318	1,920
Transportation – Small Volume	468	7,926,091	16,936
Transportation – Large Volume	119	34,415,039	289,202
Transportation – Irrigation	440	8,655,266	19,671
Transportation – Other	15	92,110,400	6,140,693

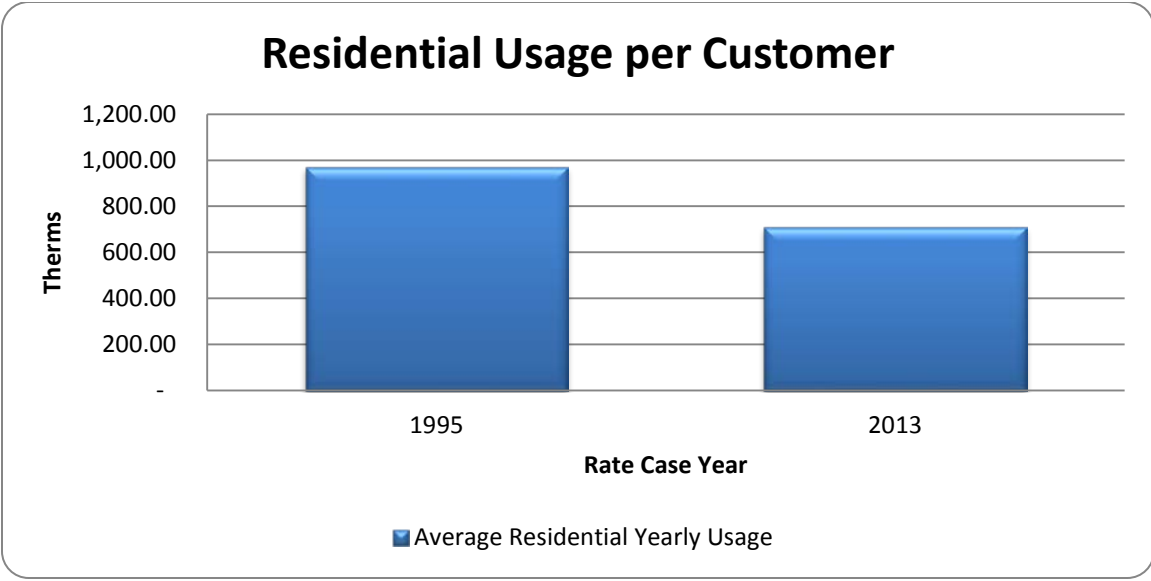
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6 **Q. HOW DO THESE FIGURES COMPARE TO THE COMPANY'S LAST RATE**
7 **CASE IN 2006?**

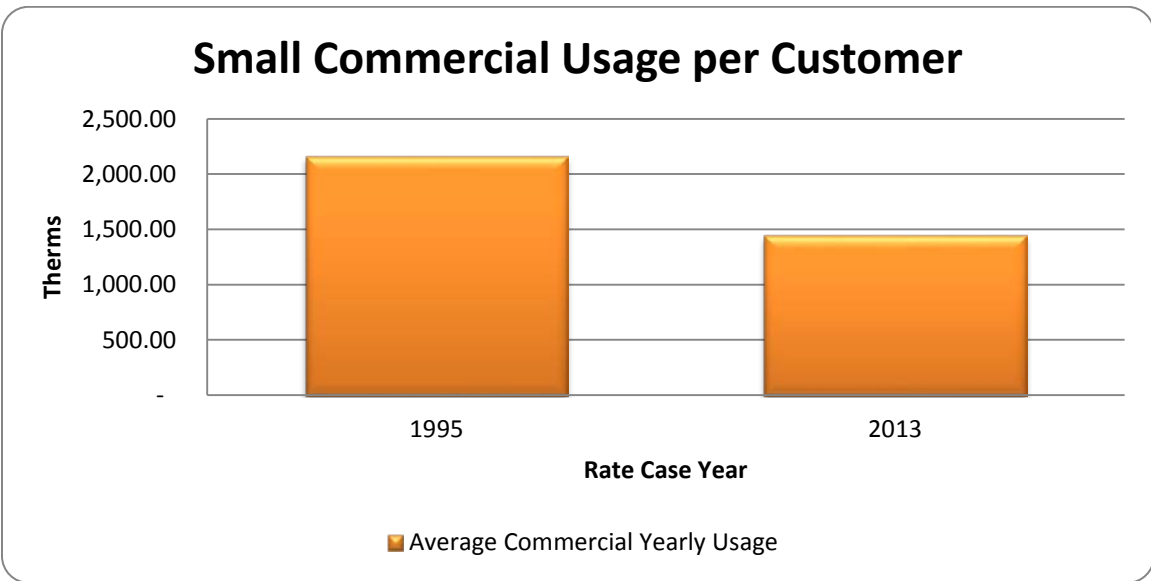
8 A. Residential usage per customer declined from 731 Therms in 2006 to 711
9 Therms in 2013, a 3% reduction.

