

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 for a Gas System Reliability) Docket No. 17-BHCG- 389 -TAR
Surcharge per K.S.A. 66-2201 through 66-2204)

APPLICATION

COMES NOW Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy ("Black Hills" or "Company"), and pursuant to K.S.A. 66-2201, *et seq.*, submits for filing a new tariff schedule, Gas System Reliability Surcharge, which is designed to allow for the adjustment of Black Hills' rates and charges to provide for the recovery of costs for eligible infrastructure system replacements. In support of its Application, Black Hills states as follows:

1. Black Hills is a limited liability company with its principal place of business in Kansas at 601 N. Iowa Street, Lawrence, Kansas 66044. Black Hills is duly authorized to transact business in the State of Kansas, holds appropriate certificates from this Commission to transact business as a natural gas public utility and is now and has been engaged in the purchase, transmission, sale and distribution of natural gas in the State of Kansas in accordance with the laws of said state and the rules and regulations of this Commission.

2. Black Hills serves approximately 112,000 customers in 64 communities and in 48 surrounding counties in Kansas. Operation centers are located in the major cities and towns served by Black Hills which include Lawrence, Wichita, Garden City, Dodge City, Liberal, and Goodland. Black Hills currently operates 293 miles of transmission lines, 2,826 miles of distribution lines, and 100,168 service lines in Kansas.

3. In 2006, Senate Bill 414, the Gas Safety and Reliability Act, was passed into law.

Under this law, a utility "may file a petition and proposed rate schedules with the commission to establish or change GSRS rate schedules that will allow for the adjustment of the natural gas public utility's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements." Each year a utility is required to relocate and replace certain segments of its system. The proposed GSRS tariff included in this Application will allow the utility to recover these expenses between rate cases through a surcharge.

4. K.S.A. 66-2202 defines "eligible infrastructure system replacement" as:

...natural gas public utility plant projects that: (1) Do not increase revenues by directly connecting the infrastructure replacement to new customers; (2) are in service and used and required to be used; and (3) were not included in the natural gas public utility's rate base in its most recent general rate case.

5. Exhibit ALS-1 is an index of the projects being included in this GSRS proposal. Exhibit ALS-2 is a summary of each project. There are two groups of projects being submitted. The first group includes safety-related system replacements and includes 152 specific projects and blanket work orders.¹ The second group consists of governmentally-mandated road relocation projects which have not been reimbursed to the natural gas utility and includes six (6) projects.² Both of these types of projects are eligible for inclusion in a GSRS proposal. Exhibit ALS-1 shows the location, project description, work order number and completion date for each of the projects. The safety-related project list also includes a reference to the compliance section of the state or federal pipeline safety requirements as replacements for existing facilities.

6. The inclusion criteria for the safety-related projects, according to K.S.A. 66-2202, are

¹Exhibits ALS-1 and ALS-2 list 154 specific safety-related project numbers, SR-1 through SR-154. Projects SR-151 and SR-152 were intentionally removed from this filing leaving 152 specific safety-related projects and blanket work orders as the subject matter of this filing.

²Exhibits ALS-1 and ALS-2 list seven specific relocation project numbers, R-1 through R-7. Project R-3 was intentionally removed from this filing leaving six specific relocation projects as the subject matter of this filing.

as follows:

(1) Mains, valves, service lines, regulator stations, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities; and (2) Main relining projects, service line insertion projects, joint encapsulation projects and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements.

7. The inclusion criteria for the road relocation projects, according to K.S.A. 66-2202,

are as follows:

Facility relocations required due to construction or improvement of a highway, road, street, public right of way or other public work by or on behalf of the United States, this state, a political subdivision of this state or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the natural gas utility.

8. Only projects meeting the two criteria previously mentioned are being submitted for consideration in this filing.

9. Exhibit ALS-2 and *CONFIDENTIAL* Exhibit ALS-3 include the supporting documentation for each of those projects. For each of the 152 specific safety-related projects, detailed information including a map of the relocation and summary of the project is included. For each of the six (6) road relocation projects, detailed information including the request to relocate the facility (from the city, county, or state), a map of the replacement area, and summary of the project is included.

