

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 Rates  
for Natural Gas Service

Docket No.  
14-BHCG-502-RTS

---

DIRECT TESTIMONY OF

ANN L. STICHLER

FOR BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC

---

1        **I. INTRODUCTION**

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

3        A. My name is Ann L. Stichler. My business address is 1102 East First Street,  
4        Papillion, NE.

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

6        A. I am employed by Black Hills Utility Holdings (“BHUH”) as Senior Regulatory  
7        Analyst in Regulatory Services. In this position, my responsibilities include  
8        compliance, tariff, acquisition, audit and surcharge filings, the preparation of  
9        financial exhibits and other information for rate case filings, and various financial  
10        analyses for Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills  
11        Energy (“Black Hills Kansas” or “Company”).

12       **Q. WILL YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
13       **BUSINESS EXPERIENCE?**

1 A. I attended Wayne State College in Wayne, Nebraska from 1979 to 1981 where I  
2 earned an Associate Degree in Medical Secretarial Science. In 1992, I received  
3 with distinction a Bachelor of General Studies Degree with emphasis in  
4 accounting and psychology from the University of Nebraska—Omaha. I continued  
5 my education with courses in computer science through Iowa Western Community  
6 College in Council Bluffs, Iowa. In 1983, I joined InterNorth, Inc. in the Peoples  
7 Natural Gas Division where I held positions in Sales Accounting, Gas  
8 Measurement and General Accounting. In 1985, Peoples Natural Gas was  
9 acquired by UtiliCorp United Inc., later known as Aquila, Inc.. From 1989-1992, I  
10 held the position of Regulatory Accounting Analyst and was promoted to Senior  
11 Regulatory Analyst in 1993. I presently retain that title.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY BODIES?**

13 A. Yes, I have filed testimony before the Missouri Public Service Commission.

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

15 A. I am sponsoring the accounting methods applied to this filing regarding the Gas  
16 System Reliability Surcharge Rider (“GSRS”), Weather Normalization Adjustment  
17 Rider (“WNA”) and Ad Valorem Surcharge Rider (“AVTS”) on behalf of Black Hills  
18 Kansas. I discuss and sponsor the following pro forma adjustments:

19 Adjustment No. IS-3 – Weather Normalization Adjustment Revenue;

20 Adjustment No. IS-4 – Ad Valorem Surcharge Revenue;

21 Adjustment No. IS-6 – Annualization of Payroll Expense;

22 Adjustment No. IS-13 and RB-4– Gas Supply Management System;

1 Adjustment No. IS-15 -- FutureTrack Expense;  
2 Adjustment No. IS-20 – Property Tax Expense;  
3 Adjustment No. IS-5 – Anadarko Acquisition Revenues; and,  
4 Adjustment No. IS-12 – Anadarko Acquisition Deferred Expense  
5

6 **II. DISCUSSION OF RIDERS AND PRO FORMA INCOME STATEMENT (IS)**  
7 **AND RATE BASE (RB) ADJUSTMENTS**

8 **A. GSRS REVENUES**

9 **Q. PLEASE DESCRIBE THE GSRS RIDER.**

10 A. The GSRS Surcharge Rider allows recovery of, and return on, capital project  
11 investments related to safety and relocation of lines due to road projects made  
12 since the Company's last rate case in 2007.

13 **Q. HOW ARE THE GSRS RIDER REVENUES REFLECTED IN THE FILED**  
14 **REVENUE REQUIREMENT OF BLACK HILLS KANSAS FOR THIS RATE**  
15 **CASE PROCEEDING?**

16 A. 2013 GSRS Rider Revenues of \$2,229,412 have been included in Test Year  
17 revenues used to calculate the filed Revenue Deficiency of \$7,278,700. The  
18 investment eligible and included in the GSRS Rider has been included in Net  
19 Plant for the Test Year Rate Base.

20 **Q. WHAT IS THE PURPOSE OF TREATING THE GSRS RIDER REVENUES IN**  
21 **THIS MANNER?**

22 A. Black Hills Kansas is requesting the revenues currently collected through the  
23 GSRS be moved into base rates, and the GSRS be reset to zero when the new

1 base rates and charges become effective. By including the 2013 GSRS revenues  
2 in total revenues, the deficiency is not inflated for revenues already allowed to be  
3 recovered through the GSRS rider.

4 **Q. HOW WERE GSRS TEST YEAR REVENUES TREATED IN THE**  
5 **ANNUALIZATION AND NORMALIZATION OF REVENUE ADJUSTMENTS?**

6 A. GSRS revenues were excluded from total revenues for these calculations. Please  
7 refer to the Direct Testimony of Mr. Thomas J. Sullivan for a detailed explanation  
8 of this process.

9

10 **B. WNA RIDER ADJUSTMENT (ADJUSTMENT NO. IS-3)**

11 **Q. WHAT IS THE “WNA” RIDER AND ITS RELATED ADJUSTMENT?**

12 A. Adjustment No. IS-3 eliminates revenues related to Black Hills Kansas’ Weather  
13 Normalization Adjustment program (WNA). The WNA adjusts for the variance of  
14 actual weather from normal weather. The difference is deferred as an under-  
15 collection if the weather is warmer than normal, or as an over-collection if the  
16 weather is colder than normal. During the test period, there was a net over-  
17 collection of \$181,043 that must be eliminated from per-book revenues since an  
18 adjustment for normal weather has been made through the Heating Normalization  
19 adjustment.

20

21

22

23

1 **C. AVTS RIDER ADJUSTMENT (ADJUSTMENT NO. IS-4)**

2 **Q. PLEASE DISCUSS THE AD VALOREM TAX SURCHARGE (AVTS) RIDER**  
3 **AND HOW REVENUES FROM THAT RIDER ARE REFLECTED IN THE**  
4 **REVENUE DEFICIENCY.**

5 A. The AVTS Rider allows for recovery of changes in ad valorem taxes. Adjustment  
6 No. IS-4 eliminates the per books 2013 revenues associated with the AVTS rider  
7 since the newly-established level of Ad Valorem Tax expense will be used in the  
8 development of rates. This new level will establish the base for future Ad Valorem  
9 Tax surcharges for reconciliation purposes.

10  
11 **D. ANNUALIZATION OF PAYROLL EXPENSES (ADJUSTMENT NO. IS-6)**

12 **Q. PLEASE EXPLAIN THE PURPOSE OF ADJUSTMENT NO. IS-6.**

13 A. Adjustment No. IS-6 annualizes payroll to reflect the number of employees and  
14 their salaries as of March 10, 2014. Kansas direct and allocable payroll expense  
15 was annualized using base payroll by department at March 10, 2014. This date  
16 reflects the latest “known and measurable” payroll information for the Company,  
17 including the impact of annual employee merit and union increases, as well as  
18 current staffing levels. The base pay amount was also adjusted for known  
19 vacancies in the process of being filled and “other-than-base” payroll categories,  
20 such as standby, overtime and callout pay.

21 **Q. HOW WAS THE VACANCY PORTION OF THE ADJUSTMENT DETERMINED**  
22 **BASED ON PAYROLL RECORDS AS OF MARCH 10, 2014?**

1 A. All open part-time, intern and temporary positions were eliminated from the  
2 vacancy adjustment. The dollar value of the open positions in Kansas was  
3 determined based on using the minimum of the salary range for the open  
4 positions. The cost of the open positions was added to the base payroll amount  
5 and included in the annualization process. Any vacancy not expected to be filled  
6 or approved for timely hire was not included.

7 **Q. WHAT WAS THE PROCESS FOR VACANCIES IN DEPARTMENTAL**  
8 **POSITIONS THAT ALLOCATE COSTS TO KANSAS GAS OPERATIONS?**

9 A. The same process was followed in determining the cost of vacancies for the  
10 allocable positions. Once the value of these positions was determined, the costs  
11 were assigned to Kansas based on the allocation percentages applicable for that  
12 particular department.

13 The annualized payroll expense was compared to actual expense for the test year  
14 ended December 31, 2013 to determine the amount of the adjustment. The  
15 adjustment was then allocated between utility and non-utility operations, and  
16 payroll amounts capitalized, based on actual experience for the twelve months  
17 ended December 31, 2013. The amount applicable to utility expense was then  
18 allocated to FERC accounts based on the 12 months ended December 31, 2013  
19 actual expense by FERC account.

20 **Q. WERE OTHER ADJUSTMENTS MADE RELATED TO THIS PAYROLL**  
21 **ADJUSTMENT?**

1 A. Yes. Employee benefits and taxes other than income taxes were adjusted to  
2 reflect the impact on benefits and associated payroll taxes based on changes  
3 made to payroll expense.