10 **Q. WHAT HAS BEEN THE HISTORICAL TREND IN CUSTOMER USAGE?**

11 A. Figure 1 below provides customer usage in the Company's 1995 and 2013 rate
12 cases, and shows a dramatic reduction in customer usage in the Residential and
13 Small Commercial classes.



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4 **Q. WHAT IS THE RELEVANCE OF THIS TREND TO BLACK HILLS KANSAS?**

5 A. The long term decline in usage per customer is a significant challenge for Black
 6 Hills Kansas because, as these declines in usage occur, revenues and actual
 7 returns decline as well, increasing the frequency of and need for rate increases.

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1 **III. CUSTOMER SERVICE IMPROVEMENTS**

2 **Q. PLEASE SUMMARIZE BLACK HILLS KANSAS' RECENT CUSTOMER**
3 **SERVICE IMPROVEMENTS.**

4 A. Black Hills Corporation ("BHC") provides call center customer service support 24
5 hours per day, 7 days per week for gas emergencies for Black Hills Kansas'
6 customers. General customer support through the call centers is provided 6
7 days per week from 7 a.m. to 8 p.m., Monday through Friday, and 8 a.m. to 5
8 p.m. on Saturday, Central Time. In addition, business process improvement
9 initiatives have been implemented to improve customer service, as well as
10 efficiencies. For example, additional payment options are available through the
11 Company's electronic bill presentment software and mobile application of Quick
12 Response code (QR) for customers wishing to pay their bill via their smart phone.
13 An improved interactive response system provides self-service options for
14 customers who do business with the Company, including the ability to initiate
15 payments and report service interruptions. With the installation of Automated
16 Meter Infrastructure, we have reduced the cost of meter reading with the use of
17 remote towers. This technology has also eliminated service calls for succession
18 reads such as move-in and move-out orders. In addition, Black Hills Kansas'
19 customers can view their usage from our website as well as service interruption
20 updates. Black Hills Kansas has also initiated outage and other Company news
21 on social media. The Company website has been redesigned to offer customers
22 the ability to access their account information from various electronic devices
23 including tablets and smart phones.

1 **Q. WHAT ACTIONS HAS BLACK HILLS KANSAS TAKEN SINCE 2008 TO**
2 **IMPROVE CUSTOMER SERVICE?**

3 A. Since the acquisition of the Aquila properties in 2008, BHC and Black Hills
4 Kansas have completed the following projects to improve customer service:

- 5 • 2009 - bill print and remittance processing were brought in-house. These
6 functions were previously outsourced, and by bringing them in-house, Black
7 Hills Kansas was able to reduce costs, improve quality and eliminate reliance
8 on outside vendors.
- 9 • 2010 – created a bi-lingual group in the contact center capable of handling
10 nearly all of Black Hills Kansas Spanish language calls. Black Hills Kansas
11 had previously relied on a third party interpreter service.
- 12 • 2011 - implemented an eBill function, so customers would have the option of
13 receiving and paying their bills through a secure web site.
- 14 • 2011 - retained JD Power to survey for customer satisfaction, which has
15 helped identify areas of improvement based on customer feedback. A new
16 bill format and new web site were both created as a result of the customer
17 feedback in these surveys.
- 18 • 2012 - implemented a revised Interactive Voice Recognition System (IVR),
19 which greatly simplified the IVR options for Black Hills Kansas customers and
20 enhanced the self service features within the IVR.
- 21 • 2012 - implemented a re-designed billing statement with input from JD Power
22 on best utility billing statements. The JD Power research helped Black Hills
23 Kansas understand what customers most want to see and where they look for

1 it on the monthly statement. According to JD Power, what customers most
2 want on their monthly statement is to easily find the amount due, due date,
3 and a summary of monthly consumption with a history graph. The new
4 statement helped reduce calls related to this type of information.

- 5 • 2012 - implemented a personality-based resolution program into Black Hills
6 Kansas contact centers, training associates to recognize and flex to the
7 customers personality as they handle the customer's call.
- 8 • 2012 - implemented a QR code on billing statements, so customers can scan
9 the QR code and make a payment from a smart phone.
- 10 • 2013 - negotiated a lower convenience fee for Black Hills Kansas customers
11 using Speed Pay and Western Union pay locations. The fee was reduced
12 from \$3.95 to \$2.95 for residential customers using these services.
- 13 • 2013 - completed implementation advanced metering infrastructure (AMI) on
14 approximately 106,000 gas meters in Kansas. This system sends gas
15 consumption readings through a secure network that are used for billing and
16 gas load forecasting and planning. In late 2014, the implementation of a gas
17 meter data management system (MDMS) will be completed, and the
18 consumption data will be made available to customers on the Black Hills
19 Kansas website on an "energy dashboard."
- 20 • 2013 - implemented a new customer website significantly improving the
21 functionality and ease of use. The site was also designed for mobile devices
22 so it works just as well on a smart phone as it does a PC. Functions such as
23 start or stop service, view bill and pay bill are very easy for Black Hills Kansas

1 customers to complete now. This site has been recognized by industry
2 experts as one of the best utility web sites in the U.S.

- 3 • 2013 implemented an “energy dashboard” on the customer web site. This
4 functionality provides the capability of seeing consumption history for the past
5 12 months plus having temperature overlays to help understand the
6 connection between weather and consumption. This web page also links to
7 energy conservation tips.
- 8 • 2013 - added a smart phone app through Zappix which provides the capability
9 of navigating the IVR with a touch screen for customers who would rather
10 contact Black Hills Kansas from a smart phone “app.”
- 11 • 2014 - added a free “e-check” payment option on the web site for customers
12 who like to make electronic payments but have not signed up for an “auto
13 pay” option. These payments also link, in real time, to any collection activities
14 and this has been a positive feature for some customers.

15 **Q. PLEASE DESCRIBE THE ACTIONS BLACK HILLS KANSAS HAS TAKEN TO**
16 **IMPROVE EFFICIENCY.**

17 A. Black Hills Kansas' Continuous Improvement process had produced initiatives
18 that improved efficiency and cost savings. For example,

- 19 • In 2013, a project to contract line locating looked at the cost-benefit analysis
20 of utilizing third party contractors to perform most line location requests, which
21 resulted in direct O&M savings of approximately \$150,000 per year.
- 22 • In 2013, a project to reduce overtime pay resulted in a policy change with
23 direct annual O&M savings of over \$35,000.

- 1 • In 2014, a project to reduce software costs resulted in renegotiation of a
2 contract with Microsoft, resulting in annual allocated O&M savings of about
3 \$26,000 for Kansas operations.
- 4 • In 2012, the E Bill service was implemented, providing Black Hills Kansas
5 customers with an alternative payment option that reduces paper and mailing
6 costs. The new service resulted in annual allocated O&M savings of about
7 \$18,000 for Kansas operations.