10. The testimony of Kathy Kropp, Black Hills' Financial Manager for the company's Kansas operations, is also attached to this Application. Pursuant to the provisions of K.S.A. 66-2204, Exhibit KMK-1, which is attached to Ms. Kropp's testimony shows the increase to rate base and the calculation of the GSRS revenue requirement. In addition to the new GSRS projects, Exhibit KMK-1 includes an update of the revenue requirement of the GSRS projects originally included in Docket No.

16-BHCG-277-TAR ("277 Docket") to account for an additional year of accumulated depreciation and to account for current accumulated deferred income taxes.

11. K.S.A. 66-2203 states that "the commission may not approve a GSRS to the extent it would produce total annualized GSRS revenues below the lesser of \$1,000,000 or 1/2 % of the natural gas public utility's base revenue level approved by the commission in the natural gas public utility's most recent general rate proceeding." Based on Black Hills' most recent general rate proceeding, that amount would total \$238,898.

12. Components of the rate base calculation include Gross Plant, which is the original cost of all eligible projects, less any related cost of removal and abandonment of the existing system; Accumulated Depreciation, which has been calculated by project based on the approved depreciation rate for that type of plant; and Accumulated Deferred Income Taxes, which has been calculated by project based on the type of plant. Exhibit KMK-2 attached to Ms. Kropp's testimony details the GSRS net plant calculation and the deferred taxes calculation.

13. None of the projects included in the GSRS filing were included in Black Hills' last rate filing. These projects were completed subsequent to the December 31, 2013, test period included in Black Hills' last general rate filing. In addition, none of the projects being considered in this GSRS filing were included in the Company's GSRS filing in the 277 Docket.

14. The Stipulated Settlement Agreement in Black Hills' most recent rate case, Docket No. 14-BHCG-502-RTS ("502 Docket"), sets forth the provisions for the return calculation. It states,

For purposes of calculating Black Hills' Gas System Reliability Surcharge ("GSRS"), the carrying charge to be applied to recoverable investments in such filings shall be calculated using a carrying charge of 9.763% gross of tax, which is based on state and federal tax rates in effect as of the date of this Agreement.

15. Exhibit KMK-3 attached to Ms. Kropp's testimony shows the allocation of the GSRS

revenue by class. The customer class allocation is pursuant to the Stipulated Settlement Agreement in the 502 Docket and is the same as that used by Black Hills and approved by the Commission in the 277 Docket.

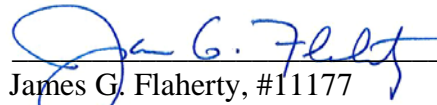
16. K.S.A. 66-2204(e)(1) states,

A GSRS shall be charged to customers as a monthly fixed charge and not based on volumetric consumption. The monthly charge shall not increase more than \$.40 per residential customer over the base rates in effect for the initial filing of a GSRS. Thereafter, each filing shall not increase the monthly charge more than \$.40 per residential customer over the most recent filing of a GSRS.

The proposed GSRS Surcharge increase is \$.29 per month for a residential customer.

17. Exhibit ALS-4 attached to Ms. Stichler's testimony is the redline and final tariff sheet for the proposed GSRS surcharge.

WHEREFORE, for the reasons set forth herein Black Hills requests that the Commission issue an Order approving this Application and the attached gas system reliability surcharge tariff.



James G. Flaherty, #11177

ANDERSON & BYRD, LLP

216 S. Hickory, P. O. Box 17

Ottawa, Kansas 66067

(785) 242-1234, telephone

(785) 242-1279, facsimile

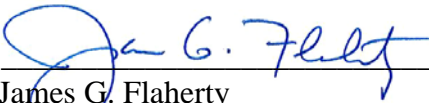
Attorneys for Black Hills/Kansas Gas Utility Company,
LLC, d/b/a Black Hills Energy

VERIFICATION

STATE OF KANSAS)
)ss:
COUNTY OF FRANKLIN)

James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is the attorney for Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy, named in the foregoing Application, and is duly authorized to make this affidavit; that he has read the foregoing Application, and knows the contents thereof; and that the facts set forth therein are true and correct to the best of his knowledge, information and belief.



James G. Flaherty

SUBSCRIBED AND SWORN to before me this 21st day of February, 2017.





Notary Public

Appointment/Commission Expires: