

**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** )  
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)  
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**Docket No. 21-BHCG- -RTS**

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**DIRECT TESTIMONY OF THOMAS D. STEVENS**

**ON BEHALF OF**

**BLACK HILLS/KANSAS GAS UTILITY  
COMPANY, LLC, d/b/a BLACK HILLS ENERGY**

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**TABLE OF CONTENTS**

**I. INTRODUCTION .....1**

**II. STATEMENT OF QUALIFICATIONS.....1**

**III. PURPOSE OF TESTIMONY.....2**

**IV. RATE APPLICATION AND PRIMARY DRIVERS .....3**

    1. Continue GSRS to support the ARP .....4

    2. Increase base rates to address revenue deficiency .....5

    3. Provide customers EDIT benefits of tax reform.....6

**V. SUMMARY OF THE COMPANY’S RATE APPLICATION .....8**

**VI. COMPANY WITNESSES .....11**

    1. Thomas D. Stevens, Director of Regulatory and Finance ..... 11

    2. Mr. Jerry A. Watkins, General Manager – Kansas Operations ..... 11

    3. Ms. Rachel R. Schuldt, Principal Analyst – Regulatory and Finance ..... 11

    4. Mr. Kenneth L. Crouch, Manager of Tax Planning & Regulatory ..... 12

    5. Ms. Kristi L. Johnson, Director of Total Rewards ..... 12

    6. Ms. Christianne M. Curran, Assistant Treasurer ..... 12

    7. Mr. Douglas N. Hyatt, Principal Regulatory Analyst –  
    Regulatory & Finance..... 13

    8. Mr. Robert W. Daniel, Manager – Regulatory & Finance ..... 13

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

    10. Mr. John J. Spanos, President - Gannett Fleming Valuation and Rate  
    Consultants, LLC ..... 14

**VII. COVID-19 PANDEMIC IMPACT AND COMPANY RESPONSE.....14**

**VIII. TA RIDER .....16**

**IX. CONCLUSION AND RECOMMENDATIONS.....20**

## EXHIBITS

KSG Direct Exhibit TDS-1	Education, Employment History and Professional Experience
KSG Direct Exhibit TDS-2	Calculation of Total Refund Through TA Rider
KSG Direct Exhibit TDS-3	Calculation of TA Rider Rates

1 **I. INTRODUCTION**

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

3 A. My name is Thomas D. Stevens, and my business address is 655 E. Millsap Road, Suite 104,  
4 Fayetteville, AR 72703.

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

6 A. I am employed by Black Hills Service Company, LLC. (“BHSC”). BHSC is a wholly-owned  
7 subsidiary of Black Hills Corporation (“BHC”). I am the Director of Regulatory & Finance  
8 for Kansas.

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

10 A. I am testifying on behalf of Black Hills/Kansas Gas Utility Company, LLC (“Black Hills”  
11 or “the Company”). Black Hills is a wholly-owned subsidiary of Black Hills Utility  
12 Holdings, Inc. (“BHUH”). BHUH is a wholly-owned subsidiary of BHC.

13 **II. STATEMENT OF QUALIFICATIONS**

14 **Q. WILL YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
15 **BUSINESS EXPERIENCE?**

16 A. My education, employment history, and professional experience are provided on KSG Direct  
17 Exhibit TDS-1.

18 **Q. WHAT ARE YOUR CURRENT JOB RESPONSIBILITIES?**

19 A. I am responsible for all regulatory matters and financial planning and analysis for the  
20 Company’s regulated natural gas utilities located in the states of Arkansas and Kansas. In  
21 this role, I oversee and participate in the development of regulatory strategy, policy, tariffs,

1 and regulatory filings in Arkansas and Kansas. My team is also responsible for financial  
2 planning and analysis, including the annual budgeting process and monthly and quarterly  
3 analysis of operating results.

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

5 A. Yes. I have previously provided written testimony before the Kansas Corporation  
6 Commission (“Commission”) in Docket Nos. 19-WSEE-061-COM and 21-BHCG-099-  
7 RTS. Additionally, I have testified before the Arkansas Public Service Commission and the  
8 Oklahoma Corporation Commission.

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

10 A. Yes, I am sponsoring the following Exhibits:

KSG Direct Exhibit TDS-1	Education, Employment History, and Professional Experience
KSG Direct Exhibit TDS-2	Calculation of Total Refund Through TA Rider
KSG Direct Exhibit TDS-3	Calculation of TA Rider Rates

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

13 A. Yes.

14 **III. PURPOSE OF TESTIMONY**

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

16 A. The purpose of my Direct Testimony is to (i) sponsor the rate application and describe the  
17 primary drivers behind the Company’s rate application; (ii) summarize the Company’s rate  
18 application; (iii) provide a summary of the topics other Company witnesses will address and  
19 support through their testimony and exhibits; (iv) provide a discussion of the impacts of the  
20 Covid-19 Pandemic on this rate application; and, (v) support the Company’s proposal for a

1  
2 Tax Adjustment Rider (“TA Rider”) to provide customers additional benefits of federal and  
3 state tax reform.

4 **IV. RATE APPLICATION AND PRIMARY DRIVERS**

5 **Q. WHEN WAS THE LAST RATE PROCEEDING FOR BLACK HILLS?**

6 A. The last rate proceeding for Black Hills Kansas' customers was in 2014 based on a test period  
7 ending December 31, 2013 (“2014 Rate Proceeding”).

8 **Q. WHAT ARE THE PRIMARY DRIVERS FOR BLACK HILLS TO FILE THIS RATE**  
9 **APPLICATION?**

10 A. There are three primary drivers for this rate application, including:

- 11 1. Renew the Gas System Reliability Surcharge (“GSRS”) to support the Company’s  
12 Accelerated Pipeline Replacement Program (“ARP”) and ongoing system integrity  
13 and reliability investments necessary to safely and reliably provide service to its  
14 customers.
- 15 2. Increase base rates to address the Company’s revenue deficiency, primarily resulting  
16 from capital additions to plant since the Company’s 2014 Rate Proceeding.
- 17 3. Provide customers the benefit of excess accumulated deferred income taxes  
18 (“EDIT”) resulting from federal and state tax reform.

1 **Q. PLEASE SUMMARIZE EACH OF THE PRIMARY DRIVERS FOR THIS RATE**  
2 **APPLICATION.**

3 A. Each primary driver for this rate application is summarized below:

4 **1. Continue GSRS to support the ARP**

5 Much of the Company's rate base growth since the 2014 Rate Proceeding is  
6 attributed to integrity and reliability investments in Black Hills' system necessary to  
7 continue to provide safe and reliable service to its customers. A portion of these investments  
8 qualify for recovery through the GSRS.<sup>1</sup> The Company's most recent GSRS filing,  
9 approved by the Commission in Docket No. 20-BHCG-389-TAR on June 23, 2020, included  
10 cumulative qualifying investments made from July 2014 through January 2020. In total, that  
11 GSRS filing included just over \$58 million in net plant additions associated with qualifying  
12 integrity and reliability investments. Since January 2020 the Company has continued to  
13 make significant investments to replace obsolete pipe in Kansas in support of Black Hills'  
14 ARP, as further discussed in the testimony of Company witness Mr. Jerry Watkins.

15 However, pursuant to K.S.A. 66-2203, which establishes the number of GSRS filings  
16 allowed by a utility between general rate proceedings, Black Hills would not be allowed to  
17 make any additional GSRS filings without first filing a rate application. Accordingly, Black  
18 Hills is required to file this rate application in order to recover the GSRS qualifying  
19 investments it has made since January 2020 and to support Black Hills' ongoing investments

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<sup>1</sup> In 2006, Senate Bill 414, the Gas Safety and Reliability Policy 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." In 2018, and effective January 1, 2019, the Gas Safety and Reliability Policy Act was amended to allow recovery of costs relating to additional safety investments and provide an increase to the monthly customer charge limit.

1 in system integrity and reliability as it continues its ARP beyond 2021. Further, absent the  
2 filing of a rate application, the Company would not be allowed to continue to recover the  
3 \$4.9 million in annual GSRS revenue authorized by the Commission in its most recent GSRS  
4 filing approved in June 2020 due to the upcoming expiration of the current GSRS.<sup>2</sup> As part  
5 of its rate application the Company will incorporate or “roll in” the existing GSRS revenues  
6 into base rates and reset the GSRS to zero, as discussed below.

7 **2. Increase base rates to address revenue deficiency**

8 The Company seeks increased base revenues of \$10.2 million to address the existing revenue  
9 deficiency for Black Hills. This overall revenue increase includes rolling into base rates the  
10 \$4.9 million in GSRS revenues customers are currently paying through the GSRS. Since the  
11 GSRS rates will be set to zero once new base rates are approved by the Commission in this  
12 proceeding, the net revenue increase the Company is requesting in this rate application is  
13 \$5.3 million (\$10.2 million increase in base rates less \$4.9 million reduction in GSRS).  
14 Further, as will be discussed in more detail later in my testimony, this net revenue increase  
15 will be substantially offset by a refund of net EDIT, including carrying costs, in the amount  
16 of \$2.8 million per year for three years through the Company’s proposed TA Rider.

17 The primary driver for the revenue deficiency is an approximately \$100 million  
18 increase in rate base since the 2014 Rate Proceeding as a result of the capital investments

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<sup>2</sup> Pursuant to K.S.A. 66-2203(b), the Commission shall not approve a GSRS for any natural gas public utility that has not had a general rate proceeding decided or dismissed within the past sixty (60) months, unless the natural gas public utility has filed for or is the subject of a new general rate proceeding. Pursuant to K.S.A. 66-2203(c), a natural gas public utility shall not collect a GSRS for a period exceeding sixty (60) months unless the natural gas public utility has filed for or is the subject of a new general rate proceeding. Pursuant to K.S.A. 66-2203(d), the Commission may extend these sixty (60) month periods. On September 9, 2019, Black Hills filed in Docket No. 19-BHCG-400-TAR a Motion to Extend the Gas System Reliability Surcharge Authority As Provided For in K.S.A. 66-2203(d). The Commission granted the Motion to Extend by order issued November 21, 2019.



1 Black Hills has made over the last seven years to provide safe and reliable service to Kansas  
2 customers. Black Hills' management of expenses and the completion of several small  
3 acquisitions and customer additions since 2014 have helped to lessen the revenue deficiency  
4 requested in this case.

### 5 **3. Provide customers EDIT benefits of tax reform**

6 Since the Company's 2014 Rate Proceeding, there has been federal and state tax reform that  
7 lowered the federal and state corporate income tax rates for Black Hills. Specifically, in 2017  
8 Congress passed the Tax Cuts and Jobs Act ("TCJA") which lowered the federal corporate  
9 income tax rate from 35% to 21% effective January 1, 2018. Then, in 2020, the Kansas  
10 Legislature passed House Bill No. 2585 ("HB 2585"), which exempted certain public  
11 utilities from state income taxation for tax years ending on or after January 1, 2021.  
12 Company witness Mr. Kenneth L. Crouch discusses within his testimony each of these tax  
13 reform measures and the associated impact on Black Hills.

14 Beginning in early 2018, in compliance with the settlement agreement approved by  
15 the Commission in Docket No. 18-GIMX-248-GIV ("TCJA Docket"), Black Hills began  
16 providing customers the immediate benefits of a lower federal corporate income tax rate.  
17 Specifically, the Company first provided an initial credit of \$1.0 million to customers in  
18 April 2018 and provided an additional \$0.8 million in credits throughout the remainder of  
19 2018 through the Purchased Gas Adjustment ("PGA"). Black Hills has provided an annual  
20 refund of \$1.7 million to customers each year since 2018.<sup>3</sup> These annual credits are in

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3 The lower federal corporate income tax rate of 21% and the state corporate income tax rate of 0% are both incorporated into the calculation of the revenue deficiency requested in this rate application. Accordingly, the annual TCJA refund of \$1.7 million will no longer be provided upon implementation of new base rates resulting from a Commission order in this rate proceeding.

1 addition to the approximate \$1.8 million in tax savings provided to customers through GSRS  
2 rates since April 2018 to reflect the tax savings specifically related to that rider. By the end  
3 of 2021, the Company will have provided cumulative tax savings of approximately \$8.7  
4 million to its Kansas customers as a result of TCJA.

5 Additionally, as a result of HB 2585, and as approved by the Commission in  
6 Docket No. 21-BHCG-099-RTS, the Company lowered its base rates and GSRS rates  
7 effective January 1, 2021, resulting in an annual reduction to Kansas customers of  
8 approximately \$0.7 million. Combining the effects of TCJA and HB 2585, the Company  
9 will have passed on to customers cumulative tax reform benefits of about \$9.4 million by  
10 the end of 2021.

11 As will be addressed later in my testimony, and as discussed in the testimony of  
12 Mr. Crouch, there are net EDIT benefits associated with TCJA and HB 2585 to provide  
13 customers in this rate application. Pursuant to the settlement agreement in the TCJA Docket,  
14 and pursuant to statutory requirements in HB 2585, providing EDIT to customers was  
15 reserved until the Company's next rate proceeding. Therefore, this rate application allows  
16 the Company to pass along to customers additional benefits of TCJA and HB 2585. In total,  
17 the Company proposes to provide customers \$7.6 million in net EDIT over a three-year  
18 period through a separate TA Rider. Inclusive of carrying charges, the Company proposes  
19 to provide customers \$8.4 million, or approximately \$2.8 million per year over the proposed  
20 three-year refund period within the TA Rider. In addition to the proposed refund of net EDIT  
21 through the TA Rider, the Company's rate application includes within its requested revenue  
22 deficiency the return to customers of Protected EDIT based on the average rate assumption  
23 method ("ARAM"), as discussed in further detail in the testimony of Mr. Crouch.

1                   **V. SUMMARY OF THE COMPANY'S RATE APPLICATION**

2   **Q. PLEASE SUMMARIZE THE COMPANY'S RATE APPLICATION.**

3   A. The Company's rate application requests a \$10.2 million increase in permanent rates based  
4       on a 2020 Test Year, as adjusted to include planned capital additions through June 30, 2021,  
5       along with other known and measurable adjustments. As previously discussed, when  
6       considering the \$4.9 million in GSRS revenues currently being collected from customers,  
7       the net impact to customers resulting from the Company's request in this filing is a  
8       \$5.3 million increase. This requested increase will be further reduced by the Company's  
9       proposed \$2.8 million per year refund to customers through the TA Rider.

10               As supported by Company Witnesses Mr. Adrien M. McKenzie and Ms. Christianne  
11       M. Curran in their testimonies, the Company's requested revenue increase is based on an  
12       overall rate of return ("ROR") of 7.05%, including a 10.15% return on equity ("ROE"),  
13       3.91% cost of debt, and a capital structure with 50.34% equity and 49.66% debt based on  
14       the Company's actual capital structure as of December 31, 2020. The proposed 7.05% ROR  
15       is needed so that the Company has a reasonable opportunity to earn a fair return on the  
16       investments it has made in Kansas since its 2014 Rate Proceeding, as well as to support the  
17       Company's ongoing integrity and reliability investments in future GSRS filings.

18               Black Hills' capital investment since its 2014 Rate Proceeding was made in integrity  
19       and reliability projects, growth and general plant. As noted above, some of the gas system  
20       investment in integrity and reliability projects is currently being recovered through the GSRS  
21       and will be rolled in to base rates in this application. Other gas system investment by Black  
22       Hills will be incorporated into base rates through this rate application. In total, the  
23       Company's rate base has grown by approximately \$100 million from its 2014 Rate

1 Proceeding through June 30, 2021, the ending period for planned capital additions included  
2 in the Company's request. Nearly half, or \$49 million, of that increase in rate base is  
3 currently being recovered through the GSRS, approved by the Commission in June 2020 for  
4 eligible reliability and integrity investments made through January 2020. The remaining  
5 increase in rate base is driven by additional GSRS qualifying reliability and integrity  
6 investments made since January 2020, along with other gas system investment by the  
7 Company in growth, reliability and general plant that does not qualify for GSRS recovery.

8 In addition to the approximate \$100 million increase in rate base included in this  
9 filing, the Company is also seeking to ensure new base rates are established that recover the  
10 Company's ongoing operations and maintenance expense and administrative and general  
11 expense needed to provide safe and reliable natural gas delivery service to customers.  
12 Adjustments to the Test Year have been included in this application in several areas, as  
13 detailed in Section 3, Schedule 2 of the rate application and as explained in Section 9,  
14 Schedule 2 of the rate application and supported by various Company witnesses as discussed  
15 in the Company witness overview provided in Section VI of my testimony.

16 **Q. IS BLACK HILLS PROPOSING A CHANGE IN ITS DEPRECIATION RATES AS**  
17 **PART OF ITS RATE APPLICATION?**

18 A. Yes. In Docket No. 08-GIMX-1142-GIV, the Commission found that "the natural gas and  
19 public utilities shall file a depreciation study on their assets every five to seven years." The  
20 Commission also noted that these depreciation studies should be filed either concurrent with  
21 or just before a rate application. Accordingly, since it has been seven years since the  
22 Company's last depreciation study, Black Hills is providing a depreciation study, sponsored  
23 by Company witness Mr. John Spanos, concurrent with this rate application.

1 **Q. PLEASE EXPLAIN THE COMPANY’S CLASS COST OF SERVICE STUDY AND**  
2 **RATE DESIGN.**

3 A. The direct testimony of Company witness Mr. Douglas N. Hyatt contains a detailed  
4 explanation of the class cost of service study and rate design proposals. I also discuss the  
5 proposed TA Rider rate design later in my testimony.

6 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS TARIFF WITHIN THIS**  
7 **RATE APPLICATION, OTHER THAN CHANGES NECESSARY TO**  
8 **EFFECTUATE THE COMPANY’S PROPOSED BASE RATES?**

9 A. Yes. Since it has been seven years since the Company’s 2014 Rate Proceeding, the Company  
10 is proposing certain modifications to its tariffs, as discussed in the direct testimony of  
11 Company witness Mr. Robert W. Daniel.

12 **Q. HAS THE COMPANY INCORPORATED WITHIN THIS RATE APPLICATION**  
13 **ANY INCREASED GAS COSTS ASSOCIATED WITH THE RECENT FEBRUARY**  
14 **WINTER WEATHER EVENT (“STORM URI”)?**

15 A. No. The increased gas costs incurred by the Company during Storm Uri to ensure energy  
16 was delivered to customers when they most needed it are not included in this rate application.  
17 Gas costs are passed through to customers, with no mark-up or profit, through the PGA,  
18 which is typically adjusted monthly. Pursuant to the Commission’s direction within  
19 Docket No. 21-GIMX-303-MIS, the Company will separately make a compliance filing  
20 within Docket No. 21-BHCG-334-GIG proposing a plan to spread cost recovery over a  
21 period of several years to help mitigate the impact of increased gas costs to customer bills.

1 **VI. COMPANY WITNESSES**

2 **Q. WHO ARE THE COMPANY'S OTHER WITNESSES PROVIDING SUPPORTING**  
3 **TESTIMONY IN THIS PROCEEDING?**

4 A. The following witnesses are filing testimony in support of the Company's application:

5 **1. Thomas D. Stevens, Director of Regulatory and Finance**

6 The purpose of my testimony is set forth above.

7 **2. Mr. Jerry A. Watkins, General Manager – Kansas Operations**

8 Mr. Watkins provides a general overview of the Company's Kansas service territory and gas  
9 operations and discusses the overall need for the Company's rate application and requested  
10 revenue increase. He further discusses the Company's integrity, reliability and growth  
11 capital expenditures, including a discussion of Black Hills' ARP and the importance of  
12 GSRS in supporting Black Hills' ongoing investments. Mr. Watkins also discusses the  
13 Company's response during the Covid-19 Pandemic over the past year.

14 **3. Ms. Rachel R. Schuldt, Principal Analyst – Regulatory and Finance**

15 Ms. Schuldt sponsors the revenue requirement schedules which support the Company's  
16 requested increase in base rate revenues in its rate application. Her testimony describes the  
17 Test Year rate base, revenues, and operating expenses, with known and measurable  
18 adjustments, to reflect the revenue needed to recover the costs to provide service to Black  
19 Hills' customers and for the Company to have the opportunity to earn a fair return.  
20 Ms. Schuldt also supports the costs allocated by BHSC to Black Hills under the Cost  
21 Allocation Manual.

1           **4. Mr. Kenneth L. Crouch, Manager of Tax Planning & Regulatory**

2           Mr. Crouch supports the calculation of income tax expense and related Accumulated  
3           Deferred Income Taxes in the calculation of the Company’s revenue deficiency. He also  
4           discusses the tax impacts of the TCJA on the requested revenue requirement, including the  
5           accounting for EDIT in compliance with the TCJA Docket. Further, Mr. Crouch discusses  
6           the tax impacts of HB 2585 on the requested revenue requirement, including the accounting  
7           for EDIT and other associated state income tax items including indirect state tax  
8           consequences of the passage of HB 2585.

9           **5. Ms. Kristi L. Johnson, Director of Total Rewards**

10          Ms. Johnson supports employee benefit and compensation costs included in the revenue  
11          requirement for the Test Year and the compensation-related adjustments that are included  
12          in this filing. Ms. Johnson describes the overall benefit and compensation programs for  
13          BHC employees, including employees of Black Hills, as well as the steps undertaken by  
14          BHC to evaluate its overall compensation programs. Further, Ms. Johnson addresses the  
15          Commission’s policy on incentive compensation as it applies to the incentive compensation  
16          included in the rate application submitted by Black Hills in this proceeding.

17          **6. Ms. Christianne M. Curran, Assistant Treasurer**

18          Ms. Curran discusses the corporate finance philosophy of BHC, provides support for Black  
19          Hills’ proposed capital structure, cost of long-term debt and cost of equity, discusses recent  
20          debt financing activity, and discusses Black Hills' proposed methodology to be applied in  
21          this and future rate applications for allocating long-term debt from BHC to its subsidiaries.  
22          Ms. Curran also supports Black Hills’ proposals regarding pension and retiree medical

1 expenses and the treatment of balances in the accounting tracking mechanisms related to  
2 those expenses.

3 **7. Mr. Douglas N. Hyatt, Principal Regulatory Analyst – Regulatory & Finance**

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

9 **8. Mr. Robert W. Daniel, Manager – Regulatory & Finance**

10 Mr. Daniel supports the Company's tariff modifications proposed in this application,  
11 including but not limited to, the proposed elimination of the Small Volume Interruptible rate  
12 schedule, modifications to certain provisions of the Company's Transportation Services  
13 Provisions, modifications to the Weather Normalization Adjustment Rider, and other tariff  
14 changes, including those within the Company's General Rules, Regulations, Terms and  
15 Conditions.

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

17 Mr. McKenzie supports the proposed cost of common equity used in the capital structure to  
18 determine the weighted average cost of capital incorporated in the Revenue Requirement  
19 Study. Mr. McKenzie discusses current capital markets and provides an expert assessment  
20 of the range of reasonable rates of return on equity for Black Hills of 9.5% to 10.8%.  
21 Mr. McKenzie's testimony supports a 10.15% return on equity requested by Black Hills.



1           **10. Mr. John J. Spanos, President - Gannett Fleming Valuation and Rate Consultants,**  
2                           **LLC**

3           Mr. Spanos supports and explains the Depreciation Study he performed for Black Hills and  
4           recommends calculated annual depreciation accrual rates by account as of  
5           September 30, 2020.

6                           **VII. COVID-19 PANDEMIC IMPACT AND COMPANY RESPONSE**

7           **Q. PLEASE DESCRIBE THE ACTIONS TAKEN BY BLACK HILLS TO MANAGE**  
8           **THE IMPACTS OF THE COVID-19 PANDEMIC.**

9           A. The global Covid-19 Pandemic (“Pandemic”) caused numerous devastating impacts to the  
10           health and well-being of people throughout the world. The public health and economy of  
11           Kansas was also impacted significantly by this Pandemic. Black Hills provides natural gas  
12           service within 65 communities in Kansas and has been considered an essential service during  
13           the Pandemic.

14                       The Pandemic has had several impacts on the customer safety and service provided  
15           by the Company. Mr. Watkins discusses in his testimony the safety measures that Black  
16           Hills instituted to protect its customers and employees while ensuring that Black Hills  
17           continues to provide a high level of customer service. Mr. Watkins also discusses the actions  
18           taken to alleviate the impact of the Pandemic on Black Hills’ customers through a temporary  
19           disconnect moratorium as well as extended payment arrangements and waiving of late  
20           payment fees. Finally, Mr. Watkins’ testimony details Black Hills’ charitable support of  
21           emergency assistance programs in Kansas.

1 **Q. DID THE PANDEMIC HAVE AN IMPACT ON BLACK HILLS' EXPENSES OR**  
2 **REVENUES DURING THE 2020 TEST YEAR IN THIS APPLICATION?**

3 A. Yes. Not unlike other businesses and organizations across Kansas, the Pandemic had far-  
4 reaching implications for many facets of the Company's business operations during 2020,  
5 with some of those impacts continuing into early 2021. Many of these impacts directly  
6 affected expenses or revenues within the Company's 2020 Test Year included in this  
7 application. While not exhaustive, these impacts include: 1) higher bad debt expense  
8 associated with the disconnect moratorium and economic hardships of our customers;  
9 2) lower late payment fee revenues associated with a waiver of those fees through 2021;  
10 3) lower miscellaneous service fee revenues associated with fewer disconnect and reconnect  
11 orders during the moratorium period; 4) lower travel expense, training expense, and office  
12 supplies expense due to travel restrictions and Pandemic work-from-home policies; and,  
13 5) increased expenses for personal protective materials and supplies and facility cleaning to  
14 ensure the safety of employees and customers.

15 **Q. DID THE COMPANY INCLUDE ANY PRO FORMA ADJUSTMENTS IN THIS**  
16 **FILING TO ACCOUNT FOR THE IMPACT OF THE PANDEMIC ON ITS KANSAS**  
17 **OPERATIONS AND CUSTOMERS DURING THE 2020 TEST YEAR?**

18 A. Yes. As supported in the testimony of Ms. Schuldt, several pro forma adjustments are  
19 included in this application to account for the Test Year impacts from the Pandemic. These  
20 adjustments were made to ensure that the base rates approved in this application recover  
21 Black Hills' ongoing business costs necessary to provide safe and reliable natural gas service  
22 to Kansas customers and to provide the Company a reasonable opportunity to earn a fair  
23 return on its investments.

1 **Q. HAS THE COMPANY INCLUDED A REQUEST IN THIS FILING FOR**  
2 **RECOVERY OF A PANDEMIC-RELATED REGULATORY ASSET RESULTING**  
3 **FROM THE COMMISSION’S ACCOUNTING AUTHORITY ORDER (“AAO”) IN**  
4 **DOCKET NO 20-GIMG-423-ACT?**

5 A. No. The Company has not recorded a regulatory asset pursuant to the Commission’s AAO  
6 in Docket No. 20-GIMG-423-ACT. Although the Company experienced cost increases in  
7 order to safely respond to the Pandemic and to provide relief to customers facing financial  
8 hardships as described above, the Company sought to effectively manage the financial  
9 impacts of the Pandemic on its business and its customers. Cost reductions during the  
10 Pandemic in areas such as travel and office supplies helped to mitigate the cost increases.

11 **VIII. TA RIDER**

12 **Q. PLEASE DISCUSS THE NET EDIT THE COMPANY IS PROPOSING TO RETURN**  
13 **TO CUSTOMERS THROUGH THE TA RIDER.**

14 A. As discussed in the testimony of Mr. Crouch, the TCJA reduced the federal corporate income  
15 tax rate from 35% to 21% effective January 1, 2018. Further, HB 2585, signed into law in  
16 2020, exempted certain utilities from state corporate income taxes, reducing the statutory  
17 rate from 7% to 0% effective January 1, 2021. Both legislative actions resulted in net EDIT  
18 to return to customers. In Mr. Crouch’s testimony, he identifies a regulatory liability of  
19 \$4.1 million of Federal Non-Protected EDIT, partially offset by a \$0.2 million in Protected  
20 deficient deferred income taxes (“DDIT”), for a net refund of \$3.9 million through the  
21 TA Rider resulting from TCJA. Additionally, Mr. Crouch’s testimony identifies \$3.7 million  
22 in State EDIT resulting from HB 2585 to also be returned to customers through the TA Rider.

1 Both amounts include associated tax on tax gross-up accounting and combine for a total of  
2 approximately \$7.6 million in net EDIT to return to customers through the TA Rider. This  
3 amount is in addition to the Protected EDIT included within rate base and being amortized  
4 over ARAM, as discussed in the testimony of Mr. Crouch.

5 **Q. DID THE SETTLEMENT AGREEMENT IN THE TCJA DOCKET ADDRESS A**  
6 **SPECIFIC METHOD FOR HOW EDIT ASSOCIATED WITH TCJA SHOULD BE**  
7 **RETURNED TO CUSTOMERS IN THIS RATE APPLICATION?**

8 A. No. The settlement agreement noted that any issues regarding the amount of tax savings  
9 related to EDIT and “how those savings should be passed on to customers will be deferred  
10 to Black Hills’ next general rate case.”<sup>4</sup>

11 **Q. DOES HB 2585 SPECIFY A METHOD FOR HOW EDIT ASSOCIATED WITH THE**  
12 **STATE TAX EXEMPTION SHOULD BE RETURNED TO CUSTOMERS IN THIS**  
13 **RATE PROCEEDING?**

14 A. No. While HB 2585 requires that EDIT be addressed in a utility’s next general rate  
15 proceeding, HB 2585 does not specify a method for returning EDIT to customers.

16 **Q. HOW DOES BLACK HILLS PROPOSE TO RETURN TO CUSTOMERS THE**  
17 **\$7.6 MILLION IN NET EDIT RESULTING FROM TCJA AND HB 2585?**

18 A. The Company proposes to return \$7.6 million to customers through the TA Rider over a  
19 period of three years. The TA Rider is also designed to provide customers carrying costs on  
20 the rate base value of net EDIT within the TA Rider until the amounts are returned to  
21 customers. This ensures customers continue to receive the rate base benefit of net EDIT until

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<sup>4</sup> ORDER GRANTING JOINT MOTION FOR APPROVAL OF BLACK HILLS’ TAX REFORM PLAN, page 7.

1 the net EDIT is returned. The rate base value of the net EDIT included within the TA Rider  
2 is a total of \$6.1 million, which reflects the \$7.6 million net EDIT discussed above less the  
3 tax-gross up. Carrying costs are proposed to be calculated based on the Company's proposed  
4 7.05% ROR (8.41% on a pre-tax basis). The application of carrying costs results in additional  
5 benefits to customers of approximately \$0.8 million that will be provided to customers  
6 through the TA Rider over a three-year period. In total, inclusive of carrying costs, customers  
7 will receive \$8.4 million through the proposed TA Rider, or approximately \$2.8 million per  
8 year. KSG Direct Exhibit TDS-2 shows the calculation of the total \$8.4 million proposed to  
9 be provided to customers through the TA Rider.

10 **Q. WHY IS THE COMPANY PROPOSING TO RETURN THESE NET EDIT**  
11 **AMOUNTS TO CUSTOMERS THROUGH THE TA RIDER INSTEAD OF**  
12 **THROUGH BASE RATES?**

13 A. Returning these net EDIT amounts to customers through the TA Rider provides several  
14 important benefits for customers and the Company. First, the TA Rider provides a simple  
15 and transparent way to return Non-Protected EDIT balances to customers over a short  
16 timeframe. The TA Rider refund will appear on a customer's bill as a separate line item for  
17 the three-year period, and once the full amount has been refunded the TA Rider will be  
18 removed from customer bills and no changes in permanent base rates would be required at  
19 that time to account for the refund being completed. Second, the TA Rider provides for a  
20 true-up process to ensure that customers receive the full refund of \$7.6 million, plus carrying  
21 costs. Third, refunding net Non-Protected EDIT to customers through the TA Rider ensures  
22 that customers continue to receive the full rate base benefit of the net EDIT regulatory  
23 liability until the amounts are returned to customers, while also ensuring that the Company

1 is not required to file a rate application to adjust its rate base once it has returned the net  
2 EDIT to customers.

3 **Q. HOW DOES THE COMPANY PROPOSE TO ALLOCATE THE NET EDIT TO**  
4 **CUSTOMER CLASSES WITHIN THE TA RIDER?**

5 A. The Company proposes to allocate the EDIT to its customer classes in the same manner that  
6 rate base is allocated within the Class Cost of Service Study sponsored by Mr. Hyatt.  
7 KSG Direct Exhibit TDS-3, Column B, shows the allocation of the total refund to each  
8 customer class.

9 **Q. PLEASE DISCUSS THE PROPOSED RATE DESIGN WITHIN THE TA RIDER.**

10 A. The proposed TA Rider rates reflected on KSG Direct Exhibit TDS-3 are designed as a  
11 percentage reduction to base rates for each customer class. For example, for a residential  
12 customer, the proposed TA Rider rate is a 4.9729 percentage reduction to base rates.  
13 Table TDS-1 below illustrates how this would be applied on a residential customer's bill  
14 based on monthly consumption of 56 therms and using the proposed base rates in this filing.

15 **Table TDS-1**

<b>Residential Bill Component</b>	<b>Rate</b>	<b>Bill Amount</b>
<b>Customer Charge</b>	\$20.00	\$20.00
<b>Commodity Charge</b>	\$.22619	\$12.67
<b>Total Base Rate Charges</b>		\$32.67
<b>TA Rider Refund</b> (-4.9729% x \$32.67 base rate charges)	-4.9729%	\$(1.62)
<b>PGA</b>	\$0.38938	\$21.81
<b>Total Bill</b>		\$52.85

16 As reflected in Table TDS-1, the 4.9729 percentage reduction would be applied to  
17 the total base rate charges of \$32.67, resulting in a refund of \$1.62. The application of a  
18 percentage reduction to base rates for each customer class is designed such that the TA Rider

1 refund applies to both the fixed monthly charge and the volumetric commodity charge.

2 **IX. CONCLUSION AND RECOMMENDATIONS**

3 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

4 A. I recommend that the Commission approve the rate application filed by Black Hills in this  
5 proceeding.

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

7 A. After finalizing the rate application and in preparing the initial data requests issued by the  
8 Staff, Black Hills discovered that it had omitted from its revenue requirement calculation the  
9 impact of including the amortization of the deferred costs from Docket No. 16-BHCG-144-  
10 ACQ. In its June 7, 2016 order, the Commission authorized Black Hills to defer the  
11 transaction costs in that proceeding and seek recovery of such costs in a future rate case. The  
12 Company seeks to recover those deferred costs in this rate application, without rate base  
13 treatment. The total deferred costs were \$76,618, and amortized over three years would  
14 increase the revenue requirement by \$25,539. That concludes my testimony.

**AFFIDAVIT OF THOMAS D. STEVENS**

State of Arkansas            )  
  ) ss  
County of Washington        )

I, THOMAS D. STEVENS, being first duly sworn on oath, depose and state that I am the same Thomas D. Stevens 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 is true and correct to the best of my knowledge, information, and belief as of the date of this Affidavit.



\_\_\_\_\_  
Thomas D. Stevens

Subscribed and sworn to before me,  
A Notary Public, in and for said County  
and State, this 29th day of April, 2021 .

  
\_\_\_\_\_  
Notary Public



My Commission expires: 11/05/2025



**Education, Employment History  
and Professional Experience**

I earned a Bachelor of Science degree in Business Administration with a concentration in economics and finance from Southwest Baptist University in 2002 and a Master of Business Administration degree from Southern Methodist University in 2006.

After two years of teaching business and economics courses at LCC International University in Lithuania and Southwest Baptist University in Missouri, I began my career in the utility industry in 2008 on the General Staff of the Arkansas Public Service Commission as a rate analyst in the cost allocation and rate design section and later as a financial analyst in the financial analysis section. In 2010, I joined CenterPoint Energy (“CNP”) where I held various positions of increasing responsibility, including Sr. Financial Analyst, Lead Regulatory Analyst, Manager of Regulatory Affairs for CNP’s Arkansas and Oklahoma gas utilities, Director of Regulatory Affairs for CNP’s gas utilities in Texas, and Director of Rates supporting all of CNP’s jurisdictional utilities.

I joined BHSC in April 2018 as Director of Regulatory with responsibilities for Arkansas. In early 2019 my responsibilities expanded to my current role of Director of Regulatory and Finance for Kansas and Arkansas.

**Black Hills/Kansas Gas Utility Company, LLC**  
**Calculation of Total Refund Through TA Rider**

**KSG Direct Exhibit TDS-2**

<b>Line No.</b>	<b>Description</b>	<b>Reference</b>	<b>Amount</b>
1	Net Non-Protected Federal EDIT Rate Base	EDIT Balances Workpaper	\$ 3,102,111
2	State EDIT Rate Base	EDIT Balances Workpaper	\$ 2,949,658
3	Net Total EDIT Rate Base	Line 1 + Line 2	\$ 6,051,769
4	Pre-Tax Weighted Average Cost of Capital		8.41%
5	Projected Carrying Charges on Rate Base	$((\text{Line 3})/2) \times \text{Line 4} \times 3 \text{ years}$	\$ 763,431
6	Tax Gross Up on Net EDIT	$(\text{Line 3} / (1-.21)) - \text{Line 3}$	\$ 1,608,698
7	Total Amount to Refund	Line 3 + Line 5 + Line 6	\$ 8,423,897

Customer Class	Rate Base Allocation Factors <sup>1</sup> (A)	Rider TA Refund Amounts by Cust Class (B) = (A) * \$8,423,897	Proposed Base Rate Revenue by Cust Class <sup>2</sup> (C)	Calculated Refund Percentage by Cust Class (D) = -(B) / (C)
Residential	71.48%	\$ 6,021,162	\$ 40,359,824	<b>-4.9729%</b>
Small Commercial	10.08%	\$ 848,816	\$ 6,592,132	<b>-4.2921%</b>
Small Volume	7.93%	\$ 667,736	\$ 4,489,132	<b>-4.9582%</b>
Large Volume	6.05%	\$ 509,721	\$ 4,250,083	<b>-3.9977%</b>
Irrigation	4.47%	\$ 376,462	\$ 2,723,627	<b>-4.6074%</b>
<b>Total</b>	100.00%	\$ 8,423,897	\$ 58,414,798	

<sup>1</sup> Based on rate base allocations in KSG Direct Exhibit DNH-13, Line No. 18

<sup>2</sup> Based on proposed revenues in KSG Direct Exhibit DNH-14, Line No. 21