8 **Q. HOW DOES BLACK HILLS KANSAS DEMONSTRATE ITS COMMITMENT TO**
9 **THE COMMUNITIES AND CUSTOMERS IT SERVES?**

10 A. As a community partner, Black Hills Kansas remains active in numerous civic
11 and community matters and economic development efforts. Black Hills Kansas
12 has been involved in a broad range of projects to improve its local communities,
13 including local United Way campaigns, United Way Day of Caring, employee
14 involvement in numerous community and civic organizations, extensive
15 involvement in Chamber of Commerce and economic development in the
16 communities served by the Company, Power of Trees planting programs, and
17 participation in numerous K-12 safety education and career development
18 programs.

19 **Q. DOES BLACK HILLS KANSAS SUPPORT COMMUNITY PROGRAMS FOR**
20 **ENERGY ASSISTANCE?**

21 A. Yes, Black Hills Kansas supports these programs primarily through the Black
22 Hills Cares program and the Walk for Warmth. The Black Hills Cares program
23 offers customers and employees several options to donate to the Black Hills

1 Cares fund, where all customer contributions are matched dollar-for-dollar by
2 Black Hills Kansas. The Walk for Warmth is an annual walk where all entry fees
3 and donations directly support Black Hills Cares. Since 2008, Black Hills Cares
4 has provided \$399,603 in assistance to Black Hills Kansas customers.

5 Contributions and matching funds from the Black Hills Cares program are
6 administered for those in need by Warm Hearts of Douglas County for the
7 Lawrence area, and by the Salvation Army's Heat Share Program for the
8 remainder of Black Hills Kansas' service territory.

9 **Q. PLEASE DESCRIBE THE COMPANY'S CURRENT WORKFORCE.**

10 A. Black Hills Kansas currently employs 134 people in Kansas, with several open
11 positions, including the General Manager, who is the state operations leader.
12 That position was vacated in mid-2013, and interviews are ongoing for a
13 replacement. In addition, employees of Black Hills Service Company ("Servco")
14 and Black Hills Utility Holdings Company ("BHUH") perform key functions for the
15 Kansas gas operations, such as engineering, financial management, accounting,
16 customer service/call centers, regulatory services, etc.

17
18 **IV. WORKFORCE CHALLENGES AND FUTURE TRACK PROPOSAL**

19 **Q. DO YOU FORESEE ANY CHANGES TO BLACK HILLS KANSAS'**
20 **WORKFORCE IN THE NEAR TERM?**

21 A. Yes. The average age of Black Hills Kansas' employees in Kansas operations,
22 Servco and BHUH is 47 years. Over the next eight years, approximately 22

1 percent of the employees serving Kansas customers will reach age 62, which
2 has been the average historic age of retirement at the Company.

3 **Q. DOES THIS CAUSE YOU ANY CONCERN?**

4 A. Absolutely. Black Hills Kansas' people are our most important assets. A talent
5 shortage within our organization impairs our ability to provide safe, reliable
6 service to our customers. The impending retirements are a concern not only from
7 a headcount perspective, but from a knowledge and experience standpoint.
8 Black Hills Kansas has never experienced this type of loss of experience in its
9 history. The challenge is particularly significant for Black Hills Kansas due to the
10 rural nature of our operations where it is more difficult to find qualified
11 candidates. Not having replacements ready for our retiring employees could put
12 Black Hills Kansas at risk by placing undue strain on our remaining employees,
13 who must not only complete their own duties but train replacements as well.

14 **Q. WHAT STEPS HAS THE COMPANY TAKEN TO ADDRESS THIS CONCERN?**

15 A. Black Hills Kansas completed a strategic workforce planning process that
16 evaluates workforce demographics, tenure, experience, and skill capabilities as
17 well as industry trends and risks. As a result of the process, the Company has
18 identified a total of 18 potential retirements between now and the end of 2022,
19 and is seeking to add several more positions through its proposed Future Track
20 Workforce Development Program. Please refer to the direct testimony of
21 Jennifer Landis and Ann Stichler for additional information on this proposal.