4

5 **E. GAS SUPPLY MANAGEMENT SYSTEM COSTS (ADJUSTMENT NO.**  
6 **IS -13 AND RB-4)**

7 **Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF ADJUSTMENTS.**

8 A. Adjustment No. IS-13 adds O&M expense of \$94,824 related to the Company's  
9 new Gas Supply Management System. Capitalized investment costs of \$546,195  
10 for the system have also been included in rate base and reflected in Adjustment  
11 No. RB-4. Please refer to the Testimony of Jodi Culp for details of the Gas  
12 Supply Management System.

13

14 **F. FUTURETRACK WORKFORCE DEVELOPMENT PROGRAM**  
15 **(ADJUSTMENT NO. IS-15)**

16 **Q. WHAT IS THE FUTURETRACK WORKFORCE DEVELOPMENT PROGRAM?**

17 A. Please refer to the Direct Testimony of Jennifer Landis for an explanation of the  
18 FutureTrack Workforce Development Program. I discuss the accounting  
19 treatment and recovery of the costs associated with the Program.

20 **Q. HOW DOES BLACK HILLS KANSAS PLAN TO TREAT THE COSTS**  
21 **ASSOCIATED WITH THE FUTURETRACK WORKFORCE DEVELOPMENT**  
22 **PROGRAM?**

1 A. Black Hills Kansas estimates the cost to be \$245,968 per year over an eight year  
2 period. Adjustment No. IS-15 reflects the expense for one year. The Company is  
3 requesting that the Commission approve the creation of a regulatory asset for any  
4 expenses that deviate from the annual expense proposed by Black Hills Kansas.  
5 The Request for Accounting Order for the FutureTrack Workforce Development  
6 Program is contained in Exhibit ALS-1. If in any of the eight years the annual  
7 expenditures are less than the amount in base rates, the amount of the difference  
8 will be credited to customers through the regulatory asset. Black Hills Kansas is  
9 requesting that expenditures for the program that exceed the amount in base  
10 rates annually over each of the next eight years be recorded as a regulatory  
11 asset.

12 **Q. UNDER THE COMPANY'S PROPOSAL, HOW WILL THE FUTURETRACK**  
13 **WORKFORCE DEVELOPMENT PROGRAM REGULATORY ASSET BE**  
14 **TREATED AT THE END OF THE EIGHT YEAR PERIOD?**

15 A. The Company requests that at the end of the eight-year period, the balance in the  
16 regulatory asset be determined and amortized over a three year period and  
17 collected from customers through a surcharge starting in year nine. .

18 **Q. HOW DO CUSTOMERS BENEFIT FROM THIS PROPOSAL?**

19 A. Customers benefit from this program because costs are spread over a period of  
20 time. Additionally, this program will help ensure Black Hills Kansas' continued  
21 ability to safely and reliably deliver natural gas through the employment of  
22 qualified employees.



1 **Q. PLEASE DESCRIBE HOW THE COMPANY PLANS TO REPORT THE**  
2 **ANNUAL COSTS ASSOCIATED WITH THE FUTURETRACK WORKFORCE**  
3 **DEVELOPMENT PROGRAM?**

4 A. Black Hills Kansas proposes to make an annual filing that will report the annual  
5 expenditures and the status of the program to the Commission  
6

7 **G. PROPERTY TAX ADJUSTMENT (ADJUSTMENT NO. IS-20)**

8 **Q. ADJUSTMENT NO. IS-20 REFLECTS A PROPERTY TAX ADJUSTMENT.**  
9 **HOW DOES THIS RELATE TO THE PREVIOUSLY MENTIONED AD VALOREM**  
10 **TAX ADJUSTMENT?**

11 A. Adjustment No. IS-20 addresses the expense true-up needed to establish the  
12 level of Ad Valorem Tax expenses in base rates. The revenue adjustment  
13 discussed previously removes the revenues, allowing this new level of expense to  
14 serve as the new base for rates established from this proceeding, as well as for  
15 future Ad Valorem Tax surcharges.