1 **V. SYSTEM INTEGRITY CHALLENGES AND ACCELERATED PIPELINE**
2 **REPLACEMENT RIDER**

3 **Q. PLEASE DESCRIBE THE COMPANY’S NATURAL GAS DISTRIBUTION AND**
4 **TRANSMISSION ASSETS IN KANSAS.**

5 A. Although the Company has proactively replaced aged assets to assure safe and
6 reliable service, large portions were constructed over fifty years ago. Table 2
7 below shows the miles of pipe by type of asset. Uncoated, bare steel pipe has
8 not been installed since the 1950s, so any bare steel pipe in service today is at
9 least 54 years old and should be replaced.

Table 2: Kansas Gas Operations Distribution and Transmission Assets

<u>Asset Type</u>	<u>Miles/Number</u>
Bare Steel Main	133 miles
Aldyl A	99 miles
PVC	502 miles
Services – Bare Steel	2963
Services - PVC	184

10
11 Some Aldyl-A and PVC pipe does not have tracer wires that carry an electrical
12 current and are used to locate the specific location of the pipe. Pipe without
13 tracer wire is also a risk because it is much more difficult to locate. If a locating
14 technician cannot locate pipe, Company crews are dispatched to use a vacuum
15 device to expose the pipe, or the crew excavates the pipe by hand. This process
16 is slow, labor intensive and costly, so third parties often take the risk of digging
17 without calling the locating service. Black Hills Kansas has made it a priority to
18 replace all bare steel pipe and services, and any plastic pipe that does not have
19 a tracer wire. The decision is consistent with the Company’s integrity

1 management plan and is supported by leak history reports, third party damage
2 incidents and higher than normal O&M costs.

3 **Q. PLEASE EXPLAIN HOW LEAK HISTORY REPORTS SUPPORT LINE**
4 **REPLACEMENTS.**

5 A. When a line experiences a higher than normal number of leaks, this is an
6 indication of abnormal corrosion and loss of pipe wall thickness. The Company
7 records leaks by area and can identify sections of pipe that are candidates for
8 replacement. For example, in the Wichita area, a 22 mile section of 8" steel
9 distribution line has experienced 126 leaks over the life of the pipe. Rather than
10 continue to repair leaks, the Company plans to replace this pipe over the next
11 three years.

12 **Q. PLEASE EXPLAIN WHY OLDER PIPES WITH LEAK HISTORIES**
13 **EXPERIENCE HIGHER O&M COSTS.**

14 A. When the age of the pipe, the leak history, and composition of the pipe become
15 of concern, O&M costs will rise significantly due to increased monitoring,
16 patrolling frequency, and repair costs. To repair an older pipe or a pipe that
17 cannot be located due to lack of tracer wires, Company technicians must uncover
18 the pipe with specialized equipment or excavate the pipe by hand. Both
19 processes are time intensive and costly.

20 **Q. PLEASE EXPLAIN WHY ODORIZATION EQUIPMENT NEEDS TO BE**
21 **INSTALLED ON FARM TAPS SERVING IRRIGATION CUSTOMERS.**

22 A. As part of an annual KCC inspection in 2012, KCC Staff issued a Probable
23 Noncompliance Notice and later mandated that odorization equipment be

1 installed on all of the Company's farm taps in the state serving irrigation
2 customers.

3 **Q. PLEASE EXPLAIN BLACK HILLS KANSAS' PIPE REPLACEMENT POLICY.**

4 A. At the beginning of each construction season, Black Hills Kansas utilizes a worst-
5 first and highest risk prioritization model to determine which projects to perform in
6 a given construction season. That model considers leak history, type of material,
7 potential risks and other factors. Black Hills Kansas cannot physically do all of
8 the integrity projects in each construction season, so the Company ranks projects
9 using a point system. At this time, it is appropriate to accelerate the replacement
10 of bare steel pipe, PVC and Aldyl A pipe without tracer wire, and aged high
11 pressure transmission pipe. The Company is also required to add odorization
12 equipment to all farm taps serving irrigation customers. Black Hills Kansas' five
13 year capital plan includes these projects, but the Company believes it is
14 appropriate to accelerate these replacements over a shorter time frame.

15 **Q. PLEASE DESCRIBE BLACK HILLS KANSAS' PROPOSAL FOR**
16 **ACCELERATED PIPELINE REPLACEMENTS.**

17 A. Black Hills Kansas is proposing a rider to gradually increase revenues on five
18 categories of safety related investments that will be made by the utility between
19 January 1, 2015 through December 31, 2017, with limitations to ensure a fair
20 balance of interests between customers and shareholders.

21 The Accelerated Pipeline Replacement Rider (APRR) proposal assumes:

- 22 1. Eligible investments would include: (a) \$1.5 million for odorization equipment
23 on farm taps serving irrigation customers, (b) \$3 million for replacement of

1 bare steel risers and associated Aldyl-A main and service lines without
2 tracer wire in Lawrence that are at risk for corrosion and third party
3 excavation damage, (c) \$4 million for replacement of 22 miles of reclaimed
4 bare steel distribution line near Wichita with a poor leak history (d) \$3.1
5 million for replacement of 9 miles of 8" bare steel high pressure transmission
6 line near Wichita with a poor leak history; and (e) \$4.0 million for
7 reconstruction of the Anadarko line acquired in 2013.

- 8 2. Eligible investments made during the period January 1, 2015 to December
9 31, 2017 would be included in the surcharge.
- 10 3. The total dollars invested would be limited to \$15.6 million, which is the
11 amount of work Black Hills Kansas believes it can reasonably complete in this
12 time period, in addition to the Gas System Reliability Surcharge ("GSRs")
13 eligible work the Company must also complete.
- 14 4. Black Hills Kansas proposes to begin recovering the cost associated with
15 these projects beginning in January 2016.
- 16 5. The Company proposes the following investment schedule:
 - 17 a. \$5.2 million of investments be completed in the period January 1, 2015
18 to December 31, 2015.
 - 19 b. \$5.2 million of investments be completed in the period January 1, 2016
20 to December 31, 2016.
 - 21 c. \$5.2 million of investments be completed in the period January 1, 2017
22 to December 31, 2017.

1 6. Black Hills Kansas proposes that the value of these investments be treated
2 like the Environmental Cost Recovery Rider in Docket Nos. 05-WSEE-891-
3 RTS and 08-WSEE-849-TAR. Please refer to the testimony of Jason Keil
4 for an explanation of the accounting treatment of the APRR..

5 7. Revenue from the rider would continue until the conclusion of the Company's
6 next rate case filed after December 31, 2017.

7 **Q. HAS THE COMMISSION APPROVED THIS TYPE OF RIDER IN THE PAST**
8 **FOR BLACK HILLS KANSAS?**

9 A. Yes, the Commission approved a similar rider in the Company's last rate case for
10 the period 2006-2009.

11 **Q. WHAT BENEFITS WILL THIS RIDER PROVIDE TO CUSTOMERS?**

12 A. The rider will allow the utility to accelerate integrity investments in order to
13 enhance system safety and reliability and gradually increase rates to mitigate
14 rate shock for customers.

15 **Q. IS THE APRR INTENDED TO SUPPLEMENT OR REPLACETHE GSRS**
16 **MECHANISM?**

17 A. The APRR is intended to supplement and not replace the GSRS mechanism.
18 The GSRS will continue to be used for replacement of bare steel and other
19 eligible integrity investments. The GSRS mechanism has worked well and Black
20 Hills Kansas intends to continue to maximize the use of the mechanism.