16 **Q. HOW WAS THIS NEW LEVEL OF EXPENSE DETERMINED?**

17 A. Adjustment No. IS-20 is a true-up of property tax expense based on the most  
18 recent actual assessments and rates versus property taxes expensed during the  
19 test period.  
20

21 **H. ANADARKO ACQUISITION REVENUES (ADJUSTMENT NO. IS-5)**

22 **Q. WHAT ARE ANADARKO REVENUES, AND WHY ARE THEY SET FORTH IN**  
23 **AN ADJUSTMENT?**

1 A. Revenues related to the acquisition of three of the six customers obtained  
2 through the Anadarko sale and transfer of Anadarko's assets to Black Hills  
3 Kansas, which was approved by the Kansas Corporation Commission  
4 ("Commission") in Docket No. 13-BHCG-509-ACQ ("509 Docket"), have been  
5 added to total revenues in this rate case application. Adjustment No. IS-5  
6 provides for an annual increase in revenues of \$786,633 and margin of \$111,568  
7 as established through sales and transportation agreements relating to the  
8 Anadarko customers acquired by Black Hills Kansas in late 2013. Please refer to  
9 the Testimony of Thomas J. Sullivan for additional details.

10 **Q. HAVE 2013 REVENUES RELATED TO ANADARKO CUSTOMERS INCLUDED**  
11 **IN THE TEST YEAR BEEN REVERSED?**

12 A. The purchase of the Anadarko assets closed on November 1, 2013. However,  
13 revenues for November and December of 2013 were not included in the general  
14 ledger; therefore, no adjustment to reverse 2013 revenues is needed.

15  
16 **I. ANADARKO ACQUISITION DEFERRED EXPENSES (ADJUSTMENT NO.**  
17 **IS-12)**

18 **Q. PLEASE EXPLAIN THE ANADARKO DEFERRED EXPENSES.**

19 A. Adjustment No. IS-12 amortizes the deferred expenses associated with the  
20 Anadarko acquisition as allowed by the Commission in the 509 Docket. The total  
21 accumulated expenses of \$112,650 were divided by 3 years, resulting in an  
22 annual expense of \$37,550.

23 **Q. WHAT TYPES OF COSTS WERE INCURRED?**

1 A. The costs incurred by Black Hills Kansas included outside legal expenses and  
2 costs assessed to the Company by the Commission for its Staff's work in the 509  
3 Docket. A minimal amount was incurred for survey and title work.

4 **Q. MS. STICHLER, DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

State of Nebraska            )  
  ) ss  
County of Sarpy             )


**AFFIDAVIT OF ANN L. STICHLER**

I, Ann L. Stichler, being first duly sworn on oath, depose and state that I am the same Ann L. Stichler 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.



Ann L. Stichler

Subscribed and sworn to before me,  
A Notary Public, in and for said County  
and State, this 15<sup>th</sup> day of April, 2014.

  
Notary Public

My Commission expires: 7/4/17



**REQUEST FOR ACCOUNTING AUTHORITY ORDER**  
**ALLOWING BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC, d/b/a BLACK**  
**HILLS ENERGY TO USE DEFERRED ACCOUNTING FOR COSTS ASSOCIATED**  
**WITH THE FUTURETRACK WORKFORCE DEVELOPMENT PROGRAM THAT**  
**DEVIATE FROM THE ASSOCIATED COSTS INCLUDED IN BASE RATES**

Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy (“Company”) requests that the Kansas Corporation Commission (“Commission”) approve an accounting authority order permitting Black Hills Kansas to use deferred accounting for costs associated with the FutureTrack Workforce Development Program that deviate from the associated costs included in base rates.

- 1) Black Hills Kansas has requested that the Commission approve the inclusion of \$245,968 in base rates over the next eight years for the FutureTrack Workforce Development Program. Provided the Commission approves this amount, Black Hills Kansas proposes that any deviation from this amount be recorded in a regulatory asset.
- 2) The Company requests that it receive a yearly rate of return on the balance in the FutureTrack Workforce Development Program regulatory asset. If the Company spends less than the annual amount included in rates, customers will receive a credit for dollars not spent on workforce

development during that year, plus a return. The rate of return will be equal to the rate of return approved by the Commission in this rate case.

- 3) An annual report to the Commission will be provided to demonstrate the actual costs incurred and progress of the overall program.
- 4) The Company requests that at the end of the eight-year period, the balance in the regulatory asset be amortized over the next three-year period and recovered starting in year nine through a surcharge.