21 **Q. WILL THE MECHANISM RESULT IN AN EXTENSION OF TIME BETWEEN**
22 **RATE CASES?**

1 A. Black Hills Kansas has modeled the impacts of the APRR and has determined
2 that it will not significantly increase the Company's return on equity during the life
3 of the rider. Black Hills Kansas' motivation for proposing the rider is to accelerate
4 integrity investments to enhance the safety and reliability of the distribution
5 system. The rider does provide revenue that helps offset the dilutive effect of
6 rate base additions, but not enough to delay a rate case.

7 **Q. PLEASE SUMMARIZE THE COMPANY'S APRR PROPOSAL.**

8 A. The APRR would provide a known amount of revenue if the Company invests in
9 the eligible integrity investments as proposed. The investments would be subject
10 to verification in a review process that would be simpler than the GSRS annual
11 reviews. The rider helps to mitigate regulatory lag on integrity investments.

12

13 **VI. RIDER TO PASS ON REVENUES RECEIVED FROM CUSTOMERS**
14 **PREVIOUSLY SERVED BY ANADARKO NATURAL GAS COMPANY**

15

16 **Q. CAN YOU PROVIDE THE COMMISSION SOME BACKGROUND ON BLACK**
17 **HILLS KANSAS' RECENT ACQUISITION OF ANADARKO NATURAL GAS**
18 **COMPANY'S ("ANGC") NATURAL GAS PUBLIC UTILITY OPERATIONS IN**
19 **SOUTHWEST KANSAS?**

20 A. Yes. In the fourth quarter of 2013 Black Hills Kansas acquired ANGC's natural
21 gas public utility operations in southwest Kansas. The acquisition was approved
22 by the Commission in Docket No. 13-BHCG-509-ACQ ("509 Docket"). Black
23 Hills Kansas is now serving the six customers that were previously served by
24 ANCG.

1 **Q. HOW HAVE THE REVENUES BLACK HILLS KANSAS EXPECTS TO**
2 **RECEIVE FOR SERVING THOSE SIX CUSTOMERS BEEN TREATED IN THIS**
3 **RATE CASE FILING?**

4 A. As set forth in Ms. Stichler's testimony, Black Hills Kansas has adjusted the test
5 year revenues to include revenues the utility expects to receive from serving the
6 customers previously served by ANCG who Black Hills Kansas has determined
7 are not in a position to by-pass Black Hills Kansas and be served by another gas
8 provider in the area. For those customers who may be in a position to by-pass
9 Black Hills Kansas and be served by another gas provider, the Company is
10 proposing to account for those revenues separately and pass the benefit of those
11 revenues on to the other customers using the process as more fully explained by
12 Mr. Sullivan in his testimony. As long as those customers remain customers of
13 Black Hills Kansas the revenues earned from serving those customers will
14 benefit the utility's other customers. By separately accounting for and passing
15 the benefit of the revenues on to other customers, Black Hills Kansas will be able
16 to make adjustments to those revenues in the event one or more of these
17 customers elect to by-pass Black Hills Kansas.

18 **Q. WHY ARE SOME OF THE CUSTOMERS ACQUIRED FROM ANGC**
19 **CONSIDERED TO BE BY-PASS THREATS BY BLACK HILLS KANSAS?**

20 A. With respect to the natural gas distribution cooperatives that were previously
21 served by ANGC, those cooperatives have indicated to Black Hills Kansas their
22 intention to secure another natural gas provider. With respect to National Beef,
23 Black Hills Kansas has been successful in retaining National Beef as a customer

1 by providing a discount rate to National Beef. However, given the large amount
2 of natural gas used by National Beef and its close proximity to the nearby
3 interstate pipeline, Black Hills Kansas is uncertain of its ability to continue to
4 retain National Beef as a customer.

5

6 **VII. CONCLUSION**


7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8 A. Yes.

State of Kansas)
) ss
County of _____)

AFFIDAVIT OF LON MEYER

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



Lon Meyer

Subscribed and sworn to before me,
A Notary Public, in and for said County
and State, this 9th day of April.



Notary Public

My Commission expires:

